This document – *Prospectus: Pacific Resilience Facility* – is intended to provide potential donors and partners with an overview of the objectives, niche, specific purpose, structure and organisational arrangements of the Pacific Resilience Facility (PRF).
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EXECUTIVE SUMMARY

The Pacific Resilience Facility is a Pacific owned, led, and designed initiative endorsed by Pacific Islands Forum (PIF) Leaders (Pacific Leaders). The PRF will provide vital investments required to fundamentally reduce the vulnerability and exposure of Pacific communities to disaster risks, from climate change and other hazards. In doing so, the PRF will prioritise investments that will safeguard vulnerable groups, recognizing that disaster risks threaten to exacerbate existing vulnerability and inequality in Pacific communities. The PRF is the first Pacific-based regional fund dedicated to community resilience building. Through an innovative and pioneering approach to disaster preparedness and providing low quantum upfront investments in communities, the PRF will be positioned to respond swiftly and practically to the challenges faced by Pacific communities.

From its inception, the PRF has been driven by the collective efforts of Pacific Leaders and their Finance Ministers to increase investment in disaster preparedness in vulnerable communities. As a regionally-based, internationally-supported, and community-focused fund, the PRF will occupy a unique space in the Pacific’s existing finance architecture. The self-sustaining design of the PRF satisfies a key pre-requisite for the fund, being the ability to provide requisite financing required to reduce community vulnerability, without increasing the national debt burden of Pacific Island countries.

For the majority of Pacific Island countries, the rising social, economic, and environmental impacts of disasters is increasing the cost of development and eroding existing, hard won development gains. This situation is further exacerbated in most Pacific Island countries’ contexts by limited fiscal space, remoteness to market, and narrow economic bases.

The estimated cost of disasters globally over the last decade exceeded US$3 trillion surpassing that of the previous decade by approximately US$1 trillion. The Asia Pacific region accounted for 44% of those disaster costs. The Pacific region has experienced intensified disaster events which continue to detrimentally affect the lives, livelihoods and wellbeing of the most vulnerable. The Pacific’s ability to achieve the 2030 Agenda and Sustainable Development Goals (SDGs) will be highly dependent on the effectiveness of practical resilience-building measures and the ability of Pacific Island countries to implement effective climate change and disaster risk reduction measures at the community level.

Given this reality, and the rising cost of development in the region, Pacific Leaders have accorded the highest priority to protecting vulnerable groups such as women and girls, and persons with disabilities, who can be disproportionately affected by climate change and disaster risks. Global studies have found that every dollar invested in disaster preparedness can yield an estimated cost saving of up to $7 post-disaster.

Pacific Leaders recognise the financing constraints and the urgent need for a Pacific-specific facility to provide dedicated financing for community-level resilience building and disaster preparedness. Existing disaster risk financing options available to Pacific Island countries are largely triggered after a catastrophic event for post-disaster response, relief and recovery. Consequently, Pacific countries incur additional debt, as they rebuild their damaged and lost public and private assets – exacerbating already constrained fiscal space.

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1 Clause 6 (Sendai Framework): “…More dedicated action needs to be focused on tackling underlying disaster risk drivers, such as the consequences of poverty and inequality, climate change and variability, …complex supply chains, limited availability of technology, unsustainable uses of natural resources, declining ecosystems, pandemics and epidemics…”

Clause 23 (Sendai Framework): “Policies and practices for disaster risk management should be based on an understanding development and implementation of appropriate preparedness and effective response to of disaster risk in all its dimensions of vulnerability, capacity, exposure of persons and assets, hazard characteristics and the environment…”


3 Ibid.
Extensive regional consultations have reaffirmed and reinforced the rationale to directly address community-level disaster preparedness. Pacific Island countries, the Pacific private sector, and communities, acknowledged and identified the challenges involved with securing finance for small-scale/low quantum disaster preparedness projects. Analysis of regional climate finance and development support flows further confirmed that community-level investments have, to date, not been widely supported and financed by development partners.

The niche of the PRF is to fill this critical gap and complement existing financing options, through the provision of predictable, sustainable, accessible and accountable grant funding (with some technical assistance, where required), for community-level projects. The PRF will make upfront investments in projects designed to fundamentally increase community resilience to disaster risks. By scaling up practical, forward-looking, high-impact, investments in community resilience, the PRF will contribute to national level resilience-building by enabling Pacific Island countries to scale-up socio-economic protection in highly vulnerable contexts.

The PRF aims to raise US$1.5 billion (equivalent to 1% of Pacific Regional Nominal GDP (NGDP) accumulated over a period of 5 years) to invest in community-level risk reduction and resilience building initiatives. The funds for the PRF will be raised through international fundraising efforts, including contributions from development partners and philanthropic funds.

The PRF will be a multi-donor funded facility with project operations spread across Pacific Island countries. Noting the urgency of progressing the establishment of the PRF against increasing costs of disasters to Pacific Island countries, the Pacific Leaders have agreed that the PRF should initially be housed within the Pacific Islands Forum Secretariat (PIFS) for the transitional period while the work to establish a fully-fledged independent entity is undertaken. It is estimated that it would take approximately two years to complete the full set-up.

Two operating principles will ensure sustainability:
1. the capital base of the PRF is to be preserved and grown over time; and,
2. the total value of disbursements of financial products is to be no greater than the net income generated on the capital base.

The PRF will have a tangible and transformational impact on the livelihoods and wellbeing of current and future generations of Pacific peoples. It will enable them to adapt to the unprecedented uncertainties, changes and challenges that are confronting us. By targeting the protection of people and place, the PRF directly supports the preservation of the cultures and societies that together constitute the Blue Pacific continent (depicted in the following map of the Pacific Islands Forum Member countries).
Vision

Our Pacific Vision is for a region of peace, harmony, security, social inclusion, and prosperity, so that all Pacific people can lead free, healthy, and productive lives.
1.0 INTRODUCTION

1 The increasing impacts of climate change-induced disasters makes building climate and disaster risk resilience an imperative for Pacific Island countries (see Annex 1).

2 Consistent with the Framework for Resilient Development in the Pacific4 (FRDP), the PRF seeks to provide an integrated regional financing solution for small-scale disaster preparedness projects at the community-level. In so doing, the PRF will help address the following challenges:

(a) Limited access to finance for upfront small-scale community-level disaster preparedness investments;

(b) The fragmented nature of existing financing flows and the high transaction costs associated with securing finance irrespective of the quantum of the investment;

(c) The growing need for mobilisation of international private and public finance to leverage additional financing for Pacific Island countries to cover risk proofing new projects and retrofitting existing infrastructure to make these hazards risk-resilient.

3 In recent years, the intensity and impacts of disaster events across the Pacific region have been overwhelming. For example, Cyclone Pam in Vanuatu and Cyclone Winston in Fiji wiped out 65% and 33% of Gross Domestic Product, respectively. More specifically, in the case of Vanuatu, a generation of development gains was lost in a matter of mere hours. Experiences like these, as well as with Cyclone Gita in Samoa and Tonga, have reinforced the view that building resilience to climate change and reducing the impacts of disasters from natural hazard risks are real and present challenges for Pacific Island countries.

4 The current and increasing impacts of disasters have exposed Pacific Island countries and communities to extreme economic, social and environmental costs. In some cases, Pacific Island countries remain in disaster recovery and reconstruction mode, following multiple disaster events. In such cases, Pacific Island countries have and continue to struggle to regain economic stability.

5 Climate change impacts and slow and fast onset disaster events disproportionately affect the poor and most vulnerable in society. Without adequate protection measures, there is a major risk that climate change and disaster risk events will exacerbate and widen income and wealth inequalities and will increase vulnerabilities and exposure in and across the Blue Pacific continent.

6 The increasing intensity of disaster events and mounting impacts of climate change challenges traditional approaches to economic development in the Pacific’s Small Island Developing States (SIDS). Increasingly, the direct and indirect losses (see Annex 2) from climate change and disaster risk events have begun to erode development gains and reduce growth in national and regional GDP.

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4In 2017, Forum Leaders endorsed the Framework for Resilient Development in the Pacific as a policy framework to guide the work of PIFS, and all policy in the Pacific.
The cumulative impacts of disasters (coupled with economic development challenges, long term costs of climate change adaptation and mitigation, and global market volatility) compound the physical and economic fragility of SIDS through temporary and/or permanent losses to the productive economic sectors, and to national public and private infrastructure and assets. For Pacific Island countries, the need to invest upfront in building economic, social and environmental resilience for their sustainable economic development is a fundamental prerequisite for advancing human development and economic well-being. The evidence makes a clear economic case for investing upfront in disaster preparedness.

Research has found that $1 in every $3 spent on development assistance is wasted, due to a lack of focus on ensuring investments contribute to overall resilience (Global Resilience Partnership, 2018). At the same time, global research shows that for every $1 spent on building risk resilience, that up to $7 will be saved in disaster response and recovery costs. Furthermore, investments that effectively increase resilience, not only reduce potential losses, but also help to preserve existing economic productivity, and in some cases, enhance it. These positive benefits or ‘dividends’ of resilience can only be realised if there is the capacity to invest upfront in preparedness and risk prevention.

It is important to outline the niche (nature, purpose and role) of the PRF vis-a-vis other bilateral, regional and international climate and disaster resilience initiatives, instruments and platforms available to Pacific Island countries.

The PRF will complement existing regional and national disaster risk financing initiatives such as the sovereign parametric insurance offered by the Pacific Catastrophe Risk Insurance Company (PCRIC), the Pacific Financial Inclusion Programme’s proposed Pacific Insurance and Climate Adaptation Programme, and Fiji’s household insurance programme, as well as the contingent financing instruments offered by Multilateral Development Banks (MDBs), which aim to increase the financial resilience of Pacific Island countries and provide the necessary financial liquidity to meet immediate funding needs post-disaster, reducing the financial burden on individuals, businesses, and governments.

The PRF will be an innovative and focused facility for investing in ex-ante resilience in the Pacific and will:

(a) Enhance coordination and provision of regional public goods through a regional financing mechanism;
(b) Be innately Pacific. From the determination of the governance structure to decisions on investment priorities, to implementation at country or multicountry levels, the PRF will be defined by Pacific priorities;
(c) Scale-up innovative and “home-grown” solutions, which might not fit the traditional norms of development financing yet, due to high context-specific compatibility and relevance, and will have a profound impact on the lives of Pacific peoples and their economies;
(d) Better respond to the unique challenges of Pacific Island countries, recognising that the challenges the climate crisis brings to bear on the Pacific, must be managed alongside existing development issues, economic constraints, and cultural requirements; and
(e) Provide a further avenue for Pacific Island governments to leverage additional finance, through blending and/or co-financing with other sources of finance and risk guarantee mechanisms, including from local/national, regional and international sources.

Fiji’s household insurance programme supported by the World Bank Group.
2.0 THE OBJECTIVE AND NICHE OF THE PRF

12. The specific purpose of this Pacific designed, led, and owned initiative is to provide predictable, sustainable, accessible and accountable funding for community-level disaster preparedness projects.
2.1 The Objective

13. The objective of the PRF is to ensure that all Pacific communities are secure and safe, to minimise loss of life, and reduce the economic and social impacts of climate change and disaster events.

14. The PRF will assist communities to finance existing and/or new community-level projects designed to better prepare them for increasing risks of disasters. This support will include, where appropriate, technical assistance. The technical assistance can cover project pipeline development (including but not limited to project design, implementation and evaluation), depending on the capacity needs identified by the Pacific Island country concerned.

15. While vulnerable people and communities bear the brunt of the burden from climate change and disasters, there are limited available regional financing mechanisms that provide targeted grants to build resilience at the community level through low-cost yet high-impact projects.

2.2 The Niche of the PRF

16. The niche of the PRF is its ability to provide low quantum grants upfront for community-level preparedness projects to build disaster resilience, without increasing national debt burden. These small-scale disaster preparedness projects at the community level are not currently widely supported and financed by development partners through any regional or international mechanism.

17. The PRF is well-placed to bridge the gap between humanitarian assistance and economic development efforts through direct grant support to Pacific people to build disaster resilience and preparedness in their communities.

18. Small-scale climate and disaster risk resilience and preparedness projects at the community level that can be sustainably financed by the PRF include:

(a) Community infrastructure such as multi-purpose community halls and logistics centres that can also serve as shelters and evacuation facilities;

(b) Jetties;

(c) Inter-island sea-lane navigation aids;

(d) Increasing ICT coverage and retro-fitting of ICT infrastructure;

(e) Increasing the coverage of Multi-hazard Early Warning Systems;

(f) Enhancing Natural/Eco-system resilience (e.g. increasing and enhancing natural protection measures for coastal communities); and

(g) Small-scale community-based water & energy projects designed to withstand the impact of climate change and natural hazard risks.

(h) Building structures, including evacuation and quarantine centers, to support basic/primary health care such as treatment and storage of medical supplies for pandemic preparedness projects.
3.0 THE BUSINESS CASE FOR THE PRF

19. PRF investments will create tangible gains in community resilience by focusing on climate change and disaster preparedness projects that directly interact with risk mitigation and social protection issues.
20 The PRF seeks to exploit the concept of the ‘triple dividend of resilience’ by investing in projects that simultaneously reduce potential losses, protect socio-economic productivity, and produce further development co-benefits. The PRF will achieve this by investing in community-level projects designed to fundamentally protect people, and their livelihoods and wellbeing.

21 Additionally, the PRF will prioritise investments that produce co-benefits by helping to achieve more general development targets (i.e. SDGs) and, or by opening up the potential for further additional economic activity or savings (i.e. reduced energy costs from renewable energy, opportunities for local SMEs to be engaged to deliver project outcomes).

22 The Pacific-led, owned and driven PRF will provide critical finance as a self-sustaining, enduring grant financing mechanism for Pacific Island countries.

23 As a regional aggregator of finance and projects, the PRF will be positioned to identify and scale up best practice for community projects.

24 The PRF enters the regional development financing space with a strong regional mandate. The PRF’s design has been shaped by decisions of Pacific Islands Forum Leaders and their central commitment to focusing efforts to reducing vulnerabilities and exposure of people, communities, and livelihoods to climate change and disaster risks.

25 Consistent with the vision of an indigenous regional solution to the challenges facing the Pacific, the governance and operational arrangements will reflect the overall orientation of regional ownership and leadership.

26 In summary, the PRF provides a regional platform for Pacific Island countries to:

(a) collectively mobilise appropriate resources for community resilience-building activities;

(b) fill the current gap in the regional finance landscape (i.e. limited/inadequate disaster risk finance for community-level preparedness projects) to complement existing high quantum investment initiatives by Pacific Island countries and development partners (including MDBs) by increasing access to results-based small-scale community level grants; and

(c) engage efficiently with communities, via the appropriate national systems, through streamlined and simplified processes to develop and implement projects consistent and responsive to the Pacific context and needs.
4.0  LINKAGES TO CURRENT PROGRAMMES & INITIATIVES

27 The PRF has benefitted from extensive consultations and technical analysis in the effort to ensure the design is fit-for-purpose, relevant to the needs of the region and provides low-cost and high impact solutions for disaster risk reduction at the community level. This work has taken place over two years – resulting in the development of a fit-for-purpose facility that will “fill a gap” in the existing development finance landscape in the region. The PRF will complement ongoing programmes by financing small-scale climate and disaster risk resilience and preparedness projects at the community level.

28 There are a number of disaster risk financing options already available to Pacific Island countries from MDBs, such as the following:

(a)  **Catastrophe Risk Insurance for Sovereigns** – out of the Pacific Catastrophe Risk Assessment and Finance Initiative (PCRAFI, which commenced in 2007) a foundation in Cook Islands the Pacific Catastrophe Risk Insurance Company (PCRIC) has been established, and currently has four (partner) countries being Cook Islands, Republic of Marshall Islands, Samoa and Tonga.

(b)  **Sovereign Micro Insurance** initiative which seeks to provide insurance to vulnerable households is being developed for Fiji by the World Bank Group. In addition, the UN Capital Development Fund (UNCDF) and the Pacific Financial Inclusion Programme (PFIP) have also introduced the Pacific Insurance and Climate Adaptation Programme for a number of Pacific countries in which they operate in. International Finance Corporation (IFC) for Fiji (with a view that this may be scaled for offer regionally);

(c)  **Contingent Disaster Financing:**

(i) The World Bank Group (WBG) offers a **Catastrophe Deferred Drawdown Option (CATDDO)** – and Samoa and Vanuatu have accessed this instrument;

(ii) As part of the Disaster Resilience Program, the Asian Development Bank (ADB) offers **Contingent Financing for Pacific Island Countries** for Federated States of Micronesia, Republic of Marshall Islands, Solomon Islands, Tonga and Vanuatu;

(d)  **Rapid Credit Facility offered by the International Monetary Fund (IMF)** which provides Balance of Payment Support (to the Reserve Bank of Vanuatu after Tropical Cyclone Pam).

29 These existing disaster risk financing options (refer Annex 3 for more detail) are triggered after a catastrophic disaster event occurs and focus on relief and recovery post-disaster. Instead the PRF will seek to complement these initiatives by focusing exclusively on low-quantum risk proofing new and retrofitting existing community-level investments.

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*The Pacific Catastrophe Risk Insurance Company (PCRIC) is a captive insurance company based in the Cook Islands dedicated to providing sovereign parametric insurance to Pacific Island governments. The PCRIC’s current existing parametric product is focused on wind speed and seismic perils.

Note that initially there were more countries, but Solomon Islands and Vanuatu opted out of this facility noting their specific concerns.

*Spatial in nature, that is, linked to geographically high risk or cyclone prone areas in Fiji.
Currently, the principal sources of funding for disaster preparedness are mainly by government, some donors and through NGOs, and these are typically tagged on to larger scale post-disaster projects like infrastructure reconstruction etc. Disaster preparedness funding are therefore much lower in the pecking order as a matter of priority and in terms of expenditure flows, due to other pressing priorities in Forum Island Governments’ budgets.  

5.0 WHAT TYPE OF FUND IS THE PRF?

The PRF is a multi-donor funded trust fund. Its funds will be managed by independent and internationally recruited fund managers who will be responsible for investing the core funds of the PRF. The PRF’s capital will be invested over the long term and the income generated on that capital (both income returns and capital returns), will be applied to the specific purpose of the PRF (build risk resilience and preparedness of Pacific communities to climate change and disaster risks).

The accountability of the PRF’s funding will be covered by a rigorous system of project management, monitoring and evaluation including, where required, independent third party audits and reviews.

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<sup>SPC/PIFS. Pacific Climate Change Financial Assessment Framework Reports for Pacific Island Countries. 2018-2019.</sup>
6.0 CAPITALISATION AND FINANCIAL INSTRUMENTS OF THE PRF

The target capitalisation of the PRF is US$1.5 billion (the Capital Base). The Capital Base will be invested utilising the services of internationally recognised fund managers recruited on a competitive basis.

As noted, the income generated off the Capital Base (both income returns and capital returns) will be applied to projects that meet the PRF’s specific purpose.

The guiding principles for the management of the PRF’s Capital Base are the:

- Capital Base of the PRF is to be preserved and grown overtime;
- Total value of the PRF’s disbursements to Pacific Island countries is to be no greater than the net income generated on the PRF’s Capital Base; and
- Management, reporting and accounting of all funds associated with the Capital Base shall comply with International Financial Reporting Standards (IFRS) in terms of best practices and conventions.

With a Capital Base of US$1.5 billion, upon commencement of operations, the PRF will make an initial triennial funding allocation of US$200 million for the first three years of operation. Of this amount, US$20 million will be retained by the PRF as the initial equity contribution of Pacific Island countries – i.e. the PRF will disburse US$180 million to projects over the first three years.

In the financial model we have assumed the initial triennial funding allocation of US$200 million will be drawn down as follows:

<table>
<thead>
<tr>
<th>US$ Million</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Triennial Funding</td>
<td>65.0</td>
<td>65.0</td>
<td>70.0</td>
<td>200.0</td>
</tr>
<tr>
<td>Less PIF Member Equity Contribution</td>
<td>(6.5)</td>
<td>(6.5)</td>
<td>(7.0)</td>
<td>(20.0)</td>
</tr>
<tr>
<td>Funds Applied to Projects</td>
<td>58.5</td>
<td>58.5</td>
<td>63.0</td>
<td>180.0</td>
</tr>
</tbody>
</table>

Aspirationally, the PRF should raise 3% of the Regional NGDP over a period of 5 years (equivalent to US$4.5 billion), aligning with the average annual losses to NGDP experienced by the Pacific Island countries.
The Council of Members will include Pacific Island countries’ Ministers of Finance and donors to the PRF. Refer to Figure 4, and paragraphs 96 and 97 of this Prospectus. The transitional Council of Members, its composition and responsibilities, are set out in clauses 10 and 11 of the PRF Transitional Arrangements (Annex 4).

In developing the financial model for the PRF we have adopted the following key assumptions:

<table>
<thead>
<tr>
<th>Capitalisation</th>
<th>Target of US$1.5 billion accumulated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disbursements to Pacific Island countries</td>
<td>Disbursements are made on a triennial basis with the initial triennial disbursement at the start of operations being US$200 million. Thereafter, triennial disbursements will be set at the level of 95% of the PRF’s net income for the prior three-year period after adjustments (if any) for market volatility.</td>
</tr>
<tr>
<td>Equity contribution by Pacific Island countries</td>
<td>US$20 million drawn from the initial triennial disbursement.</td>
</tr>
<tr>
<td>Benchmark return – per annum</td>
<td>7% Net Return to the PRF (being US Inflation of 2% plus 5%) after external fund management expenses (see below) and taxes (if any).</td>
</tr>
<tr>
<td>External fund management expenses – per annum</td>
<td>The benchmark return of 7% is after external fund management expenses and taxes (if any). External fund management expenses will be negotiated on a case by case basis and are estimated to be in the range of 0.75% to 1.25%.</td>
</tr>
<tr>
<td>Management costs and expenses of operating the PRF – per annum (including fund management fees)</td>
<td>0.65% of the PRF’s Capital Base plus 0.75% to 1.25% for fund management fees Total cost of up to 2% of the Capital Base</td>
</tr>
</tbody>
</table>

1The Council of Members will include Pacific Island countries’ Ministers of Finance and donors to the PRF. Refer to Figure 4, and paragraphs 96 and 97 of this Prospectus. The transitional Council of Members, its composition and responsibilities, are set out in clauses 10 and 11 of the PRF Transitional Arrangements (Annex 4).
Applying these assumptions to the financial model generates the following estimates of triennial disbursements to Pacific Island countries:

<table>
<thead>
<tr>
<th>Disbursement</th>
<th>Date</th>
<th>US$Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial Triennial</td>
<td>January 2023</td>
<td>200</td>
</tr>
<tr>
<td>Second Triennial</td>
<td>January 2026</td>
<td>274</td>
</tr>
<tr>
<td>Third Triennial</td>
<td>January 2029</td>
<td>286</td>
</tr>
</tbody>
</table>

7.0 PROGRAMMING OF PRF GRANTS

PRF projects will be managed by Pacific Island countries using their existing country systems including Public Financial Management (PFM) systems, oversight institutions, environmental and social safeguards. This will promote greater use of country systems, as articulated under the Paris Declaration on Aid Effectiveness in 2005 and 2008 Accra Agenda for Action to build stronger, more effective partnerships for development.

Use of national systems generates greater national and government ownership of projects and their development outcomes. Based on evidence gathered in the region, including through the Cairns Compact on Strengthening Development Coordination (Forum Compact) Peer Review process, decades of development experience in the region show that by-passing country systems and policies weakens a country’s ability to strengthen its PFM system and determine its own future.
Figure 2: Schematic of Financial Programming of PRF Community Grants

Over the last decade, the Pacific Island countries have made significant progress on their PFM systems (including building capacity of critical oversight institutions). Currently, work is progressing\(^{14}\) on defining the appropriate\(^{15}\) “Fit-for-Purpose” PFM systems to align with the capacity and small administration size of Pacific Island countries.

The PRF will enter into Memoranda of Understanding with Pacific Island countries, laying out the framework for engagement and collaboration between the PRF and the participating country. These MoUs will also take into account any gaps that may exist in national systems and include any necessary mitigating measures, leveraging the technical assistance that is available through the PRF and other partners.

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\(^{14}\)This work is being conducted by the PIFS.

\(^{15}\)2019 FEMM Action Plan, paragraph 17(b & c).
7.1 Project Identification

47. The Board will meet on a quarterly basis; two meetings per year will serve as a Grant Event, considering the PRF’s grant making function.
At each Grant Event, Pacific Island countries will be requested to compile a prioritised list of community-based projects eligible for PRF funding – “the Prioritised List”.

The eligibility requirements for projects on the Prioritised List will include the following:
(a) Projects must be consistent with the specific purpose of the PRF for upfront investment in climate and disaster risk resilience preparedness projects;
(b) Projects must focus on vulnerable and at-risk communities and use a risk informed approach;
(c) The review and approval process of projects will include consideration of:
   (i) Development timeline and project budget (including an allowance for monitoring and audit costs);
   (ii) Certification by an appropriately qualified professional of the project feasibility including consideration of materials, time, and labour costs; and
   (iii) Best practices in environmental and social standards;

Technical assistance will be provided to support the preparation and development of pipeline projects, as applicable. Fully-fledged projects may be submitted for approval to the Board. The PRF will also be flexible to the immediate needs of countries if and when preparedness for imminent disasters like pandemics are urgently needed. Re-prioritisation and re-programming of agreed projects could also be considered depending on the situation with each concerned member.

The PRF’s management team (refer to Annex 4) will liaise with Pacific Island countries to review the Prioritised List and confirm eligibility of the projects – “the Confirmed Projects”. The Confirmed Projects, along with the drawdown timeline of the project budget, will be presented to the PRF’s Board for final approval.

PRF Management will maintain a database and a risk log of all the Confirmed Projects and regularly update the quarterly drawdown budget for both actual and projected drawdowns.
8.0 DISBURSEMENT CRITERIA AND MECHANISMS

8.1 Disbursement Criteria

53. The disbursement will be guided by the following methodology:
   (a) PRF will make funding allocations to Pacific Island countries on a triennial basis; and
   (b) Pacific Island countries will know their allocation at the start of each three-year period and can plan accordingly, with the funds remaining with the PRF until they are drawn down for projects approved by the PRF Board over the three-year cycle.
8.2 Disbursement Mechanism

54. The PRF will make Triennial Disbursements with the initial disbursement, at the launch of the PRF, being US$200 million which will be shared equally amongst Pacific Island countries. Thereafter, at three-year intervals, the PRF will determine the Triennial Disbursement for the following three years.

55. The funds for the Triennial Allocation will remain with the PRF until drawn down for approved PRF projects. Pacific Island countries are not required to utilise their Triennial Allocation upfront – they will have access to the allocation at future Grant Events over the remainder of the three-year period.
56. Any unutilised portion of the Triennial Allocation at the end of each three-year period will be retained by the PRF. These unutilised funds can either be added to the base capital or re-allocated to other Pacific Island countries based on the direction from the PRF Board. Further, any undrawn amounts for approved PRF projects will be rolled over into the next three-year cycle.

8.3 PRF’s Financial Scenarios and Assumptions

57. The Net return on the PRF’s invested capital is 7% (based on long term averages of returns in Australia and the U.S.) after external fund manager fees and taxes have been deducted. The cost of operating the PRF has been estimated at 65 bps (or 0.65%) of the PRF’s capital base. At a capitalisation of US$1.5 billion this equates to US$9.75 million per annum. These operating costs include salaries and wages of the PRF’s management team and staff, occupancy costs, audit fees, legal fees, Board expenses, and travel costs.

8.4 Drawdown of Triennial Allocations

58. After the approval by the PRF Board of the Confirmed Projects, the PRF will disburse funds to Pacific Island countries from their Triennial Allocation.

59. The quarterly drawdowns will be based on the drawdown timelines of approved projects endorsed by the Board.

60. It is proposed that 10% of the Triennial Allocation will be held in reserve to cover contingencies, with any unused balance of the contingency reserve at the end of the three-year period being rolled over into the next Triennial Allocation.

8.5 Monitoring of Projects

61. Pacific Island countries will report to the PRF on a bi-annual basis – “the Six-Monthly Report”.

62. The Six-Monthly Report will include the following:

(a) Financial analysis on a project-by-project basis and on a consolidated basis of expenditure to date;
(b) Analysis of all variances greater than 10%;
(c) Changes (if any) to the Quarterly Drawdown Budget going forward;
(d) Brief written report on a project-by-project basis; and
(e) Sign off by the Quantity Surveyor (or equivalent).

63. There will be independent monitoring by the PRF as applicable and project evaluation will be undertaken, consistent with best practice.

64. The PRF shall provide appropriate visibility of approved projects, donors and partners (to the PRF), and the work of the PRF more broadly.
9.0 PROGRAMME MANAGEMENT, MONITORING AND EVALUATION

65. The project cycle of the PRF will be guided by the core principles of: value for money; accountability; and, transparency - with a focus on low-cost and high impact projects for vulnerable communities.
As set out in the Governance arrangements (see Section 11.0 and Annex 4), the Council of Members will provide strategic direction and guidance for the PRF. This will reinforce the oversight and accountability responsibilities of the Board of Trustees. Moreover, it will also ensure the project investment portfolio is consistent with the core mandate and operational principles of the PRF in responding to the challenge of enhancing disaster risk reduction.

Project approval will comply with international best practice to review submissions ensuring proposals meet the core mandate of the PRF. Projects will be identified and submitted by Pacific Island Governments to the PRF where they shall be subject to a review ensuring they are consistent with the core objective and operational principles of the PRF.

The proposed project management cycle is outlined below:

**Figure 3: Proposed Project Management Cycle for the PRF**

The PRF will have a small team dedicated to supporting the project cycle - ranging from identification, review, approval, and monitoring and evaluation. Extra-PRF expertise will be leveraged including from partners, as applicable - to support the project review process. The Board of Directors will have the mandate to approve projects in the PRF. Upon approval by the Board and the formal signing of the project document between the respective Government and the CEO of the PRF, funds will be released for project implementation.
The PRF will be monitored and evaluated consistent with global best practice, with a rigorous and systematic approach to project monitoring, evaluation and reporting. A detailed monitoring and evaluation plan will be prepared upon initial establishment of the PRF in the first year of operations, and presented and approved by the Board of Directors. Dedicated resources will be reserved for monitoring, reporting, evaluation and communication of results as an essential dimension of the plan and the annual budget.

The PRF will leverage government systems and align to government priorities, plans and targets in the implementation of PRF projects. This information will be used to inform donors and partners on project impacts and outreach. Every effort will be made to utilize gender-disaggregated data.

Approved projects will be subject to a systematic and consistent monitoring utilizing technical staff of the PRF, government’s systems and independent verification. PRF projects will be subject to a rigorous evaluation process including independent evaluation. Monitoring and evaluation reports will be presented to both the Board and the Council of Members, to inform programming so lesson learnt can be leveraged.

In recognizing the importance of delivering results where it matters, that is, in reducing disaster risks in vulnerable communities, results reporting will be an integral part of the PRF’s approach to communication. Given the broad partnership and range of partners envisaged to participate in the PRF, every effort will be made to communicate the results not only in the region but also in contributing countries to ensure requisite visibility can be provided to all stakeholders. Based on the operating principle of delivering value for money, the PRF will utilize low-cost, high-impact approaches to communications and outreach including the use of social media.

In line with the need to have some degree of flexibility for rapid disaster preparedness initiatives/projects, the Board will consider Government’s needs, depending on the nature of the imminent disaster at hand.

10.0 MANAGEMENT OF THE CAPITAL BASE

The organisation structure of the PRF has a Council of Members which appoints an independent Board which will have responsibility for managing the PRF.

The Board will establish the PRF’s investment guidelines, as per the investment mandate approved by the Council. The Guidelines will cover the risk profile, target asset allocations, geographic allocation, manager allocation and the management of environmental, social and governance issues.

The Board will also establish the grants process for the PRF and appoint the Management team who will be responsible for the day-to-day management of the PRF.
The CEO will be accountable to the Board and will report to the Board on a regular basis, and the Board will report to the Council of Members on an annual basis.

The PRF’s Management team will include the CEO, the Grants Manager, the Investment Manager and the Reporting, Monitoring and Evaluation Manager.

The responsibility of the Fund Manager will be to manage the capital base of the PRF on a day-to-day basis in accordance with the investment guidelines established by the Board.

10.1 PRF’s Fund Management Operations

The PRF’s Investment Mandate requires the Board to maximise the return on the PRF’s capital base over the long-term.

The PRF Board will obtain expert actuarial and asset consulting advice on the asset allocation, the relevant benchmarks to measure the performance of investments and external fund manager selection. Asset classes will include cash, fixed interest, alternative investments (e.g. private equity, direct infrastructure), property and global equities.

The PRF will appoint an independent custodian through a competitive process, to hold title, in trust, the assets of the PRF. For example, the PRF’s main bank account(s) and other investments. All donor funds for the capitalisation of the PRF will be directed to the PRF’s main bank account which will be held in Trust by the custodian. This account will be used, under 'proper instruction' from the PRF fund management executives to the custodian, to transfer funds to the external fund managers to invest. The account will also be used to receive funds from the external fund managers as investments are realised. Funds will also be transferred under proper instruction for disbursements to Pacific Island countries and to fund the day-to-day operating costs of the PRF.

Once the asset allocations are determined and the preferred fund managers selected, the role of the PRF’s fund management executives will be to monitor the performance of fund managers and the performance of the investments.

As further capital flows into the PRF from donors, the fund management executives will be required to invest this capital in accordance with the PRF’s overall investment guidelines and asset allocation policies.
11.0 ARRANGEMENTS OF THE PRF

11.1 Establishment Agreement (Treaty) for the PRF

85. In 2019, Pacific Islands Forum Leaders endorsed the establishment of the PRF as an international organisation and, in the interim, for transitional arrangements for the PRF to be housed and executed “as a programme of the Pacific Islands Forum Secretariat (PIFS)”, pending agreement, ratification and accreditation steps for the new international organisation.
Following the capitalisation of the PRF, the process of developing and negotiating the Establishment Agreement (Treaty) for the PRF will commence. The treaty is expected to be a multilateral, legally binding agreement between Pacific Islands Forum Members.

As an international multilateral treaty for the Pacific Islands Forum region, it will be developed under the auspices of the PIFS, an established international (intergovernmental) organisation (Agreement Establishing the Pacific Islands Forum Secretariat 2000).

As recognised by Pacific Islands Forum Leaders, the treaty making process for the PRF is expected to take place during the transitional period to enable a sufficient period for negotiations, including determination of objectives and parameters, negotiating positions, and formal national processes, including consultations, and parliamentary or executive processes for depositing signature and ratification.

Upon its establishment as an international organisation, the PRF will establish robust governance arrangements ensuring value for money, accountability and transparency as well as the delivery of low-cost high-impact interventions at the community level. The emphasis in the governance arrangements will be to deliver accountable results whilst having simplified procedures and processes, within a light and agile architecture.

The international agreement will also set out a grievance and disputes settlement mechanism.

11.2 PRF Transitional Arrangements

11.2.1 Pacific Islands Forum Secretariat

The PIFS is a legal entity, established under the Agreement Establishing the Pacific Islands Forum Secretariat (2000). The purpose of the Secretariat, as set forth under the Agreement, is to facilitate, develop and maintain cooperation and consultations between Member governments on economic development, trade, transport, tourism, energy, telecommunications, legal, political, security and such other matters as the Forum may direct.

In establishing the PIFS, the agreement confers upon the PIFS the legal status of body corporate and vesting in the Secretariat legal personality recognised and respected in the jurisdictions of Pacific Islands Forum Member States. The implication is that, as a body corporate recognised legal personality, the Secretariat is indeed a legal person, and as such, possesses the capacity to enter into transactions, hold assets, dispose of assets, enter into contracts and agreements and technically can sue or be sued – which enables the PIFS in its own right to undertake the duties and responsibilities assigned to it under the agreement.
In addition to these legal attributes, the Secretariat as such, is also accorded certain privileges and immunities in the jurisdiction of Forum Members. In this regard, the Secretariat is immune from suit and legal processes, and its property and archives, and premises are inviolable. The staff of the Secretariat consists of the Pacific Islands Forum Secretary General, who serves as the head of the Secretariat. It also comprises a Deputy Secretary General and such other staff as may be appointed by the Secretary General.

The implications for hosting the PRF in the transitional period under the Secretariat is that the Facility, as a programme of the Pacific Islands Forum, enjoys by extension the benefits, privileges and immunities enjoyed by the PIFS as an entity. This would mean that the PRF, its employees and assets are similarly covered under the benefits, privileges and immunities enjoyed by the PIFS. It is intended that privileges and immunities would be likewise built into the Treaty that is intended to permanently establish the PRF as a standalone international organisation, for these reasons.

A relevant example of Transitional arrangements housed in PIFS is the establishment of the Pacific Islands Forum Fisheries Agency (FFA) in 1978. In August 1977, Forum Leaders decided to establish the FFA and directed the interim FFA to be housed under the South Pacific Bureau for Economic Cooperation (SPEC, which was later re-named as PIFS). Transitional arrangements were organised as such until the FFA was established as an international organisation, through its establishment agreement *Pacific Islands Forum Fisheries Agency Convention (1979).*

### 11.2.2 Transitional Arrangements

Consistent with the decision and direction of Pacific Islands Forum Leaders to house the PRF as a transitional arrangement under the PIFS, governance and corporate arrangements are in place to facilitate the transitional arrangements.

A comparative analysis of the advantages and disadvantages of the different models has been undertaken and on the basis of this analysis the recommended approach was to establish the PRF as an international organization. This analysis was carried out and presented to 2019 FEMM (Denton Report) and Economic Ministers agreed to the proposed arrangements.

Detailed in Annex 4, the framework for the PRF Transitional Arrangements clearly sets out the following mechanisms:

(a) the PRF Transitional Governance Structure:
(b) the PRF Transitional Office, its administration and operation; and
(c) PRF funding, financial provisions, and accountability mechanisms.
100 The Governance Structure comprise the Council of Members, the Board of Trustees, and the Transitional Office consisting the Chief Executive Officer and other key positions including the Investment Manager, the Grants Manager, and the Reporting, Monitoring and Evaluation Manager.

101 Details of the composition, roles and responsibilities of each of the organs of the Transitional Governance structure are provided in Annex 4.

102 A key component of the Transitional Arrangements is the Memoranda of Understanding that will be signed between PRF/PIFS and Pacific Island countries. The MoU will lay the framework for engagement and collaboration between PRF and Pacific Island countries, including transparency of grant execution and implementation arrangements, and accountability requirements.

103 The Transitional Arrangements are expected to conclude upon completion and fulfilment of all formal and legal arrangements and requirements for the setting up of the PRF as an international organisation. The timeframe for these Arrangements is expected to be two years from January 2021 to December 2022, or until such time as the Agreement establishing the PRF enters into force.
12.0 IMPLEMENTATION OF THE PRF

Following commencement of the development of the PRF initiative in 2017 (refer to Box 1 for Genesis of the PRF), extensive consultations have been carried out with key stakeholders such as PIF Members, the private sector, civil society organisations, MDBs and institutions, development partners of the Pacific region, as well as the Pacific Ambassadors in Canberra (Australia), Wellington (New Zealand) and New York (USA). These consultations have played a significant role in informing the development of the PRF, which led to its endorsement by Forum Leaders in August 2019.

105 Since October 2019, a series of extensive consultations within PIFS, with the TWG and major development partners were undertaken on the PRF. These culminated in the development of the draft Prospectus and the Transitional documents from early 2020 which were the basis for subsequent consultations until February.

106 However, the onset of the COVID-19 global pandemic has seriously affected the agreed timeline and schedule of activities. These have now been revised and tentatively projected only to the next few months, in cognizance of the uncertainties surrounding the still unfolding repercussion of the pandemic. The approach therefore was to consolidate the technical documentation that underpinned the PRF’s governance and operations for endorsement by FEMM in August 2020 and Forum Leaders in November 2020, in the lead up to what has now been planned to be 2021 Global Pledging Event (subject to the changing global landscape on the impact of the COVID-19 pandemic, including travel restrictions):

<table>
<thead>
<tr>
<th>Feb 2020</th>
<th>Endorsement of the PRF Prospectus</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>• By the PRF-TWG from 17 to 19 February</td>
</tr>
<tr>
<td></td>
<td>Special Meeting of the PIFS Forum Officials Audit and Risk Sub-Committee (ARSC) (28 February) to consider and provide feedback on the draft PRF Transitional Arrangements</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>March 2020</th>
<th>Independent Assessment of the PRF Prospectus by an Independent Review Panel (IPR) of consultants</th>
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<tr>
<td></td>
<td>• Concluded by early April</td>
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</table>

| April – December 2020 | Following on-set of COVID-19 pandemic, and resulting re-shuffling of PIFS activities and resources, as well as border restrictions and work from home arrangements, the PRF Team undertakes ongoing revisions and refinements to the PRF documents – Prospectus and Transitional Arrangements – as per the feedback received from the ARSC and the IPR. In direct response to the COVID-19 pandemic, further work was undertaken to analyse and advise on the possible inclusion of “pandemics” in the scope of the PRF, as well as to revise implementation timelines. |
|                       | Endorsement of the PRF Prospectus and the Transitional Arrangements, including “pandemics” and revised timelines |
|                       | • FOC, July & December 2020 |
|                       | • FEMM, Aug 2020 |
### 12.1 Post-Global Pledging Event Activities (Nov 2021–June 2022)

**107** The timing of the Global Pledging Event has been rescheduled to October 2021, subject to clarifications of post-COVID-19 ramifications on PIFS’s schedule of activities to end of 2021. PRF donors will be consulted in order to agree the way in which pledges will be actualised over an agreed period of time. This will be completed through a systematic approach, which will include the registration and management of pledging commitments from donors at the Global Pledging event, as well as the preparation and finalisation of necessary documents and proposals relating to establishment of the PRF.

**108** An update on planned Global Pledging Event progress shall be submitted to the 2021 FEMM and the Forum Leaders’ Meeting for consideration.

**109** Decisions derived from these key meetings are expected to include a decision establishing the Council of Members (which will include Pacific Island countries’ Ministers of Finance and donors to the PRF) and a decision relating to the delegation of appropriate powers to establish the expected organs of the governance and management structure of the PRF.

**110** Accordingly, the following key activities have been scheduled as follows:

| Nov - Dec 2021 | • Negotiations and development of contracts for PRF Pledges |
| Dec 2021 - Jan 2022 | • Working with PRF donors on the Actualisation of their pledges to the PRF  
• Begin developing, including engagement with Pacific Islands Forum Members, the Establishment Agreement of the PRF as an international organisation |
| Jan - Feb 2022 | • Implementation of PRF Transitional Arrangements, including Council of Members and the Board of Trustees |
| Feb - June 2022 | • Recruitment begins for the Management Team for the PRF Transitional Office – Chief Executive Officer, Investment Manager, and Grants Manager  
• Fund management contract finalized  
• PRF funds invested with Fund Manager  
• Setup and logistical arrangements for the PRF Transitional Office within PIFS |
12.2 PRF transition to an International Organisation (July 2022 – June 2024)

As envisaged by Forum Leaders and Economic Ministers, the transitional operation of the PRF is scheduled to commence operations from July 2022. During this transition phase, the Transitional PRF Board will also be working on the transition to an OECD-DAC\(^\text{16}\) accredited international organisation domiciled in a PIF Member State’s jurisdiction. It is expected that this independent international organisation will succeed the Transitional PRF structure and arrangement from June 2024.

Key milestones envisaged include the following:

<table>
<thead>
<tr>
<th>July 2022</th>
<th>• Council of Members appoint the Transitional Board of Trustees</th>
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<tr>
<td></td>
<td>• Transitional PRF, including PRF Transitional Office, commence operations (housed within the PIFS)</td>
</tr>
<tr>
<td>August 2022</td>
<td>• Relevant policies, plans, and strategies for the PRF Transitional Arrangements are finalised</td>
</tr>
<tr>
<td>Sept 2022</td>
<td>• Allocation of PRF quotas to Members and consideration of submitted projects by Pacific Island countries</td>
</tr>
<tr>
<td>Jan 2023</td>
<td>• First round of grant disbursements based on decisions of the Board</td>
</tr>
<tr>
<td></td>
<td>• Henceforth, bi-annual disbursement of grants</td>
</tr>
<tr>
<td>August 2021–Feb 2023</td>
<td>• Consideration and endorsement of the transition plan of the PRF into an international organisation by the Forum Leaders and FEMM</td>
</tr>
<tr>
<td>March 2023 – June 2024</td>
<td>• PRF established as a Separate and Independent Organisation</td>
</tr>
<tr>
<td></td>
<td>• The PRF becomes an OECD-DAC accredited institution</td>
</tr>
</tbody>
</table>

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\(^{16}\)Organisation for Economic Co-operation and Development – Development Assistance Committee
ANNEX 1: GENESIS OF THE PRF

At the 2017 Forum Economic Ministers Meeting (FEMM), the Economic & Finance Ministers requested a comprehensive look at present regional financing models geared to cope with disasters, given the catastrophic impacts of cyclones in the region. Economic Ministers recognised that post-disaster finance space was well capitalised in terms of the various financial support and products available from development partners and Multilateral Development Banks (MDBs).

Given the concern of FEMM, extensive multi-stakeholder consultations were undertaken (including with PIF Members, the private sector, communities and development partners). This revealed the imperative to finance small-scale disaster risk preparedness projects that are not widely supported and financed by major development partners (including MDBs) but are crucial for resilience of the poorest and most vulnerable and risk exposed communities.

Hence, Forum Economic Ministers, guided by the discussion at 2017 FEMM, agreed to work on a simple low cost high-impact initiative that can deliver real and tangible solutions for safe and resilient communities. Forum Economic Ministers were also keen to ensure that such an initiative minimize the loss of lives, livelihoods and well-being, along with reducing the economic and social impacts from catastrophic events.

At the 2018 Forum Economic Ministers Meeting (FEMM), Economic Ministers agreed to the proposal of the PRF. Economic Ministers requested that further technical analysis be undertaken to establish and operationalise the PRF. This was carried-out under the technical oversight and guidance of a PRF-Technical Working Group (PRF-TWG) comprising Finance Secretaries from Member countries.

A revised PRF proposal with a draft governance and management structure, and financial products, was considered by the Economic Ministers at the 2019 FEMM in May 2019. Economic Ministers welcomed the opportunity for further consultation with Forum Member countries and development partners, and further development of the proposal before a Special FEMM to be held in July 2019, to decide on the immediate and medium-term steps for the PRF initiative which is owned, led and driven by PIF Members.

Further revisions to the PRF proposal by the PRF-TWG and PIFS based on feedback of the Economic Ministers at the 2019 FEMM, culminated in a revised proposal of the PRF, which focuses on providing small scale, low quantum grant funds to the most vulnerable of communities to build resilience to climate change and disaster risks. The revised PRF proposal was considered by the Economic Ministers at the 2019 Special FEMM (25th July 2019).

Economic Ministers endorsed the revised PRF proposal, and agreed to establish the PRF, as well as to mobilise regional and international stakeholders to capitalise the PRF, including through a global pledging event. The Forum Leaders fully supported and endorsed the establishment of the PRF at their 2019 Forum Leaders Meeting in Tuvalu mandating PIFS to advance this high-priority initiative.
The Global Climate Risk Index 2018\textsuperscript{17} reports the extreme vulnerability of 11 Pacific Island countries from extreme weather events from 1997 to 2016. Fiji was classified as one of the three most affected economies in the world from weather related loss events in 2016. Based on the economic losses as a percentage of per unit of Nominal Gross Domestic Product (NGDP) criteria of the Climate Risk Index for 1997-2016, 9 out of the 11 of the PICs are ranked in the top 35 at risk countries (see Table 1).

The summation of the selected Pacific Island countries’ averages over 1997-2016 shows that these countries have lost around one third (i.e. 31\%) of the regional per unit NGDP. These selected Pacific Island countries have lost (on average) around 3\% of their per unit NGDP over 1997-2016 due to extreme weather events. Table 1 also shows that average losses per unit of NGDP for the five PIFS Smaller Island States\textsuperscript{18} (SIS) are significantly larger at around 5\% per unit of NGDP over 1997-2016 and alludes to disproportionately amplified impact on the PIFSSIS, which have limited resources to build resilience to catastrophic events. The requisite investment to scaleup community level disaster preparedness and resilience is currently not adequately addressed through existing funding sources (see Annex 3).

Table 1: Global Climate Risk Index 1997-2016 Ranking of PICs: Losses Per Unit of NGDP (%)

<table>
<thead>
<tr>
<th>Selected PICs</th>
<th>Losses US$m (PPP)</th>
<th>Losses per Unit of GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Avg.</td>
<td>Avg.</td>
</tr>
<tr>
<td>Fiji</td>
<td>119.478</td>
<td>1.974</td>
</tr>
<tr>
<td>Kiribati</td>
<td>10.607</td>
<td>6.598</td>
</tr>
<tr>
<td>Fed. States of Micronesia</td>
<td>2.474</td>
<td>0.897</td>
</tr>
<tr>
<td>Palau</td>
<td>0.056</td>
<td>0.025</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>36.831</td>
<td>0.196</td>
</tr>
<tr>
<td>Samoa</td>
<td>8.600</td>
<td>1.003</td>
</tr>
<tr>
<td>Solomon Islands</td>
<td>5.667</td>
<td>0.680</td>
</tr>
<tr>
<td>Tonga</td>
<td>6.870</td>
<td>1.571</td>
</tr>
<tr>
<td>Tuvalu</td>
<td>2.630</td>
<td>8.500</td>
</tr>
<tr>
<td>Vanuatu</td>
<td>15.852</td>
<td>2.960</td>
</tr>
<tr>
<td><strong>Selected PICs Total Average Losses</strong></td>
<td><strong>218.083</strong></td>
<td><strong>31.066</strong></td>
</tr>
<tr>
<td><strong>o/w Selected PIFS-SIS</strong></td>
<td><strong>24.785</strong></td>
<td><strong>22.683</strong></td>
</tr>
<tr>
<td><strong>Selected PICs Average Losses</strong></td>
<td><strong>19.826</strong></td>
<td><strong>2.824</strong></td>
</tr>
<tr>
<td><strong>o/w Selected PIFS-SIS</strong></td>
<td><strong>4.957</strong></td>
<td><strong>4.537</strong></td>
</tr>
</tbody>
</table>

\textsuperscript{17}Eckstein, D., Kunzel, V. & Schafer, L. (2018) Global Climate Risk Index 2018, Briefing paper, German Watch, Bonn.

\textsuperscript{18}Kiribati, Republic of Marshall Islands, Federated States of Micronesia, Palau and Tuvalu are included in this report. Cook Islands, Nauru and Niue are the other PIFS-SIS but not included in the global report.
ANNEX 3: THE NICHE OF THE PRF

“$1 invested in preparedness saves $4-$7 post-disaster”

Inadequate Investment in Preparedness

“GAP” in Resilience Finance

PACIFIC RESILIENCE FACILITY can easily “FILL THIS GAP” and invest in resilient Communities:
1. As an additional instrument /finance option available to member countries;
2. Complement existing initiatives from donors and MDBs;
3. Propel economic growth in countries through upfront investment in community level infrastructure;
4. Minimise the cost of relief, recovery & reconstruction for member countries & loss of lives; and
5. Reduce the fiscal pressures on future government finance post-disaster.

“DIVIDENDS OF RESILIENCE INVESTMENT”
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PACIFIC RESILIENCE FACILITY
TRANSITIONAL ARRANGEMENTS

PART 1 – PRELIMINARY

1 PRF Transitional Arrangements

1.1 In 2019, Pacific Islands Forum (PIF) Leaders “endorsed the concept and transitional arrangements for the establishment of the regionally owned and led Pacific Resilience Facility”.¹ To this end, Leaders agreed that the PIF Secretariat (PIFS) house and execute the PRF as a PIFS programme, as a transitional arrangement, pending entry into force of the agreement establishing the PRF.

1.2 In fulfilment of the abovenamed decision, these Transitional Arrangements (“these Arrangements”) provide the terms of reference for the following:

(a) the PRF Transitional Governance Structure;
(b) the PRF Transitional Office, its administration and operation; and
(c) PRF funding, financial provisions, and accountability mechanisms.

1.3 The timeframe for these Arrangements is expected to last for two years from 1 January 2021. These Arrangements, including all necessary savings and transitional provisions, will remain in place until the Agreement establishing the PRF enters into force.

2 Definitions

2.1 Unless the context otherwise requires, the following terms and phrases in these Arrangements have the following meanings:

‘appointed Trustee’ means a Trustee appointed under clause 12.1(b);

‘Board’ means the Board of Trustees as provided under paragraph 12;

‘Council’ means the Council of Members as set out in paragraph 10;

‘Forum Island Countries’ refer to all PIF Members, except Australia and New Zealand;

‘Management team’ means the Chief Executive Officer, the Grants Manager, the Investment Manager, and the Reporting, Monitoring and Evaluation Manager of the PRF Transitional Office;

‘PIF’ refers to the Pacific Islands Forum, comprising the heads of states and governments of Australia, Cook Islands, Federated States of Micronesia, Fiji, French Polynesia, Kiribati, Nauru, New Caledonia, New Zealand, Niue, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, and any other heads of government as may be admitted to the Forum membership with the approval of the Forum [Article 1, 2000 Agreement];

‘PIFS’ refers to the Pacific Islands Forum Secretariat established under the 2000 Agreement Establishing the Pacific Islands Forum Secretariat;

‘PRF’ means the Pacific Resilience Facility described under clause 1 and whose purpose and objectives are set out under clause 3.

3 Purpose and Objectives of the PRF

3.1 The purpose of the PRF is to provide predictable, sustainable, accessible and accountable funding for disaster preparedness and risk resilience-building within vulnerable communities. The PRF will support approved projects consistent with the Framework for Resilient Development in the Pacific, specifically targeting small-scale climate and disaster risk resilience and preparedness projects at the community level in consultation with Forum Island Country governments.

3.2 The objective of the PRF is to help ensure communities are safe and to minimise the loss of lives, and the economic and social impacts from catastrophic events. In particular, the PRF will aim to:

(a) strengthen the collective financial resilience of Forum Island Countries against natural and socio-natural hazard risks in the Pacific region;
(b) provide timely and fit-for-purpose financing options for resilient development projects in the Pacific, including through national governments, private sector, and civil society and community organisations;
(c) strengthen strategic partnerships with key development partners, donors and global climate change and disaster risk funding sources to harness collective support for resilient development initiatives in the Pacific; and
(d) support capacities of national systems in developing, executing and evaluating PRF projects, as applicable.

4 PRF Transitional Office

4.1 In accordance with the decision of Leaders in 2019 (Tuvalu), the PRF Transitional Office is established as an associated function of PIFS, to operate and administer these Arrangements while facilitating the transition to an international organisation.

5 Legal Status, Privileges and Immunities

5.1 These Arrangements will operate under the framework of PIFS, established under the Agreement Establishing the Pacific Islands Forum Secretariat (2000), and will be operationalised through the PRF Transitional Office until such time that the PRF is established as an international organisation.

5.2 While the PRF Transitional Office operates under the framework of PIFS, the Office (including its employees and assets) will enjoy, by extension, the privileges and immunities enjoyed by the PIFS as an entity in accordance with Article XI of the Agreement Establishing the Pacific Islands Forum Secretariat (2000).

6 Functions

6.1 The functions of the PRF Transitional Office include:

(a) serving the Board and the Council for the achievement of the purpose and objectives of the PRF;
(b) the preparation of policies and procedures for the operations of the PRF;
(c) ensuring sustainable management of funds in line with the investment mandate provided by the Council;
(d) project portfolio management;
(e) building relationships with regional and international partners;
(f) monitoring and evaluation;
(g) continued strengthening of accountability and transparency mechanisms; and
(h) any other functions set out in these Arrangements and as directed by the Board.

7 Relationship between the PRF Transitional Office and Forum Island Countries
7.1 The PRF Transitional Office will maintain close working relationships with Forum Island Countries, which in turn are expected or entrusted to assist the PRF in the achievement of its objectives.

7.2 The Board of Trustees established under clause 12 will develop guidelines for the following:

(a) the parameters for Memoranda of Understanding that will lay the framework for engagement and collaboration between PRF and Forum Island Countries, including transparency of grant execution and implementation arrangements, and reporting and accountability requirements;
(b) project pipelines;
(c) environmental and social (including gender and disability inclusive) performance standards aligned to international standards;
(d) the delivery of technical assistance;
(e) regular performance reviews;
(f) PRF compliance requirements; and
(g) grievance systems and procedures, and disputes resolution systems.

7.3 The Board will present a written annual report of the PRF to the Council.

8 Relationship between the PRF Transitional Office and donors and partners

8.1 The PRF Transitional Office will establish and maintain active co-operation with donors and partners.

8.2 In the transitional period, formal agreements with donors and partners of the PRF will be undertaken by PIFS, on behalf of the PRF.

PART II – TRANSITIONAL GOVERNANCE STRUCTURE

9 Structure and key organs of the PRF Transitional Arrangements

9.1 The Transitional Arrangements for the PRF comprise the following organs and structure:
(a) the Council of Members, comprising of Economic Ministers\(^2\) of all Pacific Island Forum Member Countries, and donors described under clause 10 of these Arrangements;
(b) the Board of Trustees described in clause 12; and
(c) the PRF Transitional Office described in clause 4, comprising the Chief Executive Officer and the Management Team, and any other staff.

\textit{Diagram 1: PRF Transitional Governance Structure}\(^3\)

10 Council of Members

10.1 The Council comprises of all PIF Member Countries, represented by designated Ministers or their nominated representatives, and donors.

10.2 The number of donors represented on the Council shall not exceed 5, with the 3 largest contributors being given membership. The remaining donor seats will be determined by donors on a rotational basis. The Council will decide the duration of donor membership.

10.3 The Council is the supreme organ of the PRF and will undertake the responsibilities provided under this Arrangement and as may otherwise be necessary to achieve the objectives of the PRF.

10.4 The Council will meet annually, in the margins of the annual Forum Economic Ministers Meeting (FEMM). The FEMM Chair will also be the Chair of the PRF.

\(^2\) Economic Ministers, in these Arrangements, align to Forum Economic Ministers or Ministers designated by PIF Members.

\(^3\) The beneficiaries of the PRF are the communities of Forum Islands Countries.
Council who will hold the position of PRF Chair until the following annual meeting.

10.5 In addition to the annual Council meeting, the Council may meet at such other times as may be requested in writing by any Member of the Council, or by the Board.

10.6 The quorum for a Council meeting will be 51% of the Members of the Council.

10.7 Each Council Member will have one vote on matters before the Council.

10.8 All decisions of the Council will be taken as follows:

(a) by ordinary resolution, where the decision to be made relates to any responsibilities of the Council specified in these Arrangements, by simple majority;
(b) by special resolution, where the decision to be made relates to or affects the core purpose and objectives of the PRF, by 75% majority of PIF Members.

10.9 The Council may invite observers to attend its meetings without the right to vote.

10.10 The Chair of the Board will serve as the Secretariat to the Council.

11 Responsibilities of the Council

11.1 The function of the Council is to provide overall guidance and strategic direction of the PRF with a view towards providing small-scale climate and disaster risk resilience and preparedness projects at the community level in Forum Island Countries.

11.2 Other functions of the Council include to:

(a) appoint and remove appointed Trustees serving on the Board;
(b) carry out a triennial performance review of the Board as provided under clause 28;
(c) decide the donor membership of the Council in accordance with clause 10.2;
(d) establish an investment mandate to guide the Board on the investment of the capital by the PRF’s international fund managers;
(e) provide strategic oversight to ensure policies and projects are consistent with the purpose and objectives of the PRF;
(f) to ensure the preservation of the capital base of the PRF, for capital growth overtime;
apparent an external auditor for the PRF in accordance with clause 27; and

consider any report it may receive from the Board and other relevant bodies.

12 Board of Trustees

12.1 The Board will consist five (5) Trustees comprising:

(a) the Secretary General of PIF, or in his or her absence the Acting Secretary General, as Chairperson;¹ and

(b) four Trustees appointed through an open recruitment process by the Council.

12.2 All appointed Trustees must have necessary qualifications, experience and skills as determined by the Council, including in the areas of disaster preparedness finance, international investment, risk governance, public financial management, commercial law, and development finance, community engagement, with due consideration given to gender balance.

12.3 The Council may remove an appointed Trustee before the expiration of his/her Term for misconduct or non-performance. A Trustee may also vacate its office by resignation.

12.4 An appointed Trustee who fails to attend 3 consecutive meetings without approval of the Chair shall be deemed to have resigned.

12.5 Trustees may not appoint alternate Trustees in the case of their unavailability as their expertise is necessary in the function of their duties.

12.6 Appointed trustees of the Board will be appointed for terms of 3 – 5 years determined by the Council.

12.7 All appointed Trustees will be contracted and remunerated, as determined by the Council.

¹ The Secretary General is proposed as chairperson, for the key reasons to ensure stability in the transitional phase, and because the PRF Transitional Office is an associated function of PIFS.
13 **Responsibilities of the Board**

13.1 The Board will:

(a) be responsible for the overall performance of the PRF Transitional Office;
(b) consider and approve the annual budget of the PRF as it considers appropriate;
(c) establish and set short term strategic priorities, operational policies and guidelines in line with the PRF’s long term strategic goals set by the Council;
(d) appoint/recruit the Chief Executive Officer and undertake the performance management of the Chief Executive Officer;
(e) provide oversight for the overall management of the capital base of the PRF under investment guidelines approved by the Council;
(f) decide on the placement and investment of funds based on advice from the Chief Executive Officer; [place in correct order linked to 18.2(b)]
(g) consider all project proposals for grants, as recommended by the Chief Executive Officer and the Grants Manager;
(h) establish and approve procedures and requirements for project proposals and selections;
(i) approve project funding that is in accordance and in line with PRF’s principles, criteria and policies;
(j) be accountable to the Council;
(k) develop, adopt, and ensure the application of globally accepted fiduciary principles and standards;
(l) prepare its own rules of procedure;
(m) approve specific operational policies and guidelines;
(n) oversee the operation of all relevant components of the PRF;
(o) produce an annual report to the Council;
(p) monitor financing levels of the PRF and the brokering of additional international financing resources, as required;
(q) review the adequacy and appropriateness of the:
   (i) strategies and policies relating to the communication of the findings of the Management team;
   (ii) communication to and engagement with stakeholders; and
   (iii) corporate administrative and HR policies of the PRF;
(r) share information with the Forum Officials Committee, as may be required; and
(s) perform such other functions as may be directed by the Council to achieve the objectives of the PRF.
13.2 The Board will establish Board sub-committees to undertake work related to audit, risk management, human resources and other governance matters.

14 Meetings of the Board

14.1 The Board will meet:

(a) in regular session at least four times a year; and
(b) as often as necessary at the request of a Trustee or as otherwise requested by the Board Chair.

14.2 The Board may conduct its meetings in person or remotely, using any technology, as approved by the Board.

14.3 The quorum for meetings of the Board will be two Trustees and the Chair.

14.4 All Trustees have the right to vote and the decisions of the Board will be taken by simple majority.

14.5 In the performance of its functions for the achievement of the purpose and objectives of the PRF as set out in clause 3, the Board will give regard to the particular needs of the most vulnerable communities and peoples, including women and girls and persons with disabilities, and will embrace the cultural diversity of the region with tolerance and respect.

PART III – OPERATION AND ADMINISTRATION

15 Operation and administration of the PRF Transitional Office

15.1 Key positions of the PRF Transitional Office include:

(a) the Chief Executive Officer;
(b) the Investment Manager;
(c) the Grants Manager; and
(d) the Reporting, Monitoring and Evaluation Manager.

15.2 PIFS will provide all necessary initial administrative and operational support to the PRF Transitional Office.

15.3 The PRF Transitional Office will be based at the Forum Secretariat headquarters in Suva, Fiji.
15.4 Upon establishment of the Board, the Board will agree on all necessary initial policies and other arrangements for these Transitional Arrangements, including, but not limited to, governance, operational, financial, ethical, risk and other policies, and such policies will be aligned to the relevant policies and procedures of the PIFS, and in adherence to international best practice and fiduciary standards.

16 Responsibilities of the Secretary General

16.1 The Secretary General will have the following specific responsibilities in relation to the PRF Transitional Office:

(a) as interim Chair of the Board, undertake oversight of the PRF Transitional Office, the Chief Executive Officer, and staff, and provide advice and support, as required;
(b) enter into formal agreements with donors, as referred to in clause 8.2, on behalf of the PRF;
(c) represent the interests of the Board and the Council and ensure effective implementation of decisions.

17 Chief Executive Officer

17.1 The Chief Executive Officer will be appointed by the Board following an internationally competitive selection process.

17.2 The Chief Executive Officer is accountable to the Board and advises and reports to the Board on the overall guidance and execution of the PRF’s purpose and objectives.

17.3 The Chief Executive Officer is responsible for the management of the day-to-day operations of the PRF Transitional Office, subject to the policy guidance of the Board.

17.4 Subject to the direction of the Board, and in addition to responsibilities set out in these Arrangements, the Chief Executive Officer will have the following specific responsibilities:

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5 Policy coverage include: transparency of execution and implementation arrangements; accountability requirements; environmental and social performance standards; investment management policy; delegation policy; project eligibility/assessment; due diligence; project pipelines; the delivery of technical assistance; regular performance reviews; PRF compliance requirements; anti-money laundering and bribery; code of conduct for all directors and employees of PRF; remuneration policy for the staff of the PRF Transitional Office; ethics and conflicts of interest; risk management; grievance systems and procedures; insurance; information management; communications strategy.
(a) in conjunction with the Investment Manager, present to the Board investment proposals with regard to both the investment of capital, and the placement of funds;
(b) manage the assets and investments (in projects in Forum Island Countries, not investment in capital base) of the PRF and ensure that the PRF’s investments are aligned to its purpose and objectives;
(c) coordinate all technical and administrative activities of the PRF;
(d) human resources management;
(e) prepare and submit for the approval of the Board the programme of work and budget of the PRF;
(f) prepare a report to the Board every three months, and prepare annual reports and such other reports regarding the activities of the PRF and its performance, as may be requested by the Board;
(g) outreach and advocacy;
(h) promote the identity and activities of the PRF;
(i) implement the programme of activities of the PRF, as approved by the Board;
(j) work in cooperation and coordination with other intergovernmental or regional organisations in the Pacific region, as well as with FIC governments, with the aim of ensuring that the most effective use is made of regional resources;
(k) serve as the Secretariat to the Board and provide support services to the Board, meetings of the Board, meetings of the Council or any other committee as may be established by the PRF;
(l) seek expert assistance and knowledge, where required; and
(m) provide such other services to the Council and sessions of the Board as those organs may require, and be present at such meetings.

17.5 The Chief Executive Officer may delegate to other staff of the PRF Transitional Office the authority and functions as he or she considers necessary for carrying out effectively the responsibilities of the Management team.

18 Investment Manager

18.1 The Investment Manager will be appointed by the Chief Executive Officer following an internationally competitive selection process, and will report to the Chief Executive Officer.

18.2 The responsibilities of the Investment Manager include:

(a) overseeing the investment of the assets of the PRF in accordance with the investment guidelines, including ensuring that adequate risk management measures and flexibilities are in place;
(b) undertaking a transparent competitive bidding process for fund managers and custodians, for decision by the Board; and
(c) ensuring fund managers invest the capital base according to the investment guidelines approved by the Council.

19 Grants Manager

19.1 A Grants Manager will be appointed by the Chief Executive Officer following an internationally competitive selection process, and will report to the Chief Executive Officer.

19.2 The responsibilities of the Grants Manager include:

(a) developing, for the Board’s approval, procedures and requirements for project proposals and selections, including:
   (i) criteria against which proposals can be assessed;
   (ii) a consistent format and procedure for proposals;
   (iii) parameters for prioritising viable projects for further review;
(b) linking and coordinating PRF grant requirements with national systems, including engaging with participating countries to provide technical assistance for project development where capacity constraints exist;
(c) promoting, managing and evaluating proposals received from applicants, and making recommendations to the Chief Executive Officer and the Board for approval; and
(d) monitoring the flow of approved projects and funding arrangements to ensure compliance with any PRF conditions.

20 Reporting, Monitoring and Evaluation Manager

20.1 A Reporting, Monitoring and Evaluation Manager will be appointed by the Chief Executive Officer following an internationally competitive selection process, and will report to the Chief Executive Officer.

20.2 The responsibilities of the Reporting, Monitoring and Evaluation Manager include:

(a) the development of annual monitoring and evaluation plans, including provision for independent evaluation;
(b) supporting the engagement of relevant expertise to undertake monitoring and evaluation of approved projects;
(c) distilling monitoring and evaluation reports and preparing 6-monthly reports for presentation to the Board;
(d) preparing regular reports on performance of project portfolio on a
country by country basis as well as overall PRF project performance for
submission to the Board and development partners; and
(e) any other responsibilities as directed by the Chief Executive Officer.

21 International Fund Management Firms and Custodians

21.1 The Fund Manager(s) and Custodians will be international firms appointed
by the Board, upon recommendation of the Chief Executive Officer, to
manage the capital base entrusted by the PRF.

21.2 The investment activities of Fund Managers and Custodians will be guided
by the investment guidelines to be developed by the Board and approved by
the Council.

22 Transparency and Accountability

22.1 The PRF Transitional Office will operate in accordance with generally accepted
international standards of governance, transparency and accountability, including the International Financial Reporting Standards and Forum Principles
of Accountability.

PART IV - FUNDING, FINANCIAL PROVISIONS, AND
ACCOUNTABILITY MECHANISMS

23 PRF funding

23.1 All Forum Island Countries are eligible to receive grants from PRF.

23.2 The PRF will support approved projects consistent with the Framework for Resilient Development in the Pacific, specifically targeting small-scale climate
and disaster risk resilience and preparedness projects at the community level
in consultation with Forum Island Country governments.

23.3 The Management team will assist the Board with the implementation of its
funding decisions.
24 **Financial resources**

24.1 The PRF will receive grants, donations and proceeds\(^6\) for its activities from donors and partners in accordance with guidelines set by the Board.

24.2 The guiding financial principles of the PRF are as follows:

(a) the capital base of the PRF is to be preserved and grown over time; and
(b) the total value of disbursements of financial products is to be no greater than the net income generated on the capital base.

24.3 Based on the targeted PRF capitalisation of US$1.5 billion, the PRF will use the capital base as follows:

(a) an initial grant disbursement of US$200 million over the first three years;
(b) the capital base of the PRF is to be preserved and grown over time;
(c) the total value of disbursements to the Forum Island Countries as beneficiaries of financial products is to be no greater than the net income generated on the capital base;
(d) grant disbursements to Forum Island Countries will include an allowance for technical assistance (where required, not to exceed 10% of the total grant disbursement over each three-year period); and
(e) each Forum Island Country receives the same amount, and this policy will be reviewed by the Board and the Council on a regular basis.

25 **Financial regulations**

25.1 The Board will develop financial regulations to govern the financial administration of the PRF, which must include:

(a) designation of the foreign bank or banks (or custodians), and the accounts, held in Australia\(^7\), in which funds of the PRF will be kept, and will report any changes pertaining to those accounts to the Council at its next meeting;
(b) necessary arrangements for compliance with banking system requirements;
(c) requirements for compliance with local and international standards on anti-money laundering and counter-terrorism financing, including money laundering and terrorism financing risk assessment to be conducted and

\(^6\) ‘Grants, donations and proceeds’ are all referred to here, as they all contain different connotations and requirements.

\(^7\) Given PIFS privileges and immunities with Australian Government.
updated on a regular basis, and other related high-level controls the Secretariat will implement to mitigate the risk that it may be used to facilitate money laundering or the financing of terrorism;

(d) an efficient and effective system of financial risk management to identify and address the financial risks faced by the PRF;

(e) an efficient and effective system of fraud risk management to identify and address the fraud risks faced by the PRF;

(f) administration arrangements and costs to PIFS as implementing agency for the PRF Transitional Office, including administration fee and direct cost recovery for additional services.

26 **Budget and reporting**

26.1 The annual budget of the PRF under these Arrangements will be prepared by the Chief Executive Officer for consideration and approval by the Board in accordance with strategies and processes within a medium-term framework set by the Board.

26.2 The costs of operating the PRF under these Arrangements will be in accordance with the budget as adopted by the Board, and is subject to review by PIF Members at their discretion.

26.3 The Board will present to the Council audited annual financial accounts by 30 June of each year.

26.4 The Management team must prepare quarterly management accounts reports, to be provided to the Board.

26.5 The Board will produce an annual report, detailing returns on invested capital, disbursement, investment of funds by sector (i.e. public sector, private sector and civil society organisations), or any other relevant matters for the Council. This annual report will be provided to all PIF Members.

27 **Audit**

27.1 The PRF finances and accounts will be audited annually by an independent external auditor appointed by the Council. The independent external auditor position will be advertised every three (3) years.

28 **External performance review**

The Council will commission an independent review by an external third party to assess the performance of the Board every three (3) years. The terms of review will be set by the Council in consultation with significant donors.