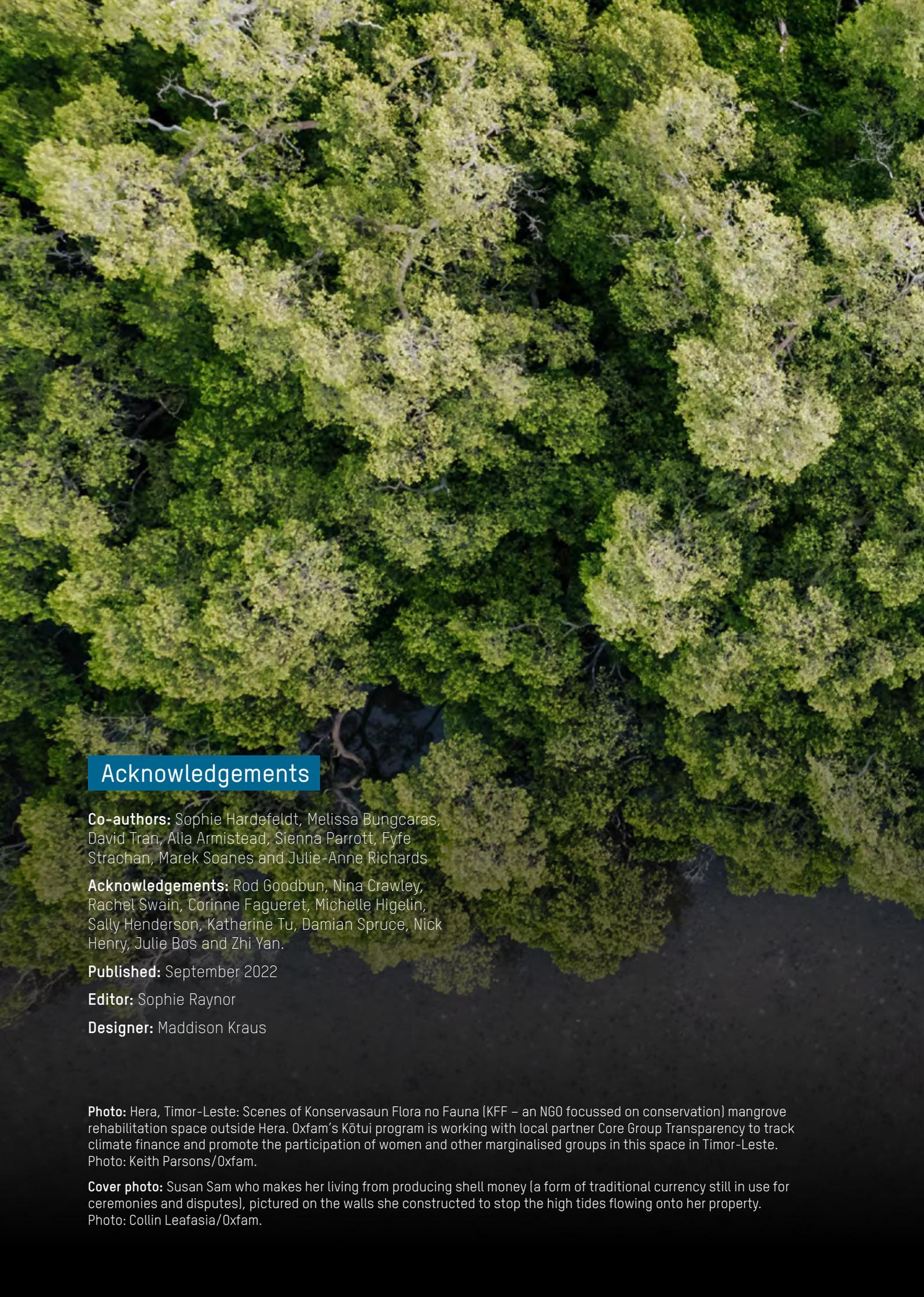




FALLING SHORT:

AUSTRALIA'S ROLE IN FUNDING FAIRER CLIMATE ACTION IN A WARMING WORLD





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Photo: Hera, Timor-Leste: Scenes of Konservasaun Flora no Fauna (KFF – an NGO focussed on conservation) mangrove rehabilitation space outside Hera. Oxfam’s Kōtui program is working with local partner Core Group Transparency to track climate finance and promote the participation of women and other marginalised groups in this space in Timor-Leste. Photo: Keith Parsons/Oxfam.

Cover photo: Susan Sam who makes her living from producing shell money (a form of traditional currency still in use for ceremonies and disputes), pictured on the walls she constructed to stop the high tides flowing onto her property. Photo: Collin Leafasia/Oxfam.

Contents

Executive summary and key recommendations	4
1. Introduction	6
2. Rebuilding Australia’s international climate reputation	8
3. Enhancing ambition	10
3.1 Achieving Australia’s climate finance fair share	10
3.2 Ensuring climate finance is additional to international aid	11
3.3 Addressing the loss and damage gap	12
3.4 Redirecting finance to global climate solutions	14
4. Rebalancing power	16
4.1 Re-imagining the climate finance architecture	16
5. Centring affected communities	19
5.1 Principles for locally led adaptation	19
5.2 Channelling funding to more adaptive and transformative climate solutions	21
6. Addressing intersecting inequalities	24
6.1 Assessing the gender responsiveness of Australia’s climate finance to the Pacific region	24
6.2 Supporting gender-responsive and intersectional climate finance	25
7. Improving accountability, transparency and quality	27
7.1 Improving the transparency and accuracy of climate finance reporting	27
7.2 Ensuring climate finance does not push costs back onto low-income countries	29
8. Conclusion and full list of recommendations	32
Appendix: Methodology for determining Australia’s climate finance fair shares	34

Executive summary and key recommendations

Communities across the world are facing a climate emergency, and it is those least responsible for causing the crisis who are being hit hardest. Across the Pacific region, communities are grappling with the daily realities of a heating planet – more severe cyclones, rising food and water insecurity, and biodiversity loss – alongside the existential threat of rising sea levels. Growing climate impacts threaten the security of their islands, their economies and livelihoods, and their culture and community.

Australia is also experiencing the devastating consequences of climate change. However, we have more resources to draw from to rebuild and recover. We have also contributed significantly towards causing the climate crisis, which means we have a moral duty to support low-income countries to respond to worsening climate impacts.

Recognising the need for climate finance to support low-income countries to adapt to climate change and reduce emissions, Australia and other wealthy countries committed to mobilising USD 100 billion per year in international climate finance from 2020-2025. Now, towards the end of 2022, wealthy countries are falling short and have still not made good on this promise.

Supporting ambitious global climate solutions

Australia's current climate finance commitment is well below our fair share of \$4 billion annually, which reflects a wider deterioration in Australia's commitment to climate action over the last decade. A comprehensive climate policy that strengthens emission reduction targets, alongside a fair approach to climate finance and loss and damage financing, is critical to rebuilding trust across our region and globally in the face of the climate emergency. The new Australian Government can signal this policy shift by increasing its climate finance contributions and make a strong commitment on loss and damage financing in the lead up to the United Nations Climate Change Conference (COP27) in Sharm el-Sheikh, Egypt in November 2022.

Progress on loss and damage finance

Low-income countries have long called for wealthy countries to provide financial compensation for loss and damage. Loss and damage financing is critical where existing international financial support is insufficient to respond to additional loss and damage costs, such as the high costs

of more extreme cyclones, the devastating cost of climate change fuelled droughts, and the costs of relocating populations due to rising sea levels. Australia can demonstrate its commitment to addressing loss and damage, particularly in the Pacific, through support for a standalone finance arm for loss and damage and a strong initial contribution to loss and damage finance, additional to its climate finance contributions.

Delivering just and equitable climate finance

To restore our international reputation and gain a place as an international leader on effective and equitable global climate solutions, the Government should work towards a bold and progressive climate finance and loss and damage agenda that is underpinned by the principle of climate justice and which works across the pillars of enhancing ambition; rebalancing power; centring affected communities; addressing intersectional inequalities; and improving accountability, transparency and quality.

Enhancing ambition: By delivering a sustained increase in climate finance, in line with growing need among low-income countries, Australia can support global climate approaches that protect lives and livelihoods in the most climate-vulnerable communities, while promoting regional and global stability, security and prosperity. Further, Australia should work collaboratively with Pacific Island countries, to support proposals and negotiating positions that provide strong outcomes for Pacific communities. Redirecting government subsidies away from fossil fuels towards international climate finance can help meet the scale of investment required.

Rebalancing power: Recognition of the links between historical and ongoing colonisation, climate change and environmental destruction, and poverty and vulnerability is long overdue. This acknowledgment requires a re-imagining of international climate change negotiations, infrastructure and responses, asserting decolonisation as an essential element of

effective climate solutions. Several emerging financing mechanisms established and led by low-income countries provide a clear alternative to traditional donor-led approaches.

Centring affected communities: Locally driven adaptive initiatives that provide direct resourcing to local communities and community-based organisations are particularly effective in driving inclusive and targeted climate solutions. Although not all climate finance needs to reach local levels, to support locally-led climate change adaptation, climate finance needs to reach and be controlled by local organisations and frontline communities. There is a need for greater transparency of climate finance investments to enable an accurate assessment of how much finance is reaching the local level. Following principles of locally led adaptation and directing more climate finance to transformational climate change adaptation investments will more effectively address growing needs at the community level.

Addressing intersectional inequalities: The current climate finance system is poorly structured and not implemented to meet the expectations and challenges faced by diverse women, people with disabilities, LGBTIQ+ people and other marginalised groups. Creating an equitable climate finance system will require more than a gender mainstreaming lens on an existing model that fails to understand how power excludes women, people with disabilities, LGBTIQ+ communities and other marginalised groups. New channels of finance to reach impacted communities, particularly through flexible and core funding targeted at local and women's organisations, is needed to support locally led responses to climate change.

Improving accountability, transparency and quality: Transparent and rigorous reporting about climate finance flows is critical in ensuring that climate finance estimates are accurate, and donor governments are accountable to their commitments and obligations. Internationally, low-income countries and civil society organisations have raised concerns about the credibility of the climate finance accounting system, and the risk that the mainstreaming of climate change into development programming can lead to an overestimation of climate finance by donors. Australia should also ensure that its historical focus on grant finance is not undermined as the quantum of climate finance increases. A shift towards loans over grants has the potential to exacerbate already concerning levels of public debt in low-income countries, particularly in the Pacific region.

Key recommendations

1. Australia should support effective and equitable global climate solutions by:

- Immediately increasing its climate finance contributions in the current financing period by \$1 billion, bringing Australia's climate finance to \$3 billion for 2020-2025.
- Committing to provide \$4 billion in climate finance annually by 2025, which is Australia's fair share of the USD 100 billion goal.
- Ensuring that all climate finance is in addition to the aid budget.

2. Australia should recognise and respond to the climate-related loss and damage being experienced by low-income countries, including by:

- Unequivocally supporting the proposal from Pacific Islands nations, and 124 other low-income countries, for a standalone finance arm to address loss and damage in the United Nations Framework Convention on Climate Change (UNFCCC);
- Making an initial contribution to loss and damage financing, above and beyond existing climate finance commitments made at COP27, accounting for this amount separately from adaptation finance and making it available as grants accessible to the most vulnerable communities; and
- Clearly articulating that loss and damage finance should be negotiated in the post-2025 global finance goal, as a separate element to either adaptation or mitigation.

3. Australia should develop an international climate finance strategy to guide the expansion and delivery of its climate funding. The strategy should be underpinned by the principles of:

- Enhancing ambition;
- Rebalancing power;
- Centring affected communities;
- Addressing intersectional inequalities; and
- Improving accountability, transparency and quality.

1. Introduction

The new Australian Government has flagged a change in course on climate change and in our relationships across the Pacific region. Not a moment too soon – the Intergovernmental Panel on Climate Change (IPCC) Sixth Assessment Reports, released in February and April 2022, are unequivocal that global climate inaction is already causing immense suffering and loss for communities across the world.¹

Communities already experiencing poverty and exclusion – particularly women, LGBTQI+ people, people with disabilities, ethnic minorities and other marginalised groups – are being hit hardest, as the climate crisis exacerbates the inequalities they face, pushing them further into poverty and insecurity.

In Australia, communities on the frontline of the climate crisis have faced flood after damaging flood and suffered through devastating bushfires. Across the Pacific region, communities are grappling with the daily realities of a heating planet – more frequent and severe cyclones, rising food and water insecurity, and biodiversity loss – alongside the existential threat of rising sea levels. Growing climate impacts threaten the security of their islands, their economies and livelihoods, and their culture and community. These impacts increasingly go beyond the ability of people and nature to adapt, resulting in loss and damage.

Wealthy countries, who are most responsible for the majority of the carbon emissions that caused the climate crisis, owe a historic debt to the low-income countries who bear the brunt of climate-related disasters and slow-onset events. If wealthy countries, like Australia, do not contribute our fair share of international climate funding, the world's poorest communities will continue to pay the price of a crisis they did not cause.

Urgent international leadership and a rapid expansion in climate ambition are necessary to avert the worst impacts of the coming climate catastrophe. The gap between global climate goals, and Australia and other wealthy countries' action to reduce emissions or provide climate finance to support low-income countries, has led to global temperatures warming to more than 1.1° Celsius. Australia has a considerable role to play in strengthening local and global climate responses. After a decade of climate inaction, the Climate Action Tracker has determined Australia's domestic climate action to be insufficient and its international climate finance contributions to be critically insufficient.² Climate ambition – both at home and abroad – must be prioritised to correct for lost momentum.

Foreign Minister Penny Wong has recognised the significance of the climate threat across our region, stating that

“the urgency of climate action for our Pacific family is raised with me everywhere I go.”³

Penny Wong, Minister for Foreign Affairs

Minister Wong has also promised that Australia “will stand shoulder to shoulder with our Pacific family in response to this crisis”,⁴ including by bidding to host COP29 in 2024 in collaboration with Pacific Island governments. These sentiments are welcome. However, the next step must be to match these words with action.

This will require a radical shift in Australia's climate policy, particularly on international climate finance and loss and damage financing, which are critical to supporting low-income countries to respond to rising climate impacts and costs. In 2009, Australia and other wealthy countries committed to mobilising USD 100 billion per year in international climate finance from 2020-2025. The mobilisation of climate finance is central to the Paris Agreement, and essential in garnering the international cooperation needed to increase the climate ambition of high emitting low-income countries.

Despite this, wealthy countries have failed to meet their commitments, with analysis from the Organisation for Economic Co-operation and Development (OECD) released in July 2022 finding that wealthy countries fell short of their target by USD 17 billion in 2020.⁵ Australia's climate finance commitments remain well below our international fair share, pushing the costs of the climate crisis onto the world's poorest communities. If the new Australian Government is genuine in its commitment to stand shoulder to shoulder with our Pacific neighbours, it will need to be bold, to work in partnership with countries across our region and internationally, and to demonstrate that Australia will meet our international climate obligations. This will require a comprehensive climate change policy that includes an urgent expansion in climate action at home, alongside robust commitments on international climate finance and loss and damage financing.

“A true family respects each member, listens to the concerns of family members, and acts upon those concerns.”

Pat Conroy, Minister for International Development and the Pacific, speaking at the University of the South Pacific in June 2022



Mataniko River, Honiara, Solomon Islands: Harry Tamateika, who lives along the Mataniko River near Honiara has seen the river rise in the 20 years he has lived alongside it. During floods the river has destroyed houses. Photo: Collin Leafasia/Oxfam.

2. Rebuilding Australia's international climate reputation

In the past Australia has been a leader on climate action, but the last decade of domestic climate wars has left Australia's international climate reputation in desperate need of repair. Australia has combined climate inaction at home with an obstructive role in international climate negotiations – at times hindering ambitious global climate action and championing the interests of the fossil fuel industry ahead of those of the Australian public and vulnerable communities in our region. Most Australians support climate justice, with a 2022 Lowy Institute Poll indicating three quarters of Australians are in favour of providing support to Pacific Island states for climate change action.⁹ Now, as the Paris Agreement goal of limiting warming to 1.5° Celsius is increasingly slipping out of reach, Australia must urgently shift its climate approach.

The new Government has committed to a stronger emissions reduction target of 43 per cent by 2030. This is an important starting point, but it remains well below the science-based target of 75 per cent by 2030,⁶ and does not keep pace with the targets of comparable countries such as the United Kingdom, Germany and the United States of America, which have committed to targets of 68 per cent, 65 per cent and 50 per cent by 2030 respectively.⁷ Further, the Government's continued support for coal and gas expansion is undermining the credibility of these targets, and runs counter to the realisation of the Paris Agreement goals.

Robust action on climate finance and loss and damage financing will also be necessary to facilitate the global cooperation required to expand climate action. The failure of wealthy governments to meet their climate finance promises is a significant source of tension in climate dialogues, and acts as an anchor on ambitious climate action. Climate finance will once again be on the agenda at COP27 in Sharm el-Sheikh in November 2022. The key issues on the table are a new post-2025 global goal on climate finance, and how to address loss and damage financing. Progress on these issues will be critical to the success of the wider negotiations.

Australia's climate finance contributions have consistently fallen below our international fair share, and our current commitment of \$2 billion over 2020-2025 has been assessed as critically insufficient by Climate Action Tracker.⁸ To date, Australia has not made any commitments on loss and damage financing. As a leader in the Asia Pacific region, Australia can signal to other wealthy countries that justice and equity are priorities in its climate policy by putting forward a more ambitious negotiating platform for climate finance and loss and damage.

In 2021, a coalition of Australian organisations came together to develop the report *Fairer Futures: Financing Global Climate Solutions*, which determined Australia's fair share of international climate finance and loss and damage contributions. This report builds on this work, providing a framework for how Australia can rebuild its international climate reputation through an ambitious and comprehensive climate finance and loss and damage agenda that includes action across the pillars of enhancing ambition; rebalancing power; centring affected communities; addressing intersectional inequalities; and improving accountability, transparency and quality.'



Lilisiana Village, Malaita Province, Solomon Islands: The Lilisiana Village, which is experiencing seawater intrusion from rising tides. Photo: Collin Leafasia/Oxfam.

3. Enhancing ambition

The 2009 commitment to mobilise USD 100 billion annually from 2020–2025 to support low-income countries to adapt to the impacts of climate change and to reduce emissions is a critical element of equitable global climate solutions and central to achieving the Paris Agreement goals. The failure of wealthy countries, including Australia, to meet this target puts lives and livelihoods at risk as low-income countries are left without the resources needed to respond to worsening climate impacts.

This failure to mobilise climate funds also undermines global cooperation, which is critical to achieving the Paris Agreement goals. Emission reductions from wealthy countries alone will not be sufficient to keep global warming to 1.5° Celsius. All countries must play their part, and the mobilisation of climate finance and loss and damage financing is critical in facilitating the global ambition required to stay within this limit.

3.1 ACHIEVING AUSTRALIA'S CLIMATE FINANCE FAIR SHARE

Australia announced a \$500 million increase in its climate finance commitment at COP26, bringing its total commitment to \$2 billion over 2020–2025. This remains well below our international fair share and does not keep pace with comparable countries such as the US, UK, Canada and New Zealand, which all significantly increased their climate finance commitments in the leadup to COP26.¹⁰

Using Oxfam's Responsibility and Capability Index, we have determined that

Australia's fair share of the USD 100 billion is approximately \$4 billion annually (USD 3.2 billion).¹¹ This is approximately 10 times more than Australia's expected average annual contributions.¹²

COP26 saw wealthy countries agree to double adaptation financing by 2025 – a global total of \$52 billion (USD 40 billion),¹³ of which Australia's fair share is \$1.7 billion (USD 1.3 billion).¹⁴ This is consistent with the target of at least half of Australia's \$4 billion fair share of climate finance being allocated to adaptation.

To signal a shift in Australia's ambition on global climate solutions, the Government should immediately expand its climate finance contributions to \$3 billion over 2020–2025, in advance of COP27 this November. This funding should be additional to the aid budget – and additional to the new Government's commitment to increase the aid budget to 0.5 per cent of Gross

National Income (GNI).¹⁵ This increase should come alongside a clear plan to achieve Australia's fair share of the USD 100 billion goal – \$4 billion annually – by 2025.

Beyond this immediate action, Australia must look to the future through the development of a long-term strategy for the progressive expansion of climate finance over the next decade. Negotiations are under way for the new post-2025 climate finance goal, and low-income countries are looking beyond the USD 100 billion goal as mitigation and adaptation costs rise. African countries have identified the climate finance needs of low-income countries as USD 1.3 trillion per year – more than 10 times the current level.¹⁶ The development of this new target must employ a needs-based assessment that determines the genuine costs facing low-income countries.

There are a range of methodologies that could be used to assess financing needs, with estimates of climate finance need ranging between "USD\$1.6 trillion to USD\$3.8 trillion annually between 2016 and 2050."¹⁷ Using the Climate Equity Reference Project's methodology to determine mitigation obligations, and the United Nations Environment Programme's Adaptation Gap report to assess adaptation obligations, we estimate that Australia's climate finance fair share will be in the order of \$11.5 billion annually by 2030, based on current emission reduction targets.¹⁸ It is crucial that the post-2025 goal reflects these growing climate needs and costs.

By acknowledging and supporting a significant and sustained increase in climate finance, in line with growing need among low-income

countries, Australia can support global climate approaches that protect lives and livelihoods in the most climate-vulnerable communities, while promoting regional and global stability, security and prosperity. Further, Australia should work collaboratively with Pacific Island countries, to support proposals and negotiating positions that provide strong outcomes for Pacific communities which are particularly vulnerable to climate change.

Recommendations

Australia should support effective and equitable global climate solutions through a rapid and sustained increase to its international climate finance, including by:

- Immediately increasing its climate finance contributions in the current financing period by \$1 billion, bringing Australia's climate finance to \$3 billion for 2020-2025;
- Committing to provide \$4 billion in climate finance annually by 2025, which is Australia's fair share of the USD 100 billion goal.
- Ensuring that all climate finance is in addition to the aid budget; and
- Playing a constructive and supportive role in negotiations for the post-2025 climate finance goal, recognising that mitigation and adaptation costs are rising rapidly, and climate finance contributions must reflect this growing need.

3.2 ENSURING CLIMATE FINANCE IS ADDITIONAL TO INTERNATIONAL AID

A central element of the climate finance agreement reached at COP15 in Copenhagen was the commitment that this finance would be "scaled up, new and additional, predictable and adequate."¹⁹ However, wealthy countries, including Australia, have not lived up to this commitment, with the majority of climate finance globally coming from within donor governments' international aid budgets and being counted against commitments to increase aid to 0.7 per cent of GNI.

Australia's climate finance contributions currently come from within a stagnating foreign aid budget of around 0.2 per cent of GNI.²⁰ This means climate finance is potentially displacing vital spending on health, education and other essential efforts to reduce poverty. This is particularly troubling in a context where other countries including

Luxembourg, Norway, and Sweden are meeting their obligations under the Sustainable Development Goals and the Paris Agreement by delivering their climate finance fair shares in addition to meeting their 0.7 per cent aid target.²¹ The new Australian Government has committed to "achieve a funding target for the international development program of at least 0.5 per cent of Gross National Income."²² This is a significant step in the right direction. However, Australia should also take concrete steps to ensure climate finance contributions are additional to this aid funding.

Low-income countries are already grappling with the devastating impacts of the COVID-19 pandemic and a severe food crisis. As the climate crisis deepens, its impacts on low-income countries will only become more extreme, as will the cost of development and climate adaptation initiatives. Wealthy countries' diverting aid towards climate initiatives is not the solution. Without additional financing, progress towards the Sustainable Development Goals and the Paris Agreement will stall, worsening poverty and inequality.

To ensure that climate finance is not displacing critical aid funding, Australia should ensure that, at a minimum, increases to climate finance reflect a wider increase to the aid budget. For example, an immediate increase to Australia's climate finance of \$1 billion – bringing Australia's climate finance to \$3 billion over 2020-2025 – should result in a \$1 billion increase in Australia's aid budget. This will ensure that new climate finance contributions are not coming at the expense of aid spending. Beyond this, the Government should release a clear timeframe for when Australia's climate finance will be additional to aid funding.

Recommendations

Australia should take steps to ensure its climate finance is provided in addition to international aid funding, including by:

- Ensuring future increases to climate finance that qualify as international aid form part of an overall aid budget that is increasing at the same rate as climate finance at a minimum; and
- Providing a clear timeframe for when climate finance contributions will be provided in addition to aid funding.

3.3 ADDRESSING THE LOSS AND DAMAGE GAP

The IPCC’s Sixth Assessment report into climate change impacts, adaptation and vulnerability has confirmed that extreme climatic events are driving “widespread and severe loss and damage to human and natural systems.”²⁵ Where mitigation and adaptation have failed, or are unable to reduce the risks posed by climate change, people are experiencing unavoidable climate loss and damage, the management of which exceeds their capacity and resources. Loss and damage is hitting poorer populations hardest, with diverse groups including women, LGBTIQ+ communities, people with disabilities, ethnicity minorities, and other marginalised communities facing even greater vulnerability to the impacts of climate change.²⁶

Low-income countries have long called for wealthy countries to provide financial compensation for loss and damage, with The Alliance of Small Island States first calling for an independent financial mechanism for loss and damage in 1991.²⁷ While some progress has been

made through the UNFCCC,²⁸ the question of loss and damage financing continues to be sidelined. The G77 plus China negotiating group is now calling for the inclusion of a loss and damage finance facility in the post-2025 climate finance goal, arguing it is critical to address the missing third pillar of climate finance after mitigation and adaptation finance.

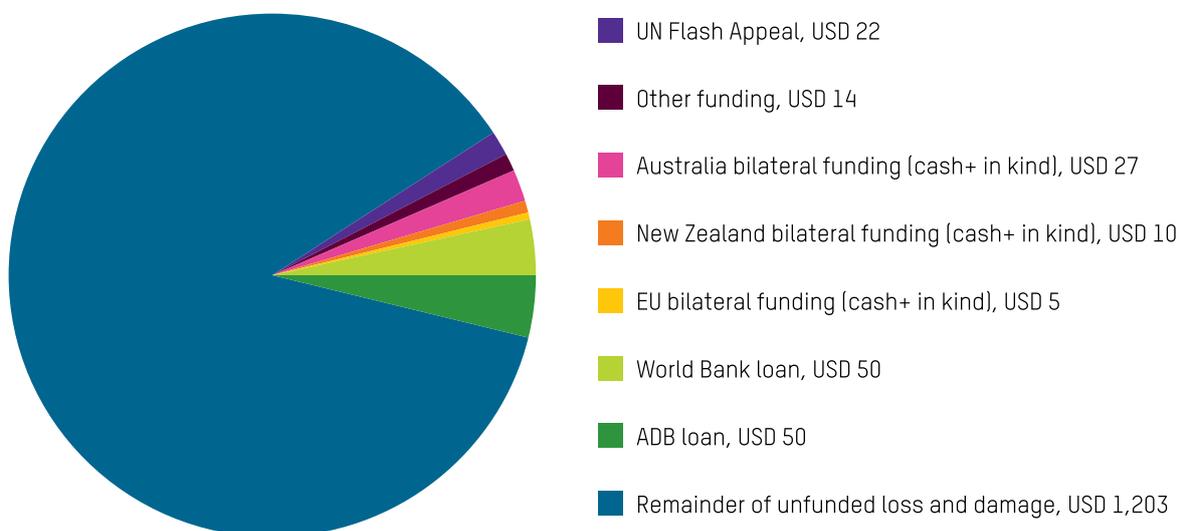
Loss and damage financing is critical where existing international financial support is insufficient to respond to additional loss and damage costs. For example, Oxfam’s recent report *Footing the bill: Fair finance for loss and damage in an era of escalating climate impacts* makes clear that the humanitarian system is not resourced or structured to respond to escalating climate loss and damage, with United Nations humanitarian funding appeals for extreme weather now eight times higher than they were 20 years ago.²⁹

The humanitarian system’s focus on supporting early response to disasters and conflict also makes it poorly suited to responding to slow-onset climate loss and damage, including rising sea levels, or

Box 1. Loss and Damage funding gaps - Cyclone Winston, Fiji

The aftermath of Cyclone Winston in Fiji provides a clear example of loss and damage impacts and costs. When the cyclone hit Fiji in 2016 it left a trail of destruction, wiping out entire villages, and leaving 347,000 Fijians in urgent need of assistance.²³ The quantifiable loss and damage from Cyclone Winston was USD 1.4 billion, roughly 20 per cent of Fiji’s annual Gross Domestic Product (GDP). As the graph below illustrates, Fiji received less than five per cent of that loss and damage in grant funding, and was forced to take out loans for other international assistance. Roughly 85 per cent of the cost of the cyclone fell on the shoulders of the people and Government of Fiji. The impact of the cyclone within Fiji hit unequally, with low-income people – disproportionately women – most affected.²⁴

Fiji loss and damage from Cyclone Winston 2016: total loss and damage USD 1.4 billion



the loss of cultural heritage and traditional ways of living, which cannot be easily quantified. Yet the World Disaster Report highlights that while funding for climate-related disasters has declined, the costs are expected to rise.³⁰ Mid-range estimates suggest that costs to 2030 associated with loss and damage range from USD 290-580 billion.³¹

At COP26, the Glasgow Dialogue was established to discuss “the arrangements for the funding of activities to avert, minimize and address loss and damage associated with the adverse impacts of climate change.”³² The Glasgow Dialogue will continue at COP27 and is due to conclude in 2024. It is critical that these negotiations result in concrete outcomes, including agreement on the modalities of a loss and damage finance facility; institutional arrangements; sources of predictable, sustainable, adequate and additional loss and damage finance; and equitable and direct access for low-income countries, based on their need and priorities.³³ To achieve this, wealthy countries, including Australia, will need to engage more constructively in loss and damage negotiations to achieve tangible outcomes for the most climate-affected communities.^{34 35}

Australia can also demonstrate its commitment to addressing loss and damage in the Pacific region through targeted bilateral finance. At COP26, the Scottish Government made a modest first move in providing dedicated loss and damage finance through its Climate Justice Fund. The new Australian Government should follow the Scottish Government’s lead and establish, and adequately resource, a Pacific loss and damage program.

Box 2. Principles for a loss and damage finance facility

The new loss and damage financing facility should be designed to ensure it does not replicate the structural challenges embedded within the wider climate finance architecture, including power imbalance between wealthy and low-income countries and the inaccessibility of climate finance for affected communities in low-income countries. In contrast to existing finance mechanisms, the financing facility should ensure provision of finance is adequate, effective, and guided by principles of climate justice.

A group of civil society organisations, including the Climate Action Network International, Christian Aid, Heinrich Böll Stiftung, Washington, DC, Practical Action and Stamp Out Poverty have come together to propose six overarching principles to guide the mobilisation of loss and damage finance. These principles determine that loss and damage finance should be:

1. Underpinned by international cooperation and solidarity, historical responsibility and the polluter pays principle;
2. New and additional;
3. Needs-based, adequate, predictable and precautionary;
4. Locally driven with subsidiarity - enveloping gender-responsiveness and equitable representation;
5. Public and grant-based; and
6. Balanced and comprehensive.⁴⁰



Lunga River, Honiara, Solomon Islands: Margaret Melua stands next to the post from a house washed away in flooding. The Lunga river floods and Margaret says that cyclones are increasing in frequency making food security a big problem for her and her family. Photo: Collin Leafasia/Oxfam.

Recommendations

Australia should recognise and respond to the climate-related loss and damage being experienced by low-income countries, including by:

- Unequivocally supporting the proposal from Pacific Islands nations and 124 other low-income countries, for a standalone finance arm to address loss and damage in the UNFCCC;
- Making an initial contribution to loss and damage financing, above and beyond existing climate finance commitments at COP27, accounting for this amount separately to adaptation finance and making it available as grants accessible to the most vulnerable communities; and
- Clearly articulating that loss and damage finance should be negotiated in the post-2025 global finance goal as an additional element beyond adaptation and mitigation funding.

3.4 REDIRECTING FINANCE TO GLOBAL CLIMATE SOLUTIONS

Australia has faced unprecedented economic challenges over the last two years, yet continues to have one of the world's largest economies, sitting at the 13th largest by nominal GDP. In this context, the Government has the capacity to meet our climate finance responsibilities, alongside our international aid obligations.

The reluctance of successive Australian governments to meet our fair shares of international climate finance and aid has been matched by enthusiastic support for the fossil fuel industry, through the provision of subsidies for fossil fuel consumption. In the 2021-22 financial year, the Australian Government allocated \$10.5 billion in subsidies to fossil fuel industries and fossil fuel consumption – a figure more than double Australia's climate finance fair share of \$4 billion annually. This funding reflects global financing patterns, with the recent IPCC Sixth Assessment report on climate mitigation finding that "public and private finance flows for fossil fuels are still greater than those for climate adaptation and mitigation."³⁶

Australia's export credit agency, Export Finance Australia, also continues to use public money to stimulate demand for Australian fossil fuels.³⁷ This is in direct opposition to the OECD's 2019 recommendation that wealthy governments align their development finance with the Paris Agreement goals.³⁸ By continuing to direct international aid and export finance towards fossil fuel activities,

Australia risks locking low-income countries into development pathways that will exacerbate carbon emissions and only increase their vulnerability to climate change.

By ceasing to provide subsidies to fossil fuel companies and by redirecting public funding towards communities on the frontlines of the climate crisis, the new Australian Government can easily meet its fair share of international climate finance commitments, while supporting domestic emission reduction efforts. In fact, a redirection of Australia's current fossil fuel subsidies would go a significant way towards meeting Australia's international aid and climate finance contributions.³⁹

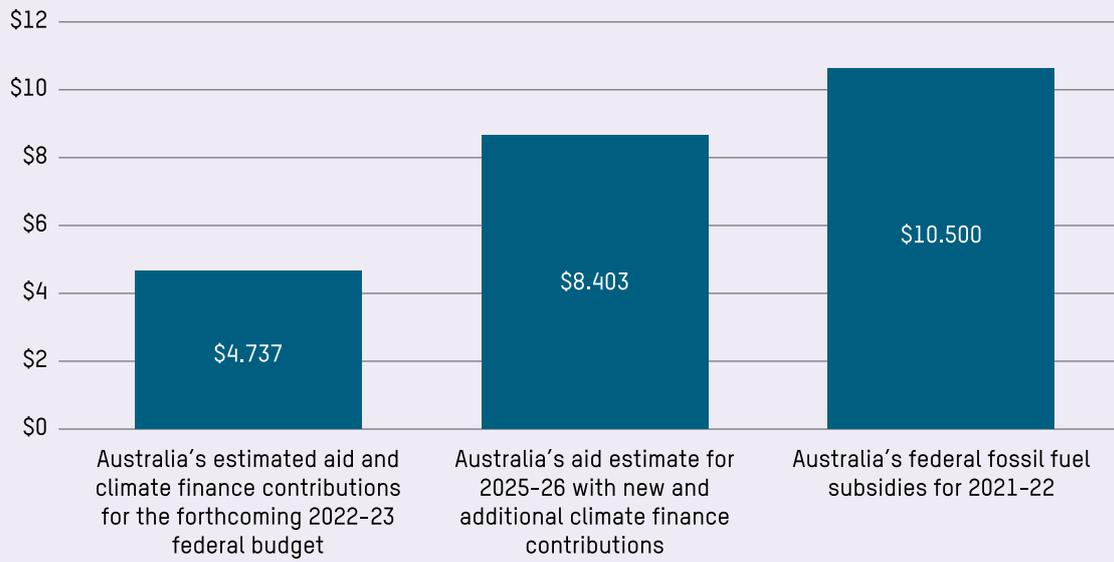
Recommendations

Australia should enhance its domestic emission reduction efforts while increasing funding for ambitious global climate solutions by:

- Ceasing subsidies to fossil fuel companies and redirecting those funds to increase climate finance; and
- Eliminating any international fossil fuel subsidies including via aid, foreign investment, export credit or trade promotion.

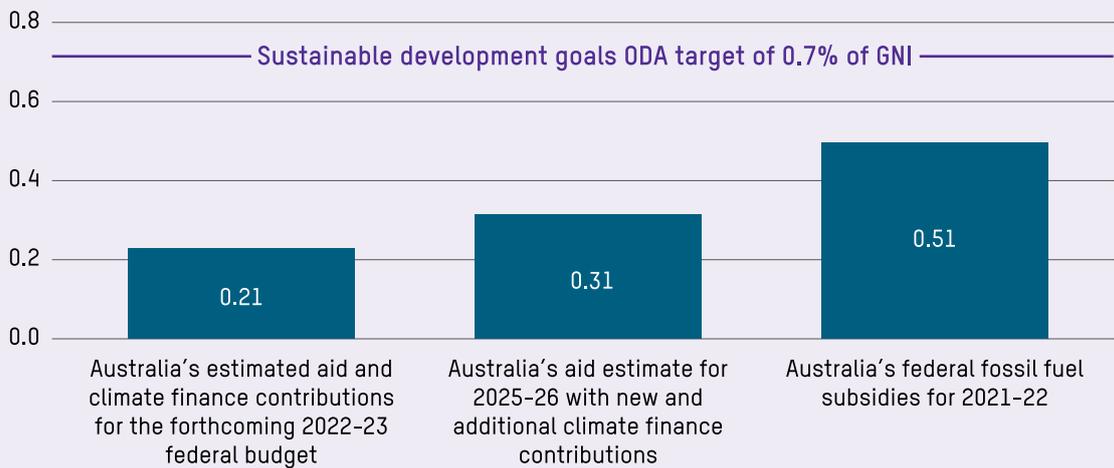
Graph 1.

Australia's aid, climate finance and fossil fuel subsidies (AUD Billions)



Graph 2.

Australia's aid, climate finance and fossil fuel subsidies as a percentage of gross national income



Source: Analysis by ActionAid Australia and the Australia Institute, based on data from the ANU Development Policy Center, the Australia Institute and the Australian Bureau of Statistics⁴¹

4. Rebalancing power

The latest IPCC report highlighted “historical and ongoing patterns of inequity such as colonialism” as a driver of climate vulnerability.⁴⁴ The recognition of the links between historical and ongoing colonisation, climate change and environmental destruction, and poverty and vulnerability is long overdue. This acknowledgment requires a re-imagining of international climate change negotiations, infrastructure and responses, asserting that decolonisation is an essential element of effective climate solutions. Challenging the unequal power dynamics that are embedded in patriarchal and colonial systems is critical to fostering genuine climate solutions that are led by affected communities in low-income countries, particularly diverse women and other marginalised groups.

Reform of international climate finance infrastructure and delivery is essential to the decolonisation of international climate responses. Currently, climate finance and loss and damage negotiations are plagued by unequal power dynamics, with international contributions determined by wealthy countries and reflective of their willingness to pay, rather than tied to their historic responsibility for causing the climate crisis and their corresponding debt to low-income countries. This relationship was recognised in the Paris Agreement through the principle of ‘common but differentiated responsibilities.’

Financing mechanisms are also donor-centric, with financing flows and modalities largely determined by wealthy countries, whose funding decisions are often underpinned by national interests, rather than international need. Consequently, the majority of international climate finance is being delivered through multilateral development banks, United Nations agencies and international conservation organisations, and there is a strong preference for mitigation initiatives, despite low-income countries consistently calling for an increase in adaptation finance.⁴² This power imbalance limits the ability of low-income countries to influence financing decisions, while high barriers to accessing finance can exclude civil society organisations, making finance less likely to reach the most vulnerable and climate-affected communities. The systematic exclusion of women, people with disabilities, LGBTIQ+ communities, Indigenous people and other marginalised groups from climate decision-making at all levels also negatively influences the type of solutions that are prioritised and resourced.

4.1 RE-IMAGINING THE CLIMATE FINANCE ARCHITECTURE

Reform and a re-imagining of climate finance mechanisms and funding approaches is needed to strengthen the agency and power of low-income countries. This must include centring Indigenous knowledge, supporting diverse women’s leadership, strengthening the voices of marginalised groups, and enabling affected communities to drive climate change solutions in their communities.

Some positive steps have been taken by governments and multilateral institutions to rebalance power and strengthen accountability of these systems to affected communities. Multilateral financing mechanisms including the Green Climate Fund and Adaptation Fund were originally designed to better enable low-income countries to lead in climate finance decision-making, however, these mechanisms continue to face challenges in achieving equitable decision making. Low-income countries and civil society have criticised the Green Climate Fund for its bureaucratic and delayed decision-making processes and complicated accreditation processes, which can exclude local civil society organisations.⁴³ These challenges demonstrate the need for a continuing reform agenda that ensures multilateral mechanisms are delivering finance to those who need it most.

More promising is the emergence of several new financing mechanisms established and led by low-income countries that provide a clear alternative to traditional donor-led approaches – see Box 3 on next page.

Box 3. Emerging financing mechanisms led by low-income countries

The Pacific Resilience Facility

The Pacific Resilience Facility (PRF) was launched in May 2021. It is a Pacific-owned and -led financing initiative designed to address the urgent need for innovative financing that supports climate resilience and disaster preparedness across the Pacific region. The PRF was established as a self-sustaining model, in which funding disbursements come from the interest earned on the capital base. This design responds to climate impacts with wholly grant-based finance, in order to ensure climate funding is not fuelling a debt crisis across the region.⁴⁵

The PRF has a small initial fundraising target of USD 1.5 billion, which will limit its ability to fund climate responses that respond to the scale of the problem across the region. However, its agile, small-scale grants, ranging from USD 50,000 to USD 200,000, are below the threshold offered by existing global climate funds such as the GCF, Adaptation Fund and GEF, which increases the accessibility of funding for local communities.⁴⁶

The LDC Initiative for Effective Adaptation and Resilience

The Least Developed Countries (LDC) group established the LDC-led and owned Initiative for Effective Adaptation and Resilience (LIFE-AR) in 2018. LIFE-AR promotes a long-term approach to climate responses that builds resilience and adaptation over time, working towards the 2050 vision of delivering climate-resilient development pathways by 2030 and net-zero emissions by 2050.⁴⁷

The LIFE-AR model centres whole-of-society, multi-level and cross-sectoral responses; prioritises local-level initiatives; integrates adaptation, mitigation and resilience development planning; strengthens climate knowledge and capabilities; and embeds gender and social justice approaches across this work. The LDC calls on wealthy countries to support this initiative by providing long-term, high-quality, predictable and accessible finance with mutual accountability; investing in local institutions and economies; supporting the LDC goal of 70 per cent of finance being targeted at the local level; supporting the LDC 2050 vision with USD 450 million in finance over 10 years; and to develop their own strategies that align with the 1.5° Celsius Paris Agreement goal.⁴⁸



Caleb Pollard, a member of the Pacific Islands Students Fighting Climate Change (PISFCC) at their office in Honiara. Photo: Collin Leafasia/Oxfam.

Box 4. A First Nations foreign policy for climate

Ambitious, comprehensive and effective climate solutions that take an integrated approach to climate change – addressing human rights and the rights of Indigenous peoples alongside mitigation and adaptation efforts – are critical to achieving global climate goals and improving the rights of First Nations communities in Australia and across the world. Where climate solutions fail to adequately incorporate an intersectional analysis, there is a risk that existing inequalities are reinforced and that climate initiatives will have unintended negative outcomes for Indigenous peoples and other marginalised communities.

The Paris Agreement explicitly recognises the rights of Indigenous peoples, and acknowledges the role that Indigenous peoples' experience and knowledge has played in facilitating positive mitigation and adaptation outcomes. At COP26 in Glasgow, the critical role that Indigenous people across the world play in generating effective solutions was again recognised, through the formal recognition of 28 Indigenous experts to the UNFCCC processes.⁴⁹

In Australia, the new Government has taken some important first steps in reconfiguring relationships with First Nations communities, including by committing to enshrining a First Nations Voice to Parliament in the Australian Constitution, and by committing to a First Nations foreign policy. Clarity is needed on how this will flow through to the Government's climate change and environmental policies, particularly where these policies intersect

with First Nations communities' rights over land and water. However, there are clear opportunities to use these policy development processes to develop a domestic climate policy that centres First Nations self-determination, supports community-led adaptation and prioritises just transitions that progress climate reform and human rights outcomes.

Australia's decision to establish a First Nations foreign policy provides an opportunity for the Government to demonstrate its commitment to climate justice for Indigenous peoples, through the alignment of Australia's aid and climate finance contributions with our obligations as a signatory to the UN Declaration on the Rights of Indigenous People.⁵⁰ The development of this new policy approach requires broad consultation with First Nations communities in Australia and in partner countries. It should also incorporate a review of the adequacy of Australia's bilateral and regional climate finance, and approach to loss and damage financing in addressing climate justice.

A core element of this work should include strengthening the localisation of Australia's international climate funding, including by directing funding towards First Nations-led initiatives and centring Indigenous knowledge in local and global climate solutions. Any model of conveying climate funding must be grounded in the principle of free, prior and informed consent.

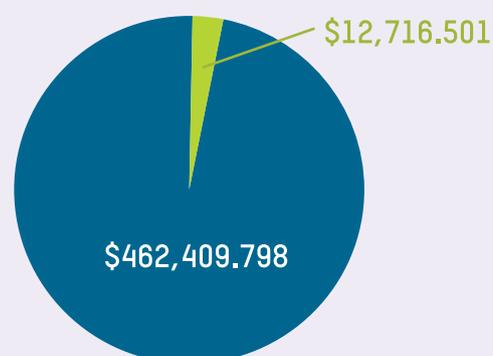
Recommendations

Australia should ensure its climate finance and loss and damage financing works to rebalance power and accountability between the wealthy countries, and affected communities in low-income countries by:

- Significantly supporting initiatives led by low-income countries, including the Pacific Resilience Facility and the LDC's LIFE-AR;
- Contributing finance to UNFCCC multilateral financing mechanisms, including the Green Climate Fund and the Adaptation Fund, while working to improve their accessibility and accountability to low-income countries and affected communities; and
- Recognising the power imbalance of donor-driven bilateral funding, and work with partner countries to centre their ambitions and objectives in Australia's climate investments and processes.

Graph 3. Proportion of Australia's climate finance to the Pacific region that is reaching local communities (2009-2020)

Total investment (USD thousands)



- Investments involving local organisations, communities or individuals or explicitly channels resources to the local level 2.7%
- Total investments 97.3%

5. Centring affected communities

Communities across the world face different climate change challenges that reflect their unique environments and social and political contexts. In this context, climate change solutions must be designed to meet the unique needs of affected communities. Locally driven adaptation initiatives that provide direct resourcing to local communities and community-based organisations are particularly effective in driving inclusive and targeted climate solutions.

Although not all climate finance needs to reach local levels to support locally led climate change adaptation, more climate finance needs to reach and be controlled by local organisations and frontline communities. Locally led climate change investments complement national level investments, delivering many adaptation activities at lower cost. These projects simultaneously build local adaptive capacity and generate local economic development benefits through improved livelihoods and enhanced access to basic services, such as clean energy.

When designed well, locally led adaptation projects can enable inclusive participation and leadership by women and other marginalised groups such as young people and people with disabilities. For example, providing climate finance directly to women's rights organisations, social movements and Indigenous organisations has not only delivered effective adaptation outcomes, but has also helped create space for transformations in local policy to better recognise marginalised groups' rights, and their effectiveness in protecting and restoring natural resources.⁵¹ Further, they also improve the bottom-up accountability of national climate ambition – enhancing democratic performance.⁵²

Delivering more investment to the local level is both morally right and sorely needed. Households and local communities bear a disproportionate share of the cost of responding to the climate crisis – in Bangladesh, households spend twice as much as the government to respond to climate disasters, and more than 11 times the support received from international donors.⁵³

Despite the value for money and climate justice benefits of localising climate finance, the current climate finance system often excludes the perspectives of marginalised groups. While most climate adaptation finance claims to 'benefit' local people, it often entrenches the systemic issues that make people vulnerable to climate change, rather than building the long-term capabilities and providing space for the agency that allows affected communities and local organisations to adapt to climate change, conserve and restore their local ecosystems, and develop sustainably.⁵⁴

Globally, little climate finance is reaching local levels. Research by the International Institute for

Environment and Development (IIED) found that between 2003-2016, less than 10 per cent of climate finance from international climate funds was directed at local initiatives. To redress this investment imbalance, several challenges need to be overcome, including the prioritisation of large-scale mitigation focused initiatives over locally led solutions; the accessibility of climate finance for local communities who lack the knowledge, time and resources to overcome the over-burdensome compliance requirements; the short-term nature of funding initiatives, which limits critical local capacity-building; and poor transparency, which reduces the accountability of donors to local communities.⁵⁵

5.1 ASSESSING HOW MUCH OF AUSTRALIA'S CLIMATE FINANCE TO THE PACIFIC REGION IS REACHING LOCAL COMMUNITIES

A review of Australia's climate finance to the Pacific region highlights the need for greater transparency of climate finance investments to enable an accurate assessment of how much finance is reaching the local level. The information about Australia's climate finance investments that is available through the OECD Development Assistance Committee's (DAC) reporting system is limited to project title, sector, a brief description of the project, and the financial allocations for adaptation, mitigation and cross-cutting. This makes it difficult to make an accurate assessment of whether climate finance is being directed at local communities or civil society organisations.

A review of the limited available information on Australia's climate finance to the Pacific region⁵⁶ in 2019-20 suggests that only a small amount of Australia's investments were locally directed. Of the 111 investments funded in this period only

16, or less than 3 per cent, demonstrated a clear involvement of local organisations, communities or individuals or explicitly channelled resources to the local level.

Given the benefits of locally directed climate finance to delivering climate justice and value for money, it is critical that Australia takes steps to improve its locally directed funding.

The Grand Bargain commitment of some of the largest donors and humanitarian organisations to direct 25 per cent of humanitarian funding to local and national responders provides a strong starting point for this work.⁵⁷ Australia should adopt the same target for its climate funding – committing to direct 25 per cent of bilateral climate finance

to locally-led initiatives. Further, there are a range of funding mechanisms, programs and projects that have effectively delivered climate finance to the local levels which Australia can learn from to improve the accessibility of its climate funding for local communities in partner countries – see Box 5.⁵⁸

Box 5. Examples of approaches that enhance the accessibility of climate finance for affected communities

Community-based Climate Change Adaptation Grants

The Department of Foreign Affairs and Trade’s (DFAT) \$16.9 million Community-based Climate Change Adaptation Grants (CBCCAG) initiative ran over three years between 2012-2015 in partnership with Australian NGOs. The grants aimed to enhance community self-organisation and capacity to anticipate and adapt to climate change locally; embed adaptation planning and strategies within community, government and civil society development planning systems; and support the implementation of community-based strategies for adaptation in vulnerable communities.

The evaluation of the CBCCAG initiative found that the grants were successful in enabling partners and communities to build their knowledge, to raise awareness about climate risks in their communities, and to start integrating climate risks into community development planning systems and practice.

The Green Climate Fund’s enhanced direct access

The GCF’s Enhanced Direct Access (EDA) modality was launched in 2021 to strengthen country ownership of GCF-funded projects by increasing access to sub-national, national and regional public and private entities and by empowering local actors to participate in climate finance decision-making. Important elements of the EDA design include: decision-making about the assessment and selection of projects is devolved to the regional, national or sub-national level rather than being made by the GCF board; there is greater support for community-based organisations, local government and small and mid-size enterprises that are embedded within affected communities; and projects are designed to align with national-level climate strategies such as nationally determined contributions.⁶⁴



Bangladesh: Shabana received training on eco-friendly and climate adaptive agriculture. Photo: Munir Hossain/Oxfam

5.2 PRINCIPLES FOR LOCALLY-LED ADAPTATION

The evidence that inclusive and community-led adaptation is a core to building effective climate resilience has been growing for decades, championed by organisations such as IIED and CARE International since 2005.⁵⁹ Evidence has also grown of the unsuitability of the present aid, humanitarian and climate finance system to adequately support community-led adaptation solutions. The 2021 UN Adaptation Gap Report and the IPCC Sixth Assessment Report recently concluded that internationally supported climate adaptation projects are failing to adequately build climate resilience and, in many cases, may be increasing vulnerability through maladaptation. This is due in part to their failure to address the root causes of vulnerability and get climate finance to local levels.

The Principles for Locally-led Adaptation were developed in response to this mounting challenge. Developed from more than five years of action research, including collaborative research and dialogue between IIED, the World Resources Institute and more than 50 adaptation stakeholders, they provide a practical set of principles for how all stakeholders should deliver climate finance, and design and implement financed projects. Their core content is not radically new, but is a reminder of the minimum that is required to deliver effective climate resilience at all levels. Importantly, they do not provide an easy set of actions for good quality adaptation, as implementing the principles effectively is politically challenging, requiring patient and politically astute programming.⁶⁰ The eight principles are:

1. Devolving decision-making to the lowest appropriate level.
2. Addressing structural inequalities faced by women, youth, children, disabled and displaced people, Indigenous peoples and marginalised ethnic groups.
3. Providing patient and predictable funding that can be accessed more easily. Business unusual provides finance over at least seven years – long enough to build sustainable local institutions and capacities.
4. Investing in local capabilities to leave an institutional legacy.
5. Build a robust understanding of climate risk and uncertainty.
6. Flexible programming and learning.
7. Ensuring transparency and accountability.
8. Collaborative action and investment.

As of November 2021, more than 70 organisations have endorsed the eight principles of locally led adaptation, including major bilateral donors such as the Danish International Development Agency, Swedish International Development Cooperation Agency, the United States Agency for International Development, and the United Kingdom's Foreign, Commonwealth & Development Office.⁶¹ Australia should follow these countries' lead by endorsing the principles.

5.3 CHANNELLING FUNDING TO MORE ADAPTIVE AND TRANSFORMATIVE CLIMATE SOLUTIONS

Adaptation to climate change necessitates fundamental changes to practice, behaviour, lifestyles and livelihoods, including the introduction of new tools, information and technologies. In many instances, climate change adaptation also requires transformative changes as community and natural ecosystem adaptation limits are reached.

Both the UN Adaptation Gap Report⁶² and the latest IPCC Sixth Assessment Report show that many adaptation projects financed so far are not addressing all dimensions of climate resilience required, prioritising immediate and near-term climate risks through often fragmented and incremental solutions. Mainstreaming climate change into humanitarian action, disaster risk reduction and development programming alone cannot deliver the space nor focus for the adaptive and transformative actions required to deal with an escalating climate crisis.

Australia reports climate finance allocations using the OECD DAC Rio Marker system. Under this system, projects are categorised as principally focused on climate change, significantly focused on climate change, or not focused on climate change at all.⁶³ A review of Australia's climate finance for the Pacific region between 2019-2020 demonstrates a strong preferencing for adaptation funding. Of the 111 investments funded during this period,

98 per cent of climate finance was targeted at adaptation.

This is welcome, given the significant need for adaptation finance across the Pacific region.

However, only 1.2 per cent of climate finance invested was categorised as principally focused on adaptation, with the majority of funding (97 per cent) only marked as having a significant focus on adaptation. This raises concerns about the impact that the mainstreaming of climate investments is having on the achievement of transformative adaptation outcomes. A top-line review of the

project descriptions provided to the OECD for the significantly focused adaptation investments indicates that only 11 of the 99 investments had a strong focus on adaptation. Alarming, 72 investments did not mention climate change or the environment at all in the project description.

This analysis indicates that there is scope for Australia to provide more detailed and transparent climate finance data to enable more accurate analysis of the adaptation outcomes of these projects. Australia should also take proactive steps to ensure funding is directed at principal-focused adaptation initiatives that support transformative climate resilience.

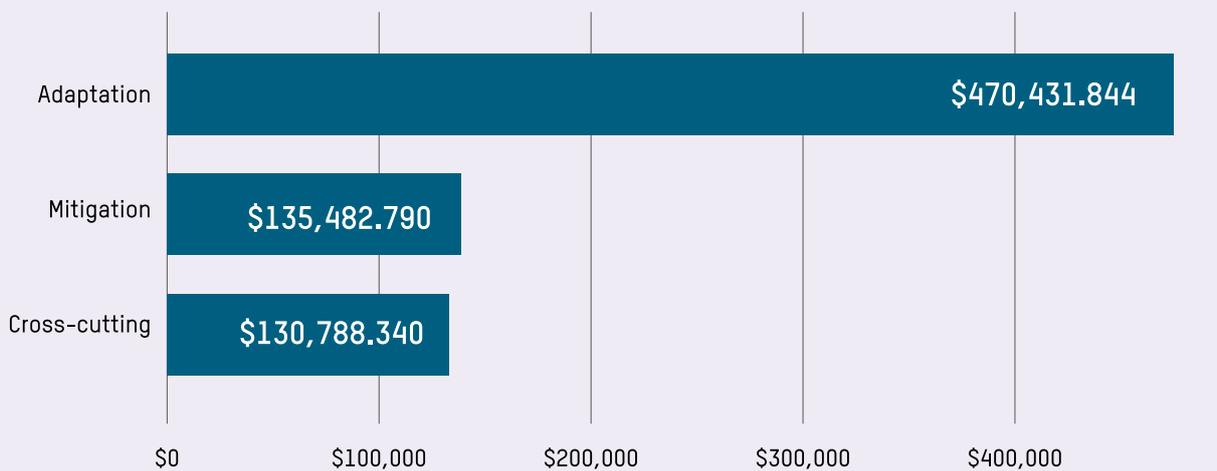
Recommendations

Australia should ensure its climate finance provides greater support for locally led climate initiatives by:

- Endorsing the Principles for Locally-led Adaptation and taking action to embed these within DFAT’s climate change strategy;
- Committing to directing 25 per cent of bilateral climate finance to locally-led initiatives, consistent with the Grand Bargain; and
- Significantly increasing the proportion of Australian climate change investments that have a ‘principal’ focus on adaptation to support transformative solutions.

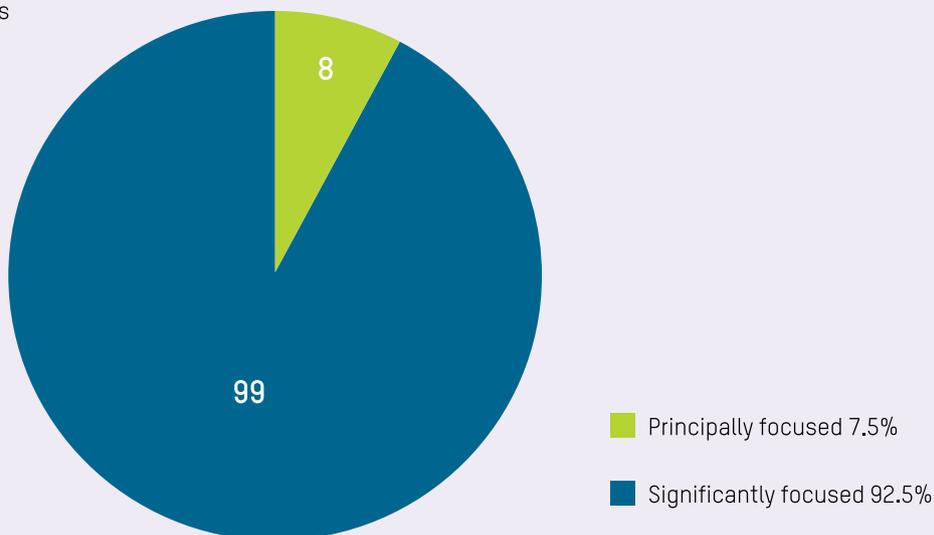
Graph 4. Australia’s climate finance: split between adaptation, mitigation and cross-cutting funding (USD thousands)

Total investment (USD thousands)



Graph 5. Australia’s climate finance: split between principal and significant funding

Number of investments



Box 6. Transforming local climate action in the Solomon Islands

With support from Oxfam’s Pacific Islands Climate Change Collaboration, Influencing and Learning (PACCCIL) project and with DFAT funding, the Solomon Islands Climate Action Network (SICAN) is ensuring women and people with a disability are included in their meetings and trainings, valuing their contributions to climate change initiatives, and removing traditional barriers to their participation.

Women and those with a disability are given the space to discuss climate change issues in the same language and from similar points of view. Many go on to utilise the knowledge and confidence gained from the network to raise wider community awareness of the impacts of climate change on food security, water scarcity and land erosion. This has been instrumental in giving climate change issues prominence again in the Solomon Islands despite the impacts of COVID-19.

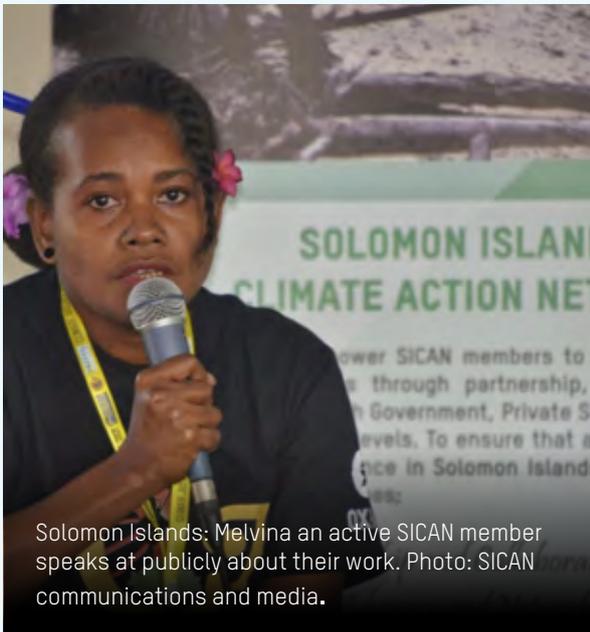
Melvina, a SICAN climate change officer who is living with a disability, said “SICAN is very inclusive, because it includes us people with disabilities in all its activities, like meetings and learnings, reflection, and even in everyday communication from the

secretariat where we become aware of... the climate change opportunities that exist for SICAN members.”

The opportunities for marginalised people to share their knowledge and experience of climate change is influential on the national stage. Grace Hirimane Piko, SICAN Active Member*, represented the Rock Valley at the National Climate Justice Dialogue, telling stories of climate impacts and community resilience. As a result of this exposure, Grace was invited to present at regional and international events, including the COP26 side event at the Pacific Resilience Hub and the Pacific Feminist Convening in 2021.

“If it wasn’t for PACCCIL project we will never share our story and [the] challenges of climate change that we have faced and gone through. But because of this project and the network, our voices have been represented in the national and regional spaces,” Grace said.

This project highlights the importance of climate finance reaching the community level where local voices can be amplified and help shape the development of inclusive climate solutions.



Solomon Islands: Melvina an active SICAN member speaks at publicly about their work. Photo: SICAN communications and media.



Solomon Islands: Grace an SICAN member is happy to see her views on climate change represented in national and regional debates. Photo: SICAN communications and media.

6. Addressing intersecting inequalities

The current climate finance system is poorly structured and not implemented to meet the expectations and challenges faced by diverse women, people with disabilities, LGBTIQ+ people and other marginalised groups. There needs to be greater analysis and recognition of the harmful gender norms and colonial power structures that reinforce how climate finance is currently delivered, including the systematic exclusion of women from decision-making. These power structures keep marginalised and oppressed individuals and groups from accessing the benefits of climate finance at all scales, limiting their opportunities to determine priorities and modalities and drive sustainable climate solutions from the bottom-up.

The power imbalance within the international climate finance system reflects a wider exclusion of rights-based organisations in international development assistance. Women's rights organisations receive just 0.5 per cent of bilateral aid worldwide,⁶⁵ and less than 2 per cent of international aid targets people with disabilities, which further reinforces power inequities in the global funding architecture. In the Pacific, less than 1 per cent of grant funding is directed to Pacific women's organisations,⁶⁶ and funding for gender equality has stagnated across the region, despite evidence that it is growing at the global level.⁶⁷ The Pacific region has some of the lowest gender equality indicators globally and is facing disproportionate risk from climate-related disasters.

Highly restrictive funding processes and inadequate infrastructure or enabling environments for women's organisations and civil society to access climate finance continue to be a barrier that minimises the role of women and marginalised groups in the climate finance landscape.⁶⁸ For example, women's organisations that generally have smaller organisational budgets and resources to compete for funding are disadvantaged when they are required to bid for the same pool of funds with larger civil society organisations and networks. This challenge is not limited to access to climate funding, but endures across the aid and humanitarian sectors. Pacific women's organisations have also identified "restrictive funding cycles, a mismatch between donor and organisations preferences, a lack of dedicated, flexible, and sustained core funding for organisations and a move towards project-based funding"⁶⁹ as creating a funding ecosystem that marginalises women's organisations. In the context of climate finance, the organisations who can access funding often require political connections and technical skills to demonstrate expertise

in delivering climate action, often with cost implications to the organisation itself.⁷⁰

For the most climate-affected communities, inequities in accessing climate finance are compounded by gender and other forms of intersecting inequalities. Patriarchal norms, which intersect with racism, ableism and other forms of discrimination, limit the ability of diverse women and other marginalised groups to engage in community consultations and to access critical information from donors about funding and activities being carried out.⁷¹ In the Pacific Island states of Tuvalu and Federated States of Micronesia, women have identified their marginalisation from climate finance decision-making as a result of expectations to play dual roles in meetings, as both participants and caterers. Further, they noted the inflexibility of organisers in scheduling meetings that did not take into account women's gendered care responsibilities and the socio-cultural expectations of women to "[preserve] the social fabric by remaining silent".⁷²

6.1 ASSESSING THE GENDER RESPONSIVENESS OF AUSTRALIA'S CLIMATE FINANCE TO THE PACIFIC REGION

An assessment of Australia's climate finance to the Pacific region for 2019-2020 demonstrates the need for a greater integration of gender and climate change programming to ensure that climate responses are being driven by diverse women and other marginalised communities.

Of the 111 climate investments assessed, 30 per cent of funding was categorised as addressing gender equality. However, a closer review of the data raises concerns about how investments are classified using the OECD gender markers. Just five investments were classified as principally focused on gender equality, reflecting just 0.35 per cent of the total investments. A top-line review of the remaining investments classified as significantly focused on gender found that only 12 had a clear reference to gender equality, with the majority of investments making no mention of gender equality or women and girls in the project description. Further, analysis of all investments found that only four investments had either a principal or strong focus on both gender and climate change. This demonstrates the need for improvements in reporting of climate finance and gender equality initiatives and for greater investment in genuine gender-responsive climate solutions.

Graph 6. Gender-responsiveness of Australia's climate finance to the Pacific Region (2019 –2020)

Total investments (USD thousands)



6.2 SUPPORTING GENDER-RESPONSIVE AND INTERSECTIONAL CLIMATE FINANCE

Efforts to address inequality in climate financing to date have largely focused on gender mainstreaming of investments and broadening opportunities for participation and consultation of marginalised groups as key stakeholders.⁷³ Many of the major climate funds, including the Green Climate fund, the Adaptation Fund and the Global Environment Facility, now have a gender policy and/or gender action plan to support the integration of gender considerations into their institutions and investments. However, creating an equitable climate finance system will require more than a gender lens on an existing model that fails to understand how power excludes diverse women and other marginalised groups.

Feminist funding models are needed to address the inequalities in global financing infrastructure by providing accessible grant funding with governance structures that are more accessible to CSOs, and increasing the focus on flexible, core and multi-year funding.⁷⁴ Funding should also reflect the priorities of women's rights organisations and enable organisations to address capacity gaps, including in relation to human resources, leadership and governance, strategic planning and collaboration, monitoring and evaluation, and coordination and communication.⁷⁵

Box 7. Examples of gender-responsive finance models

Canada's gender funding stream

On International Women's Day 2022, Canada, through its climate finance programming, announced CAD 67.5 million in funding for projects that support gender equality and climate action. The projects will support initiatives including women's climate leadership and effective partnership in coal transition strategies, bolstering the food security of female workers in agriculture and resource sectors, and Indigenous women's training and management of nature-based climate solutions.⁷⁶

Pacific Island Feminist Alliance for Climate Justice

The Pacific Island Feminist Alliance for Climate Justice uses feminist organising approaches to respond to the unique impacts of climate change on the Pacific. Supported by the Global Fund for Women and ActionAid Australia, the Alliance recognises the need for resources and support to reach diverse women when they need it, to enable them to deliberate on, participate in, design, and deliver climate responses that work for women and their communities.

The Alliance's grant-making is underpinned by a feminist funding model that prioritises multi-year, longer-term funding, alongside well-coordinated rapid response funding windows for feminist groups to mobilise around key moments or crises. This funding model aims to make funding flexible and accessible to feminist groups, irrespective of their size, which ensures stability and sustainability for feminists and women's rights and women-led organisations to drive the localisation agenda.⁷⁷

Global Alliance for Green and Gender Action

The Global Alliance for Green and Gender Action (GAGGA) is a joint alliance between the Fondo Centroamericano de Mujeres (FCAM – a Nicaragua-based regional women's fund), Both ENDS (an independent, Dutch environmental justice NGO) and Mama Cash (an international women's fund headquartered in the Netherlands), aiming to strengthen and unify the capabilities of community-based women's rights and environmental justice groups. GAGGA provides women-led community-based organisations with funding and technical and legal expertise, and connects them to a broader network or other gender-just environmental movements, to support their grassroots work advocating for environmental justice and women's rights.⁷⁸

Box 8. Gender-responsive alternatives to climate change

Twenty million people in the Horn of Africa are hovering on the brink of famine, as the climate crisis is fuelling one of the region's worst droughts on record. In Kenya, communities are battling climate impacts every day, including severe drought, water and food crises. More than 1.4 million animals have died due to the current drought, costing pastoralists their only means of supporting their families. When times are tough, women are the worst affected – facing rising rates of violence, forced marriages, and increased unpaid work.

ActionAid is working in partnership with the Capricorn Foundation and DFAT in Kenya to implement its Framework for Gender Responsive Alternatives to Climate Change and Related Crises (GRACC),⁷⁹ which aims to systematically address climate change, gender inequality and interlinked crises.

The GRACC framework was developed in collaboration with Monash University, through funding from DFAT's Gender Action Platform, and builds on research with women in Cambodia, Kenya and Vanuatu. Through the Framework, ActionAid and its partners are driving more effective responses for the most marginalised and climate-affected populations, particularly women and girls, through a focus on four core approaches:

1. valuing women's localised knowledge alongside scientific evidence;
2. supporting women's participation in decision-making at all levels;
3. resourcing women's collective action through women's networks and organisations; and
4. underpinning the first three approaches, addressing unequal gender norms.

In Baringo County, Kenya, the GRACC project supports women to lead their communities to adapt to climate change, with a focus on building sustainable livelihoods, protecting their rights, and influencing decisions that impact their resilience to climate disasters. Training on agroecology has

enabled women to lead on the adoption of climate-resilient farming systems.

Women leaders have also developed a Climate Change Charter of Demands and were successful in influencing the Baringo County Climate Change Adaptation Action Plan 2018-2022, including by gaining financing for climate change adaptation and mitigation across the county.

The GRACC framework provides a strong model to foster a shift from crisis responses to sustainable, long-term development outcomes. The promotion of integrated approaches to climate change that drive transformative change in gender relations enables strong action on climate change that strengthens resilience, safeguards human rights, and progresses gender equality.



Baringo County, Kenya: Cheptei Kambi tending to her vegetables in her kitchen garden at Komolyon, Tangulbei. Photo: Action Aid.

Recommendations

Australia should ensure its climate investments are gender-responsive and -inclusive by:

- Establishing a gender-responsive climate resilience and adaptation fund, which directs \$300 million in bilateral climate finance over four years towards integrated, women-led and localised responses that address climate change and intersecting crises, alongside progressing gender equality;
- Considering new channels of finance to reach impacted communities, particularly through flexible and core funding targeted at local and women's organisations to support their locally led responses to climate change; and
- Moving beyond participation to promote the meaningful engagement of diverse women and marginalised groups from affected countries in decision-making at all levels and the design of finance mechanisms and investments.

7. Improving accountability, transparency and quality

7.1 IMPROVING THE TRANSPARENCY AND ACCURACY OF CLIMATE FINANCE REPORTING

Transparent and rigorous reporting about climate finance flows is critical in ensuring that climate finance estimates are accurate and donor governments are accountable to their commitments and obligations. However, under the existing climate finance reporting system, there is a risk that climate funding can be overestimated, particularly where it is integrated and counted alongside broader development programming.⁸⁰ Australia's delivery of international climate finance is reported to the UNFCCC every two years through a biennial report.⁸¹

A review of Australia's climate finance from 2012-2020 indicates that 88 per cent of initiatives

funded through Australia's bilateral and regional climate finance are categorised as significantly focused on climate change, with only 12 per cent principally focused on climate change. **Over this period, financing for projects with climate change as a principal focus has declined steadily**, despite Australia's intentions to provide increased climate finance over the same period.

Under the Rio Marker reporting system, most donor countries apply a fixed percentage (generally between 40-50 per cent) of the overall project budget to determine what is counted as climate finance for projects that are significantly focused on climate change. Internationally, low-income countries and civil society organisations have raised concerns about the credibility of this approach, which can lead to overestimation of climate finance by donors.⁸²

Table 1 Categorisation of Australia's climate finance, 2012-2020

Year	Number of climate investments per category – bilateral and regional (n=5,623)		Total climate-related development finance - commitment – 2020 USD thousand (n=3,687,268)	
	Principal	Significant	Principal	Significant
2012	224	456	172,607	285,899
2013	194	371	128,064	245,580
2014	39	380	43,782	258,546
2015	52	339	56,228	285,861
2016	32	208	42,281	361,161
2017	39	226	39,216	291,538
2018	46	268	40,327	260,390
2019	20	925	9,419	554,978
2020	24	1,780	15,283	596,468
Total	670	4,953	USD 547,207	USD 3,140,421



Javinal Dias, from Oxfam partner Core Group Transparency (CGT). CGT is a civil society network made up of 13 local organisations (including a women’s organisation and a Disabled Persons’ Organisation), established to oversee transparency and accountability of state budget execution.
Photo: Keith Parsons/OxfamAUS.

Australia is one of the better performers on this measure – allocating 30 per cent of project budgets that are significantly focused on climate change towards our climate finance contributions.⁸³ However, Australia has been increasing our number of projects with climate change as a significant focus, but has not made a commensurate increase to international aid or in new climate finance budget measures. Our review of Australia’s climate finance to the Pacific for 2019-2020 found that a majority (79 per cent) of climate investments had limited or no focus on adaptation in the project descriptions, bringing into question the quality of adaptation outcomes across the majority of Australia’s climate adaptation portfolio.

While improving climate change considerations in development programs is an important endeavour, the Government should clarify if new and additional climate finance has been provided to address climate risks, or if this is merely a reclassification of existing aid spending.

Without rigorous reporting rules and clear definitions, there is a risk that the mainstreaming of climate change into development programming results in double-counting of aid and climate funding and robs low-income countries of the significant additional finance they require to respond to the climate crisis.

It also limits the potential of adaptation finance to a risk management tool and may miss opportunities for investment in transformational adaptation that deliver long term and sustainable outcomes.

In this context, additional steps can be taken to ensure Australia’s climate finance reporting is more transparent and accurate. For example, the United Kingdom does not apply pre-determined climate or biodiversity fixed percentage to the Rio Marker system; instead using activity level assessments to determine the amount of climate finance associated with each individual project.⁸⁴ This approach provides more accurate reporting of climate finance investments. Additionally, the New Zealand Government has identified NZD 800 million of its recent NZD 1.3 billion international climate finance commitment as “ring fenced ...to be spent on climate-change specific activities,”⁸⁵ providing greater clarity that this funding is directed at principal-focused climate initiatives.

Recommendations

To ensure transparency and confidence in the delivery of our climate finance commitments, Australia should commit to enhance climate finance reporting, including by:

- Publishing full project lists;

- For every project, reporting both the full project value and the amount being counted as climate finance and only count principally climate-related finance as climate finance;
- For every project, providing an explanation of how the climate finance component of the project costs was calculated; and
- Tracking and reporting funding that is directed to the local level.

7.2 ENSURING CLIMATE FINANCE DOES NOT PUSH COSTS BACK ONTO LOW-INCOME COUNTRIES

In addition to its social and environmental impacts, the climate crisis is having a significant fiscal impact, particularly for low-income countries, which have fewer resources to respond. Expenditure on relief and recovery from climate-related weather events increases the pressure on national budgets and can cause economic losses – for example, damage to farmland, and weather events forcing people out of work.

Public debt can reduce the resources available for recovery and adaptation as countries are forced to divert significant government revenues towards servicing debt. In 2021, low-income countries spent on average over five times more on external debt payments than on projects to protect people from the impacts of climate change.⁸⁶ The need for funds to pay for adaptation, loss and damage can in turn fuel further borrowing.

Without sufficient loan-free climate finance available, low-income countries are likely to find themselves pushed further into debt as they grapple with successive and compounding disasters.

In this context, the form of climate finance is as important as its volume. Internationally, most climate finance is delivered through debt instruments – 71 per cent of public global climate finance in 2020 was provided as loans (a total of USD 48.6 billion).⁸⁷ In the face of continued economic shocks, there is a risk that these loans will exacerbate the debt burdens that many low-income countries are already facing.

A strong aspect of Australia’s climate finance is the delivery of grants-based finance. Between 2015 and 2020, all of Australia’s climate finance (as reported to the OECD DAC) was delivered in the form of grants.⁸⁸ However, there are indications this may be reconsidered. The Australian Infrastructure Financing Facility for the Pacific (AIFFP) has \$3 billion available to be disbursed as loans, with

only \$500 million available for grants.⁸⁹ It is tasked with providing infrastructure financing to Pacific Island countries and Timor-Leste, and can provide sovereign loans to Papua New Guinea, Fiji, Timor-Leste, Palau and the Cook Islands, while Vanuatu and Solomon Islands are eligible for mixed loan-grant financing. The remaining countries in the region are currently only eligible to receive grants from the fund.

Four of AIFFP's 12 announced projects to date are climate-related, including two solar energy projects in Palau and Papua New Guinea, transmission infrastructure from a hydroelectric facility in the Solomon Islands, and a flood alleviation project in Fiji.⁹⁰

The AIFFP's focus on financing climate change-related infrastructure is likely to increase. Prior to the 2022 Federal Election, the Labor party announced it would create a Pacific Climate Infrastructure Financing Partnership to support climate-related infrastructure and energy projects in Pacific countries and Timor-Leste.⁹¹ The partnership would be a stream within the AIFFP's existing grant and loan envelope rather than new money. The AIFFP website now indicates that it has a dedicated Climate Infrastructure Window, which "supports renewable and lower-emissions energy generation and transmission."⁹²

While climate finance for the Pacific is greatly needed, there are two potential issues with this new facility. Firstly, the facility's focus on energy generation and transmission suggests that the facility may focus on large infrastructure and may have a mitigation focus, rather than meeting the urgent need for funding for community-level adaptation initiatives. Secondly, the facility's focus on loans over grants risks exacerbating already concerning levels of public debt. The IMF-World Bank debt sustainability analysis lists

seven Pacific countries as being at high risk of debt distress: Kiribati, Marshall Islands, Micronesia, Papua New Guinea, Samoa, Tonga and Tuvalu.⁹³ Solomon Islands and Vanuatu are considered at moderate risk of debt distress and the IMF has also flagged several risks for Fiji's debt.⁹⁴

In this context, the Australian Government must ensure that its climate finance for the Pacific is targeted where it is most needed – on adaptation initiatives. Further, steps must be taken to ensure that Australia's historical focus on grant finance is not undermined as its climate finance contributions increase. Responding to low-income countries' urgent need for finance through climate finance and loss and damage loans will only increase their debt burden, resulting in a diversion of funds away from critical public services like healthcare and education. This restricts countries' ability to respond effectively to the climate crisis as well as undermining progress towards the Sustainable Development Goals.

Recommendations

Australia should ensure its climate finance does not contribute to worsening debt distress in low-income countries by:

- Committing to deliver any new climate finance and loss and damage financing as grants, not loans or support for insurance; and
- Conducting a comprehensive review of the proposed Climate Infrastructure Window in the AIFFP to assess its effectiveness in meeting the needs of partners across the Pacific region.

Box 9. Private sector climate insurance is not a just solution

As climate change-induced loss and damage worsens, low-income countries face more pressure in meeting the costs of extreme events like cyclones and droughts and slow-onset events such as rising sea levels. To cope with the impacts of these events, low-income countries are forced to take out insurance, funding premiums from their own limited budgets. Yet climate risk insurance generally covers a very small proportion of the loss and damage suffered by the vulnerable country, often as low as 1.5 or 2 per cent.⁹⁵

This response outsources responsibility to the private sector and puts the emphasis back on low-income countries for the climate risks they

face – risks which exist because of the high, historic levels of pollution from wealthy countries and from the fossil fuel industry.

Spearheaded by Germany, the G7 unveiled a plan called the 'Global Shield Against Climate Risks',⁹⁶ which has a heavy emphasis on insurance as a form of loss and damage 'finance'. Australia should not join this scheme and should instead stand with the Pacific to champion loss and damage finance that is fair and equitable and lives up to the principles of international cooperation and solidarity, historical responsibility, and the polluter pays principle.



Vanuatu: Rosita a participant in an Oxfam disaster response program. Photo: Arlene Bax/Oxfam.

9. Conclusion and recommendations

In November this year governments across the world will convene for critical discussions on progressing urgent global climate action at COP27 in Sharm el-Sheikh. COP27 will take place as low-income countries struggle to respond to the impacts of COVID-19, deepening food insecurity and rising conflict. Worsening climate impacts and the rising costs of climate disasters and slow-onset events will put even more lives and livelihoods at risk, as the most vulnerable communities are pushed further into poverty and insecurity. Now, more than ever, fair, accessible, and reliable climate finance is needed to support low-income countries as they face these compounding crises.

After a decade of climate inaction, COP27 provides a vital opportunity for the new Australian Government to signal its commitment to ambitious climate action at home and internationally. Australia can rebuild trust across our region and restore its international reputation by delivering a significant increase in international climate finance, and making a robust commitment on loss and damage financing.

1. ENHANCING AMBITION

1.1 Australia should support effective and equitable global climate solutions by:

- Immediately increasing its climate finance contributions in the current financing period by \$1 billion, bringing Australia's climate finance to \$3 billion for 2020-2025;
- Committing to provide \$4 billion in climate finance annually by 2025, which is Australia's fair share of the USD 100 billion goal;
- Ensuring that all climate finance is in addition to the aid budget; and
- Playing a constructive and supportive role in negotiations for the post-2025 climate finance goal, recognising that mitigation and adaptation costs are rising rapidly, and climate finance contributions must reflect this growing need.

1.2 Australia should take steps to ensure its climate finance is provided in addition to international aid funding, including by:

- Ensuring future increases to climate finance that qualify as international aid form part of an overall aid budget that is increasing at the same rate as climate finance at a minimum; and
- Providing a clear timeframe for when climate finance contributions will be provided in addition to aid funding.

1.3 Australia should recognise and respond to the climate-related loss and damage being experienced by low-income countries, including by:

- Unequivocally supporting the proposal from Pacific Islands nations and 124 other low-income countries, for a standalone finance arm to address loss and damage in the UNFCCC;
- Making an initial contribution to loss and damage financing, above and beyond existing climate finance commitments at COP27, accounting for this amount separately to adaptation finance and making it available as grants accessible to the most vulnerable communities; and
- Clearly articulating that loss and damage finance should be negotiated in the post-2025 global finance goal as an additional element beyond adaptation and mitigation funding.

1.4 Australia should enhance its domestic emission reduction efforts while increasing funding for ambitious global climate solutions by:

- Ceasing subsidies to fossil fuel companies and redirecting those funds to increase climate finance; and
- Eliminating any international fossil fuel subsidies including via aid, foreign investment, export credit or trade promotion.

2. REBALANCING POWER

2.1 Australia should ensure its climate finance and loss and damage financing works to rebalance power and accountability between the wealthy, and affected communities in low-income countries by:

- Significantly supporting initiatives led by low-income countries, including the Pacific Resilience Facility and the LDC's LIFE-AR;
- Contributing finance to UNFCCC multilateral financing mechanisms, including the Green Climate Fund and the Adaptation Fund, while working to improve their accessibility and accountability to low-income countries and affected communities; and
- Recognising the power imbalance of donor driven bilateral funding, and working with partner countries to centre their ambitions and objectives in Australia's climate investments and processes.

3. CENTRING AFFECTING COMMUNITIES

3.1 Australia should ensure its climate finance provides greater support for locally led climate initiatives by:

- Endorsing the locally led adaptation principles and taking action to embed these within DFAT's climate change strategy;
- Committing to directing 25 per cent of bilateral climate finance to locally-led initiatives, consistent with the Grand Bargain,⁹⁷ and
- Significantly increasing the proportion of Australian climate change investments that have a 'principal' focus on adaptation to support transformative solutions.

4. ADDRESSING INTERSECTIONAL INEQUALITIES

4.1 Australia should ensure its climate investments are gender-responsive and -inclusive by:

- Establishing a gender-responsive climate resilience and adaptation fund, which directs \$300 million in bilateral climate finance over four years towards integrated, women-led and localised responses that address climate change and intersecting crises, alongside progressing gender equality;
- Considering new channels of finance to reach impacted communities, particularly through flexible and core funding targeted at local and women's organisations to support their locally-led responses to climate change; and

- Moving beyond participation to promote the meaningful engagement of diverse women and marginalised groups from affected countries in decision-making at all levels and the design of finance mechanisms and investments.

5. IMPROVING ACCOUNTABILITY, TRANSPARENCY AND QUALITY

5.1 To ensure transparency and confidence in the delivery of its climate finance commitments, Australia should commit to enhance climate finance reporting, including by:

- Publishing full project lists;
- For every project, reporting both the full project value and the amount being counted as climate finance and only count principally climate-related finance as climate finance;
- For every project, providing an explanation of how the climate finance component of the project costs was calculated; and
- Tracking and reporting funding that is directed to the local level.

5.2 Australia should ensure its climate finance does not contribute to worsening debt distress in low-income countries by:

- Committing to deliver any new climate finance and loss and damage financing as grants, not loans or support for insurance; and
- Conducting a comprehensive review of the proposed Climate Infrastructure Window in the AIFFP to assess its effectiveness in meeting the needs of partners across the Pacific region.

9. Appendix: Methodology for determining Australia's climate

finance fair shares

1. METHODOLOGY FOR DETERMINING AUSTRALIA'S FAIR SHARE OF THE USD 100 BILLION GOAL

Oxfam International's Responsibility and Capability Index was used to determine Australia's fair share of the USD 100 billion goal. This index was developed in 2007 and was one of the first indexes that sought to calculate wealthy countries' obligation for climate finance. The Index determines countries' climate finance obligations based on historical responsibility (represented as cumulative CO₂e emissions from 1990) and economic capacity to pay (represented as a proportion of Annex II countries' collective GNI).

2. METHODOLOGY FOR ESTIMATING AUSTRALIA'S CLIMATE FINANCE FAIR SHARE AT 2030 MITIGATION

Australia's climate finance fair share figure for mitigation has been calculated using the climate equity reference calculator methodology. This methodology calculates countries' fair share of necessary global climate action relative to a global temperature goal. Fair shares are determined based on historical emissions since 1990 and a country's capacity for climate action, determined by income. Australia's fair share of mitigation action for 2030 is estimated at 782 MtCO₂e, which represents 2.5 per cent of global mitigation efforts and an emissions reduction of 136 per cent below 2005 levels at 2030. To achieve this, Australia must take action domestically as well as providing support

for international action. We have determined using Australia's existing emission reduction targets that this international support will be in the order of \$7.5 billion annually by 2030.

ADAPTATION

Australia's adaptation fair share has been determined using the total amount of climate financing needed by low-income countries per year to respond to climate change as estimated by the United Nations Environment Programme (UNEP) in its Adaptation Gap Report 2020, and the Climate Equity Reference Calculator. The Adaptation Gap Report 2020 estimates the cost of adaptation needs in 2030 will be between USD 140 and USD 300 billion per year. Climate Equity Reference Calculator's Responsibility Capacity Index determines that Australia is responsible for 2.5 per cent of climate action. Australia's current fair share of adaptation finance is therefore 2.5 per cent of USD 70 billion, or USD 1.75 billion (\$ 2.37 billion). This would increase to approximately \$4 billion annual by 2030.

More information about the Climate Equity Reference Calculator and its methodology are available on the Climate Equity Reference Project website. A more detailed methodology on how Australia's fair shares at 2030 have been determined can be found in ActionAid Australia, Oxfam Australia et al (2021) Fairer Futures: Financing Global Climate Solutions.



Solomon Islands: Miriam Anina, her husband Stephen Anina and their son *Taro and daughter *Mary at their home on Loreto Island. The island is under threat from rising sea levels. Photo: Collin Leafasia/Oxfam.



Bagladesh: Firoza helped women and children of Golakhali to cross the river while taking shelter during cyclone Bulbul. Photo: FabehaMonir/Oxfam.

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lisisiana Village, Malaita Province, Solomon Islands: The Lilisiana graveyard, that is being eroded as sea levels rise above their normal levels. Photo: Collin Leafasia/Oxfam.



Lilisiana Village, Malaita Province, Solomon Islands: Men paddle canoes off the coast from the Lilisiana Village, which is experiencing seawater intrusion from rising tides. Photo: Collin Leafasia/Oxfam.