SESSION III: ACCESS TO FINANCE FOR CLIMATE CHANGE AND NATURAL DISASTERS

The world is in a 'make-or-break' decade. There is limited time to put in motion an action regime that places all countries on low carbon and climate resilient growth paths to remain within the 2^0C guardrail. Many small states face challenges in scaling up low-carbon, climate-resilient actions due to analytic and institutional capacity constraints, inadequate enabling policies and regulations, and lack of baseline financing for public and private sectors. Many small states with limited capacities express frustration in the lack of simplified access to climate finance and a sense of being 'out-competed' by larger developing countries in accessing agreed international facilities.

CURRENT CLIMATE FINANCE ARCHITECTURE

There are a number of sources for climate related funds including those offered by the Global Environment Facility (GEF), the Climate Investment Funds (CIF)—managed by the World Bank in partnership with the Regional Development Banks—and a range of funds and programs with the Bank, including carbon finance facilities.

Since its inception in 1991 the GEF has served as the financial mechanism for both the UNFCCC and other global environmental conventions. From the beginning, the World Bank has been one of the key partner agencies to the GEF, serving as the administrative host for the GEF Secretariat, as the trustee for the GEF Trust Fund, and as the most prominent implementing agency with a history of implementing more than $2 billion of GEF-sponsored climate change grants and another $2.7 billion of grants in the other focal areas. Using both GEF and World Bank resources, the Bank has implemented renewable energy and energy efficiency projects in most small states, and began supporting adaptation planning in the Caribbean as early as 1995. The GEF remains a key institution in the climate change financial architecture using resources from both the GEF Trust Fund and its specialized adaptation funds: the Special Climate Change Fund (SCCF) and the Least Developed Countries Fund (LDCF).

The CIF is an historic partnership among the MDBs to channel $7.2 billion in climate finance to 48 countries. Groundbreaking investments are being made in renewable energy, energy efficiency, clean transport, sustainable forestry and climate resilience, with full ownership by recipient countries and oversight by a balanced governance architecture. The CIF is one of the major providers of climate finance for small states. To date, almost $230m has been endorsed for small islands, 87% of which is for adaptation to the adverse impacts to climate change.

The Bank is engaged in a portfolio of programs that are directly relevant to small states in the context of climate change, in addition to IDA and IBRD-provided "baseline financing". These include Scaling Up Renewable Energy Program (SREP), the Pilot Program for Climate Resilience (PPCR), Sustainable Energy for All (SE4ALL), the Global Partnership for Oceans

(GPO), Wealth Accounting and Valuation of Ecosystem Services (WAVES) and Infrastructure Finance.

On Climate Adaptation and Disaster Risk Management. Debt sustainability is a critical concern for many small states. Even in the face of prudent fiscal policy, extreme weather events can have devastating fiscal impacts. The Caribbean Catastrophic Risk Insurance Fund is an innovative approach to providing financial pay-outs once certain thresholds, such as wind-speed, are passed. The Pilot Program for Climate Resilience (PPCR), under the CIF, has been helping small states address climate challenges with approximately $130 million being made available for small states in the Caribbean and Pacific.

On Climate Mitigation and Renewable Energy. Small States are spending more than 20% of GDP on fossil fuel imports and endure some of the highest electricity prices in the world (at 20 to 40 cents per KWh; in some cases as high as 1 USD / KWh). The Scaling Up Renewable Energy Program (SREP) under the CIF provides investment packages in the range of $20 to $40 million to recipient countries. The Bank responded positively to a request from small states to help facilitate SIDS DOCK, a program to assist small island developing states in "docking into" innovative climate finance instruments to implement renewable energy solutions. This program is being supported by a contribution of $14.5 million from Denmark and a pledge of $15 million from Japan.

CHALLENGES GOING FORWARD

There is a growing sense from small states that tailored support is needed to develop "bankable" project pipelines for financing through the Green Climate Fund and other sources. There is also a need for capacity building to support scaled-up access to development financing as a basis to leverage and blend financial streams from multiple sources, including the private sector.

On Adaptation. Small states have proposed a "Loss and Damage" work program as part of the Adaptation Framework and this is now part of the Durban Platform agreed at COP-17. Ideas include a "Captive Insurance Fund" where international and domestic public funds enable an asset-backed bond issue on the capital markets. Related to this, it is now possible to measure future savings due to avoided disaster losses for a portfolio of assets based on actuarial modeling techniques. By quantifying climate resilience improvements that result from mitigation investments, investors and donors will be able to get measurable results at national and sector levels. This results based approach could prove helpful in raising any additional concessional funding.

On Mitigation. There is a demand for increased investment in mitigation. Small island states have identified over $200 million worth of renewable energy projects which can help conserve foreign exchange and ultimately improve fiscal space for investments in climate resilient development.

TOPICS FOR DISCUSSION

1. Is there a need for tailored options, services or windows to help small states access climate finance? And in this regard, what would success look like? Should we be considering facilities and windows that simplify access for small states? Or just-in-time global expert services to help small states with limited capacity to access these funds?
2. What further role can the Small States Forum and the World Bank play in helping members gain greater and easier access to climate finance?