

The role of climate finance in strengthening resilience-building efforts in SIDS

Sergio Martinez

Introduction

Small Island Developing States (SIDS) are a group of countries with smaller territorial size and higher remoteness than other countries in the world. They face unique economic vulnerabilities that arise from their small domestic markets, limited number of skilled workforce, and narrow natural resource base. According to the Economic Vulnerability Index (EVI), SIDS are the most economically vulnerable among developing countries, particularly to exogenous and environmental shocks.⁵¹

SIDS are increasingly facing a combination of risks driven by climate change and commodity price volatility. On one hand, having most of territorial surface only 3-4 metres above mean sea level makes small islands vulnerable to suffer a cascade of impacts from global sea level rise expected to occur between 43 cm to 84 cm by 2100.⁵² On the other hand, SIDS rely heavily on food and fuel imports which expose them to price spikes and supply shortages of essential commodities.⁵³ The latest IPCC Climate Change Report has documented all scientific facts evidencing the growing food, water and energy security threats facing small islands.⁵⁴

Financing climate and economic resilience in SIDS becomes then paramount to provide them with coping means to withstand the multiple external shocks they face. This is crucial given that small islands are only responsible for 1% of global carbon dioxide emissions, and have about 65 millions of inhabitants at risk of increased food and water insecurity.⁵⁵ Facilitating SIDS' access to finance for climate adaptation and mitigation projects also fosters the productive

capacities these countries need to achieve structural transformation and meet the Sustainable Development Goals.

SIDS are increasingly vulnerable to natural hazards

SIDS have unique geographical conditions that makes them acutely vulnerable to natural disasters and climate change. According to the International Disasters Database (EM-DAT), the occurrence of natural disasters and their associated economic damages have been increasing at an alarming rate over the past half of century.

Before the 1990s, SIDS tended to experience less than 15 major natural disasters per year. Starting the 2000s, SIDS have been hard hit by up to 25 severe climate hazards annually. Economic damage resulting from natural disasters can be in between 1% and 9% of SIDS' GDP each year.⁵⁶ The amount of damages could be exorbitant in some geographical regions, such as the Caribbean where natural hazards cause annual assets damage worth of USD 12.6 billion in assets damage.⁵⁷ As SIDS are mostly affected by sea level rise, they experience a range of coastal hazards, including submergence of land, enhanced flooding and erosion of land and beaches, among others.⁵⁸

Recent studies have documented that such occurrence of climate events lies on the effect greenhouse gas (GHG) emissions have in altering ocean and coastal habitat in SIDS. For example, UNFCCC's 2019 Special Report on the Ocean and Cryosphere in a Changing Climate, stresses that SIDS like Maldives, Kiribati, Tuvalu and the Marshall Islands are under threat from sea level rise which could be of 0.43 m, 1.8 m and 2 m above sea level on average for each country respectively by 2100.⁵⁹

⁵¹ Feindouno, S., and M. Goujon. (2016). The retrospective economic vulnerability index, 2015 update, Working Paper P147. Fondation pour les Etudes et Recherches sur le Développement International, Clermont-Ferrand.

⁵² Climate Ambition Support Alliance (2020). Climate science for Small Island Developing States.

⁵³ IMF (2008). Pacific Island Countries: High Food, Fuel Prices Are a Threat Where Protection Is Limited; Daphne Ewing-Chow (2022, Feb 27). Caribbean Food Security Likely To Be Impacted By Russia-Ukraine Conflict.

⁵⁴ IPCC (2022). Summary for Policymakers [H.-O. Pörtner, D.C. Roberts, E.S. Poloczanska, K. Mintenbeck, M. Tignor, A. Alegría, M. Craig, S. Langsdorf, S. Löschke, V. Möller, A. Okem (eds.)]. In: Climate Change 2022: Impacts, Adaptation, and Vulnerability. Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change [H.-O. Pörtner, D.C.

Roberts, M. Tignor, E.S. Poloczanska, K. Mintenbeck, A. Alegría, M. Craig, S. Langsdorf, S. Löschke, V. Möller, A. Okem, B. Rama (eds.)]. Cambridge University Press. In Press.

⁵⁵ FAO (2019). FAO's work with Small Island Developing States.

⁵⁶ OECD (2019). Small Island Developing States – SIDS.

⁵⁷ Rozenberg, J, Browne, N, De Vries Robbé, S, Kappes, M, Lee, W, and Prasad, A. (2021). 360° Resilience: A Guide to Prepare the Caribbean for a New Generation of Shocks. Washington, DC: The World Bank.

⁵⁸ Climate Ambition Support Alliance (2020). Climate science for Small Island Developing States.

⁵⁹ IPCC. (2019). Special Report on the Ocean and Cryosphere in a Changing Climate. (H. O. Pörtner, D. C. Roberts, V. Masson-Delmotte, P. Zhai, M. Tignor, E. Poloczanska, . . . N. M. Weyer, Eds.) Geneva: The Intergovernmental

Building climate resilience in SIDS is of significant concern because natural disasters cause enormous damages to physical infrastructure, economic activities and livelihoods. The EM-DAT database documented that SIDS bore a direct damage worth of USD 22.7 billion from all major natural disasters they experienced over the past two decades. With SIDS being at the front line of the climate emergency, their 65 million inhabitants are in danger of experiencing growing food and water insecurity.⁶⁰

Climate finance for SIDS is very small compared to the climate burden they bear

Enhancing resilience against increased occurrence and intensity of natural disasters requires SIDS to mobilize more domestic and foreign resources into climate adaptation and mitigation processes that develop climate-proof infrastructures, systems and policies. As SIDS rank the highest in the Economic Vulnerability Index (EVI) due to the multiplicity of economic and climate shocks they face, their public finances are often tenuous and constrained by multiple allocation needs.⁶¹

Climate finance then becomes an avenue for SIDS to create additional windows for funneling resources into climate-specific priorities. As climate finance instruments blend financing from a variety of sources, these can offer SIDS with increased abilities to attract investments in resilience building projects that require low perceived risks and high financial viability.

Despite SIDS contribute the least to global carbon dioxide emissions and are among the most vulnerable to climate hazards, they receive the lowest amounts of climate finance. According to the latest climate finance data released by the Organisation for Economic Development and Co-operation (OECD), SIDS had access to USD 1.5 billion in climate funds in 2019 – a stagnant amount that only represents 10% and 2% of climate finance mobilized to least developed countries (LDC) and developing countries respectively.⁶²

Climate finance can be more available to SIDS through tailored facilities and alternative instruments

Access to climate finance is challenging for SIDS because they have limited fiscal space to borrow money and face higher transaction costs for receiving cross-border financing and attracting foreign investment.⁶³ Improving lending

conditions for climate resilience purposes becomes then crucial for SIDS to manage competing allocation priorities.

One way for enabling more financial access is by creating financing facilities that diversify risk exposure associated with SIDS's financing needs.⁶⁴ For example, SIDS can learn from the case in South Africa where the Green Climate Fund supported the first Climate Finance Facility in Africa, which increases private investment in climate-related infrastructure projects.⁶⁵

Another avenue for supporting climate finance efforts in SIDS is by using debt-for-climate swaps. These instruments consist of an exchange between bilateral or multilateral debt forgiveness and debtor commitments to use outstanding debt service payments for national climate action programs.⁶⁶ This is an initiative that many regional bodies have proposed in the Caribbean. In Belize, for example, benefits from a debt-for-climate swap issued in 2001 included USD 8.5 million forgiven in debt service payments, 300 thousand acres of rainforest under conservation, and 48 grants disbursed for managing protected areas, among others.⁶⁷

Climate finance plays a role in fostering resilience and structural transformation in SIDS

Climate finance can enable SIDS to strengthen resilience building efforts and achieve structural transformation required to meet the Sustainable Development Goals. While climate finance instruments target adaptation and mitigation actions in response to environmental risks, it also offers a pathway for SIDS to enhance their productive capacities needed for developing resilience-proof infrastructures, economic systems and institutions.

Climate finance can offer an avenue for domestic and international actors to amplify resource mobilizations into sectors with productive capacity gaps to become climate resilient. While some SIDS have been able to utilize climate finance instruments to a degree, most of them do not have proper access to these instruments. Increasing climate financing opportunities for SIDS should, therefore, be at the forefront of current and future resilience building initiatives in SIDS.

Panel on Climate Change. Retrieved 08 28, 2020, from <https://www.ipcc.ch/srocc>

⁶⁰ FAO (2019). FAO's work with Small Island Developing States; IPCC (2022). Summary for Policymakers.

⁶¹ OECD (2018), Making Development Co-operation Work for Small Island Developing States, OECD Publishing, Paris, <https://doi.org/10.1787/9789264287648-en>

⁶² OECD (2021), Climate Finance Provided and Mobilised by Developed Countries: Aggregate Trends Updated with 2019 Data, Climate Finance and the USD 100 Billion Goal, OECD Publishing, Paris, <https://doi.org/10.1787/03590fb7-en>

⁶³ OECD (2015). Climate-related Development Finance for SIDS and LDCs.

⁶⁴ UNFCC (2021). The Climate Finance Question.

⁶⁵ Other multilateral funds that channel resources into climate finance instruments are the Adaptation Fund, the Global Environment Facility and the Climate Investment Funds. For more information, please see: UNFCC (2022). Introduction to Climate Finance.

⁶⁶ Thomas, A., Theokritoff, E. Debt-for-climate swaps for small islands. *Nat. Clim. Chang.* 11, 889–891 (2021). <https://doi.org/10.1038/s41558-021-01194-4>

⁶⁷ The Commonwealth (2021). Debt-for-Climate Swaps: Innovative Financial Instruments for Public Debt Management in the Caribbean.