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OPINION

Financing climate change mitigation and adaptation in Caribbean SIDS

Preeya Shalini Mohan *

Sir Arthur Lewis Institute of Social and Economic Studies, University of the West Indies, St Augustine, Trinidad and Tobago

* Preeya.Mohan@sta.uwi.edu

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Caribbean SIDS: A special case

Small Island Developing States (SIDS) bear almost no responsibility for climate change, but their geographical and socioeconomic characteristics make them particularly vulnerable to its impacts. While the Paris Agreement provides a framework for finance for SIDS and endorses that developed countries should take the lead in providing assistance, hefty amounts of funds are needed for SIDS to achieve their climate goals. Among SIDS, Caribbean islands are a special group. Caribbean SIDS suffer a significant climate finance gap and their Nationally Determined Contributions (NDCs) are largely conditional on international climate finance given limited domestic public and private finance [1]. These countries are principally classified as high/upper-middle income while other SIDS are primarily low/lower-middle income countries. Given that a large share of finance comes from traditional bilateral aid, Caribbean SIDS receive comparatively less international climate finance [2] and [3]. The region is nonetheless highly vulnerable to climate change and natural disasters, with low growth, high debt and limited domestic resources, and does not benefit from international aid and debt relief [4] and [5]. Moreover, only a handful of Caribbean SIDS qualify for concessional borrowing from international donors. The dependence on international climate finance leaves Caribbean NDCs in a precarious position unless the region pursues more innovative and diversified options. This paper aims to outline potentially new sources of climate finance that the region can tap into and has largely overlooked to reach its climate objectives.

Forests and land-use climate finance

The Caribbean could tap into Land use, Land use change and Forestry (LULUCF) for external finance. Over half of SIDS in the region have forest covering over 50 percent of their total land area and LULUCF represents a net sink of 19.87 million tonnes of CO2 equivalent [6]. Given these forest resources the Caribbean could access the Global Forest Finance Pledge where US$ 12 billion for forest-related finance has been promised for the period 2021–2025. There is also significant potential for Reducing Emissions from Deforestation and Forest Degradation and the role of Conservation, Sustainable management of forests and Enhancement of forest carbon stocks (REDD+) to be adopted by Caribbean SIDS as well as its systems and mechanisms for accessing finance, which is currently operational in just four countries in the region- Belize, Dominican Republic, Guyana, and Suriname [7]. Caribbean SIDS must show that they are eligible forest countries to benefit from these financing mechanisms. However, the region has limited knowledge in LULUCF and is constrained by a lack of institutional and technical capacity, LULUCF data and inventory, human resources and technology [6].

Ocean-based climate finance

Caribbean SIDS have one of the largest and most diverse ocean spaces globally [8], which can be used to attract ocean-based finance including the Blue Natural Capital Financing Facility, the Blue Carbon Accelerator Fund and the Blue Carbon Initiative, as well as debt for climate swaps, blue carbon markets and blue bonds. Despite vast ocean resources to access blue finance, the scope and scale of the blue economy in the region remains below its potential. There is a need for ocean research, identification of sectors for development, data collection for measuring scale and performance, and establishing natural capital accounts [8] and [9].

Gender responsive climate finance

The inclusion of gendered aspects of climate change can help Caribbean SIDS attract international climate finance. The Caribbean has one of the highest female participation rates in employment and firm ownership globally. In St. Vincent and the Grenadines, 76 percent of firms have female ownership, which is the third highest figure in the world [10]. The Lima Work Program on Gender was established in 2014 to achieve gender responsive climate policy and action. Further, the Paris Agreement has a mandate for the participation of women in shaping climate policies and actions and the integration of a gender perspective. Gender considerations are becoming more prominent in climate funds and funding mechanisms [11]. Additionally, gender bonds represent a nascent but promising climate financing vehicle for gender responsive climate projects.

Private sector finance

The Caribbean private sector represents an untouched source of finance to leverage climate-smart investment and innovative financing mechanisms. Caribbean SIDS have a high reliance on natural resource dependent sectors such as tourism, agriculture, and fishing which make them vulnerable to climate change. The private sector is however characterised by family run, local, old, small service firms alongside multinational and regional corporations with an unwillingness to innovate and undertake risky climate investment [10]. Notwithstanding this, Caribbean countries signal a willingness to engage businesses in climate resilient activity through creating an enabling business environment, building private sector capacity and public-private partnerships [1]. To unlock private sector finance the region must improve its ease of doing business, expand access to credit for green investments, adopt green technology, and increase knowledge and training.

Loss and Damage Fund

At the 27th UNFCCC Conference of the Parties (COP27), the Loss and Damage Fund was established to assist countries hit by climate disasters. Caribbean SIDS are among the most disaster-prone countries worldwide. Since 1970, a disaster inflicting damage equivalent to more than 2 percent of the affected country's Gross Domestic Product can be expected every two and a half years [12]. Climate change is expected to increase the number of disasters and the region has been affected by damaging successive storms such as Tropical Storm Erika and Hurricane Maria which struck Dominica in 2015 and 2017. SIDS proposed such a fund more than three decades ago and the Paris Agreement included a provision on loss and damage. An official definition for loss and damage has however still not been finalised. This ambiguity makes it difficult to distinguish between existing adaptation, disaster risk reduction and humanitarian work. It also allows developed countries to hide behind their current pledges of climate finance to support developing countries with mitigation and adaptation and aid for disasters rather than additional finance [13]. Further, much work still needs to be done to finalise the details of the fund, including how it will be structured, who and how much will be paid into it, who will manage it, and who is eligible.

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