Climate Finance and Funding Mechanisms for Climate Change

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CCRIF as a Strategy for Loss and Damage and Closing the Protection Gap

- Although CCRIF came into being as a result of Hurricane Ivan, a climate shock event, it was not originally envisaged as a vehicle to address and manage a more volatile climate per se, but rather to support the small Caribbean economies to build financial resilience to natural disasters of all types
  - As a volcanologist, I am particularly motivated to not forget about geophysical risks, even though it is often easier to do so when trying to access and deploy external financing
- As CCRIF became established, it contributed significantly to development of two parallel financing strands:
  - The recognition of “loss and damage” as a key climate finance issue, with a connection to insurance which was inherited from the earliest days of the global climate change debate and the demand by Vanuatu on behalf of (mainly) SIDS for “insurance against climate change” tabled at the Rio Earth Summit in 1992, and the eventual emergence of a stand-alone finance track under the UN-FCCC at CoP27 (the “Fund for responding to Loss and Damage”)
  - The emergence of the InsuResilience Initiative under the German G7 presidency in 2015 to consolidate international development efforts towards closing the “protection gap”, which became the G20 InsuResilience Global Partnership and then, also launched at CoP27 in Egypt, the G7 / V20 Global Shield against Climate Risks
- While CCRIF’s role in the insurance focussed InsuResilience / Global Shield strand is self-evident, there remains significant uncertainty as to what role CCRIF specifically, and insurance more broadly, might play in the L&D Fund
  - It will be important to distinguish between pre-arranged, trigger-based finance as an approach (which has immense potential value to a fair, efficient and effective LDF) and parametric insurance as a product (acknowledging the persistent view amongst some SIDS and LDCs that insurance doesn’t meet the climate obligations of polluters)
- The recent change in administration in the US has disrupted what was already a rather challenging climate / disaster resilience and broader development financing landscape:
  - CCRIF (both alone and alongside the other regional risk pools) will need to engage strategically and persistently with both its members and bi- / multi-lateral development partners and across both spaces to ensure it can continue to grow its portfolio and impact

Some of CCRIF's responses to address climate change

- Core parametric risk transfer products (specifically tropical cyclone and excess rainfall)
- Specific sectors including fisheries (COAST), water utilities (CWUIC) and, soon, agriculture
- Micro-level livelihood protection (LPP)
- Technical Assistance (TA) Programme – a lot of which is focussed on disaster risk reduction (DRR)
- Expanding availability of tools to understand and manage catastrophe and climate risk, including for early warning as well as DRR and climate adaptation

Uses of climate finance

- CCRIF has accessed in the past and will continue to need to access climate finance in the future for the following purposes:
  - Risk capital (indirectly, previously via WB MDTF; could be other (including direct) routes in the future, such as social / impact investment) and concessional access to risk transfer / reinsurance (potentially via pooled public global reinsurance facility, bi-lateral sovereign guarantees)
  - Premium financing to members (either held and distributed by CCRIF or facilitated by CCRIF on a group basis)
  - TA for modelling / analytics and product development, capacity building, and use of risk quantification tools to build understanding and to underpin cost-effective DRR and climate adaptation

Access to climate financing and role of member governments

- Almost all climate finance access routes are via sovereign countries directly, or intermediated by a multi-lateral development bank
  - Direct access on a regional basis is often challenging, particularly when serving economically diverse countries as an equitable pool, as is the case with CCRIF (including countries with the highest and lowest per capita GDP in the western hemisphere)
- The formal climate finance architecture, under the UN-FCCC (which has only sovereign UN members as parties), comprises four main funds relevant to CCRIF: Green Climate Fund (GCF); Adaptation Fund (AF); Global Environment Facility (GEF); and L&D Fund (LDF)
- While access modalities for the LDF are not yet established, the stated aim is to make it more directly accessible to individual countries; existing operational funds require a substantial accreditation process and/or have long (multi-year) and arduous approval processes
- For the Global Shield, there are several financing vehicles which are directly accessible to CCRIF, including the Solutions Platform (GSSP) via a dedicated risk pools window and the InsuResilience Solutions Fund (ISF); however, there is a strong emphasis on country involvement in project development and implementation, mainly but not solely facilitated through the V20
- For public funds, it is thus critical that member governments are fully involved throughout a funding proposal development
- It is notable that none of the existing climate funds are well set up to provide capital to an entity such as CCRIF