Challenges and Opportunities with Climate and Disaster Risk Financing

Session 4 – Leveraging Development Finance
Fifth Pacific Forum on Sustainable Development and Capacity Building Workshop for Pacific SIDS

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Overview of Development Finance

- Prior to the Covid pandemic, the Cook Islands debt ratio was approximately 22% with a buoyant economy through a 65% reliance on tourism sector, at an approx. ratio 11.3 tourists to 1 Cook Islander
- A national Economic Development Strategy was being prepared and was going through its consultative process
- Key Issues however remained, such as carrying capacity of key infrastructure, such as water and waste management
- Up to 24 flights per week, including direct flights from Australia and the USA ensured high demand for the Cook Islands experience

Overview of Development Finance

- Within this economic development pathway, climate change was recognized as an effect that needed to be addressed, as a priority

- Accessing multilateral funds such as the Green Climate Fund, the Global Environment Facility, and the Adaptation Fund meant increased investment by government to ensure human capacity and capability was available to compliment the economic pathway, mainly through obtaining Direct Access to the GCF and Adaptation Fund

Covid and Development Finance

- Since the advent of the global pandemic and the catalytic actions taken by governments around the world, including our own, meant a closed border, and steps toward self-protection
- The tourism industry is devastated, flights were primarily for freight and reduced from 24 per week to 1 per week
- However, addressing climate change and access to funding did not halt for the pandemic
- As the world is seeking to normalize itself within a pandemic including as an endemic virus, major challenges and risks remain within an economic recovery framework

Development through a climate lens

- In the Cook Islands despite current challenges increasing reliance on climate finance determines how development can proceed up to and including the national budget process in 2025, particularly through the Green climate Fund

- Key also is to understand the terms climate rationale and whether grant financing applies to most Cook Islands infrastructure priorities

Development through a climate lens

- Pre-Covid, the Cook Islands advocated for a blended finance approach, this did not only apply to GCF, but also to all financial institutions, including MDBs

- The GCF, the GEF, and the Adaptation Fund needs to actively participate and work with its member countries on innovative financial access and programming through clear agreed policy changes at Board level

- The Cook Islands also sought approval from GCF for a Private Sector Facility specifically for the Pacific SIDS that would promote and encourage private sector engagement regardless of scale

The Double Climate Finance Challenge

- Double, in the context of internal government financial process and their links to private sector investment, even at SME level, and including individual tax payers as infrastructure investors

- Key critical challenge is to enable government collectively to agree to explore innovative climate finance modalities that align to the economic recovery framework post-Covid

The Double Climate Finance Challenge

- Double challenge is also in the context of external influence meaning all of the financial institutions, MDBs, GCF, AF, and GEF. How do they firstly all align to the Paris Agreement target across their investment portfolios, and to really consider the upscaling of funding through innovation

- Innovation is not to be feared, even for those most conservative institutions. Innovation can be seen to align to current policies and processes, but may need adjustment, for example, on longevity

Our Climate Finance Opportunity

- **OUR PRIME MINISTER HAS STATED CLEARLY THE FOLLOWING:**
  - Cook Islands is taking a Debt for Climate Swap approach with regards to its Covid related debt and any debt incurred that is linked related to DRR and CC adaptation
  - While sovereign debt is being considered under the initiative, consideration is also being given to private sector debt, however, much complexity remains
  - Innovative approaches to climate financing is required to advance our prioritized future, such as Debt-for-Climate-Swap, and a longer term adaptation finance approach

Our Climate Finance Opportunity

- Innovative approaches to climate financing is required to advance our prioritized future, such as Debt-for-Climate-Swap
- We are in a dialog with GCF, and also with our other debt partners. We are using our GCF Readiness to explore this modality in detail to determine how we can come to agreement on assignment ratio, and the detailed mechanics of the concept

Our Climate Finance Opportunity

- Adaptation measures by their very nature are long term investments against climate impacts, thus we need to be talking about adaptation project lifecycles of 20 years, 50 years and 100 years
- We need to provide for innovative financing modalities that do not increase our national debt
- We need to consider amortizing adaptation debt over 100 year timeframes

Our Climate Finance Opportunity

- We need to take climate adaptation debt off national balance sheets and create a new global financial instrument that recognizes climate related debt, separately from national debt

- Further to that, we need to consider a greater focus on debt servicing and a debt-service facility, rather than a focus on the debt itself

Thank you