

DISASTER RISK FINANCING FOR SMALL ISLAND DEVELOPING STATES

Paper drafted for UNDESA

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20 December 2021

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List of Abbreviations

ADF Asian Development Fund

AF Adaptation Fund

AFD Agence Française de Développement

AfDB African Development Bank

AIMS Atlantic, Indian Ocean and the Mediterranean and South China Sea SIDS

AOSIS Alliance of Small Island States

ARC African Risk Capacity

BVI British Virgin Islands

CARICOM Caribbean Community

CAT DDO Catastrophe Deferred Draw Down Option

CCP Counter Cyclical Provisions

CCRIF (SPC) Caribbean Catastrophe Risk Insurance Facility (Segregated Portfolio Company)

COL Concessional Lending

CPA Country Programmable Aid

CRW Crisis Response Window

CSIDS Caribbean Small Island Developing States

DAC Development Assistance Committee

DFA Development Finance Assessments

EBRD European Bank for Reconstruction and Development

EU European Union

FAO Food and Agriculture Organization

FfD Financing for Development

GBP Great British Pound

GCCA Global Climate Change Alliance

GCF Green Climate Fund

GDP Gross Domestic Product

GEF Global Environment Facility

GIIF Global Index Insurance Facility

GNI Gross National Income

IBRD International Bank for Reconstruction and Development

IDA International Development Association

IDB Inter-American Development Bank

IMF International Monetary Fund

IRM Immediate Response Mechanism

LDC Least Developed Country

LDCF Least Developed Country Fund

LIC Low Income Country

LMIC Lower middle-income countries

MDB Multilateral Development Bank

MDTF Multi-Donor Trust Fund

NDC Nationally Determined Contribution

OCHA UN Office for the Coordination of Humanitarian Affairs

ODA Official Development Assistance

OECD-DAC Organization for Economic Cooperation and Development- Development Assistance Committee

OECS Organization of Eastern Caribbean States

PICRIC:

PCRAFI Pacific Catastrophe Risk Assessment and Financing Initiative

PIFS Pacific Islands Forum Secretariat

PNG Papua New Guinea

PPCR Pilot Programme for Climate and Resilience

PSIDS Pacific Small Island Developing States

RCF Rapid Credit Facility

S.A.M.O.A Pathway SIDS Accelerated Modalities of Action Pathway

SCPI United Nations Southern Climate Partnership Incubator

SeyCCAT Seychelles Conservation and Climate Adaptation Trust

SIDS Small Island Developing States

SPREP South Pacific Regional Environment Program

SREP Scaling up Renewable Energy Program

TA Technical Assistance

UMIC Upper middle-income countries

UN United Nations

UN-DESA United Nations Department of Economic and Social Affairs

UNDRR United Nations Office for Disaster Risk Reduction

UN-OHRLLS United Nations Office of the High Representative for Least Developed Countries, Land Locked Developing Countries and Small Island Developing States

UN-REDD The United Nations Programme on Reducing Emissions from Deforestation and Forest Degradation

UNCTAD United Nations Conference on Trade and Development

UNDP United Nations Development Program

UNFCCC United Nations Framework Convention on Climate Change

USD United States Dollar.

Executive Summary

Small Islands Developing States (SIDS) are a heterogeneous group of countries and territories with diverse characteristics. They exhibit significant variations in terms of population size and densities, geographical spread, relative development progress and are some of the world's smallest, most remote, and geographically dispersed countries in the world.

Despite the differences, one common challenge they face is that the global finance architecture is complex and often involves lengthy application processes that are particularly challenging for SIDS with their limited capacities and small public administrations.¹ When a disaster strikes, there is an additional burden of dealing with a national emergency, which means limited timelines to respond in a coordinated and comprehensive way. This challenge has been particularly highlighted in the last 18 months with the impact of COVID-19 as many SIDS struggled to cope given their high dependency on specific sectors and sources of funding, such as agriculture and tourism and high levels of remittances from other economies.

Preventing and managing adverse events of all kinds² and building resilience, including to the impacts of climate change and disasters, present real challenges for SIDS. Without adequate funding, SIDS cannot adopt a risk-informed approach to development or invest in reducing disaster risk and building resilience to future shocks. Fiscal space for investing in ex-ante risk reduction and prevention, already constrained by small economies and markets and high-debt burdens, is further exacerbated by humanitarian needs. This impacts the ability of many SIDS to respond effectively and to '*build back better*' in a risk-informed manner post-disaster. Subsequently, they can become caught in a cycle of disaster response, recovery, and reconstruction. When coupled with the challenges of macroeconomic destabilisation, debt problems and weaker growth, this increases levels of risk across social, economic, and environmental systems. Many SIDS already face debt distress, and this cycle would only weaken future development outcomes and development aspirations to meet the Sustainable Development Goals (SDGs).

This paper finds that SIDS don't receive sufficient development financing to support their investment needs to reduce exposure to risk, build resilience, or recover from a disaster event. The current funding mechanisms are often complicated to access, are usually not designed for SIDS specific issues and are typically focused on donor priorities. Available funding is more often offered ex-post and focused on the particular needs of the initial response and recovery. Data indicates that only a small portion of funding is provided for disaster risk reduction.

Notwithstanding, developing a new funding mechanism for SIDS is not an answer, as it could result in further spreading of the small amount of funding currently available for disaster risk reduction even more thinly and create additional barriers to access by having new/or additional criteria to fulfil. One solution to addressing the financing challenge for disaster risk reduction could be to review and reassess the purpose of existing funding mechanisms and repurpose them with new objectives for risk reduction and building resilience. In addition, it is essential

¹ Noting that the disaster risk finance can span funds Risk reduction activities – such as climate proofing infrastructure, early warning systems, prior positioning of supplies, immediate humanitarian assistance, and recovery and reconstruction.

² As per the Sendai Framework for DRR 2015-2030, the scope of disaster risk reduction must include both natural and man-made hazards and related environmental, technological, and biological hazards and risks. https://www.preventionweb.net/files/43291_sendaiframeworkfordren.pdf.

that regular financial tracking, monitoring, and reporting of funding be undertaken to transparently monitor all funds that SIDS access for disaster risk reduction and disaster management. Tools and regulations to integrate risk reduction within existing development and climate finance instruments and private sector investments would also be an effective way to ensure that they contribute to the reduction rather than the creation of risk for current and future generations.

The burden of debt that many SIDS face, should lead to a reconsideration of debt management and innovative ways to create or scale up existing ex-ante swaps or other innovative financing mechanisms to enable SIDS to create the fiscal and budgetary space to invest in disaster risk reduction, thereby reducing the economic impacts of disasters and the subsequent need for further borrowing. Debt swaps post-disaster would also release funds to allow a country to focus on risk-informed recovery and reconstruction and the building of resilience to future shocks rather than on crippling debt and interest burdens. Other solutions include seeking increased cooperation and coordination amongst development partners and supporting more vital leadership from national processes and policies. National SIDS policies and processes must also be strengthened and continue to evolve and improve. Lastly, access to concessional and development finance criteria should be revised and funds allocated based on need.

In this paper, the discussion of disaster risk finance is broad and encompasses funds used in development, climate change, humanitarian response and those specific to disaster risk management.

Key Points

The following are some issues that have been observed from the literature review and analysis undertaken for this paper.

- **Data from the Sendai Framework Monitor confirms that economic losses due to disasters, damage to critical infrastructure and essential services in the event of disasters, and the number of persons affected by disasters losses from events arising from disasters are increasing.**
- **Disaster-related financing is unbalanced, with most being contributed from humanitarian budgets for responses delivered by partners following a disaster event, instead of development financing and not for recovery, prevention, risk reduction and preparedness prior to an event.**
- **There is no need for a SIDS specific disaster financing mechanism at this time. However, there is an *urgent* need to improve access to and speed of distribution of existing funds.** There are already multiple mechanisms operating to support SIDS in disaster risk reduction and dealing with the immediate impacts of a disaster. There is also some space for reviewing and repurposing some disaster risk financing mechanisms. In general, there is underinvestment in development financing for risk reduction and resilience building, and a misallocation in the financing provided, with the majority given to address the effects of a disaster event rather than for risk and vulnerability reduction. **There also needs to be improved monitoring of SIDS specific expenditure for disaster risk reduction and prevention and improved coordination among development partners.**
- **SIDS must think strategically in defining their resilience agenda, i.e. a more comprehensive approach to climate change, disaster risk and sustainable**

development. Building resilience is a marathon, not a sprint and SIDS investment plans must stand the test of political cycles.

- **Development partners should rethink their classification of SIDS disaster risk reduction financing.** It is timely to explore how vulnerability to climate change and disasters could be included in grant/concessional finance eligibility criteria and allocations.³
 - **Note that debt levels are increasing for SIDS.**
 - **Funding should reflect risk in terms of exposure, vulnerability, capacity, and the impacts of a disaster and not the likelihood of recovery.** Resource allocations of multilateral agencies should reflect exposure and vulnerability to hazards and capacity and cost of reducing risk and the building resilience — independent of country size or per capita GDP or strategic importance.
- **SIDS priorities should shape development financing for disaster risk reduction and resilience.** Action on the ground needs to be better coordinated and led by national plans and priorities. It must be country-led and work within national objectives and priorities to enable a recovery that supports national development priorities.
- **Improved coordination and cooperation can improve the flows of limited ODA and help SIDS achieve their DRR priorities.** Coordination can benefit SIDS and partners through reduced administrative costs and burden on countries to work across a variety of partners and reporting modalities, and the implementation of the Sendai Framework.

³ This issue has been explored in a separate report on MVI.

1. Introduction

This paper has been prepared in response to the request made by the United Nations General Assembly in paragraph 10 of resolution A/RES/74/217 which called for “*an examination of the disaster-related funding and support environment, with a view to the possible development of a targeted voluntary disaster fund, mechanism or financial instrument, coordinated with and complementary to existing mechanisms, to assist small island developing States (SIDS) in managing disaster risk and building back better after disasters*”. The findings and recommendations in this paper are to be read in conjunction with the content of the Secretary-General Report A/76/211. Attachment 1 contains the full terms of reference.

The purpose of this paper is to undertake a review of disaster related funding and the support environment for SIDS providing an integrated assessment and analysis of financing challenges and possible solutions, the objectives include:

- i. An assessment in the form of a scoping study, of the disaster related funding and support environment for SIDS. The study also reviews the overall policy coherence, complementarity, and effectiveness of international frameworks for funding disaster response, risk reduction and preparing to building back better in recovery, rehabilitation, and reconstruction.
- ii. Provide an analysis of the overall effectiveness of the current support framework, which should include an analysis of uptake of available mechanisms, the challenges faced by SIDS in accessing funds, the extent to which SIDS are supported in terms of tools and capacity to integrate disaster risk reduction into sectoral budgets and public and private sector investment decisions, and the overall ability of the existing framework to meet the disaster finance needs of SIDS.

Disasters have a tangible impact on SIDS, as one major event can reduce decades of economic growth and development. For example, Hurricanes Harvey, Irma, Maria, and Nate turned the 2017 tropical hurricane season in the Caribbean into one of the most devastating of all time⁴, destroying communications, energy and transport infrastructure, homes, health facilities and schools. This followed, similar events in the Pacific from Cyclone Pam in 2015 with damage to Vanuatu⁵, Fiji and Tuvalu. Slow onset events such as sea level rise pose an existential threat to small island communities, requiring drastic measures such as relocation of populations, and the related challenges this poses. These challenges are compounded by limited institutional capacity, scarce financial resources, and a high degree of vulnerability to systemic shocks.

More recently, the impact of the COVID-19 pandemic has reemphasised the exposure of SIDS. For example, COVID-19 has led to a huge reduction in tourism which has had a huge effect on economic growth in the region. For example, in Jamaica the Government forecast a 75% reduction in tourism in 2020 and in Fiji the Government has forecast a 20% fall in GDP arising from the effects of COVID on travel and tourism.

The costs of acting to reduce the effects of climate change through adaptation and risk reduction are large. In the Pacific, the ADB (2013) has estimated that the region needs for adaptation

⁴ The Atlantic hurricane season of 2017 broke several records, as 17 tropical storms formed, with 10 of them becoming hurricanes. Six hurricanes became major storms, Category 3 and above—Harvey, Irma, Jose, Lee, Maria, and Ophelia. Two hurricanes, Irma, and Maria reached Category 5 strength. Damages were estimated to have caused US\$200 billion in damages across the region.

⁵ Damages in Vanuatu were estimated to be over 40% of GDP.

alone amount to 2.9% to as high as 12.7% of annual gross domestic product (GDP) equivalent by 2100. In the Caribbean, adaptation costs of building coastal defences are estimated to be similarly large. For example, to cope with the effects of sea level rise alone Caribbean governments must build more than 322 km of levees and sea walls totalling almost US\$6 billion or the region will be in exposed (Caribsave 2012). The Caribbean Community Climate Change Centre highlights that increased hurricane damages, loss of tourism revenue and infrastructure damages – could cost the region US\$10.7 billion by 2025.⁶

Table 1: UN Members that are SIDS grouped by Region and Income Classification

Caribbean	Pacific	African Indian Ocean and South China Seas
<p><u>High Income</u> Antigua and Barbuda Bahamas Barbados St Kitts and Nevis Trinidad and Tobago</p> <p><u>Upper Middle Income</u> Belize Cuba Dominica Dominican Republic Grenada Guyana Jamaica Saint Lucia St Vincent and the Grenadines Suriname</p> <p><u>Low Income</u> Haiti (LDC)</p> <p><u>Non-UN Members/Associate Members of the Regional Commissions</u> Anguilla Aruba Bermuda British Virgin Islands Cayman Islands Guadeloupe Martinique Montserrat Puerto Rico Sint Maarten Turks and Caicos Islands US Virgin Islands</p>	<p><u>High Income</u> Palau</p> <p><u>Upper Middle Income</u> Fiji Kiribati (LDC) Republic of the Marshall Islands Federated States of Micronesia Nauru Papua New Guinea Samoa Tonga Tuvalu (LDC)</p> <p><u>Lower Middle Income</u> Solomon Islands (LDC) Timor Leste Vanuatu</p> <p><u>Non -UN Members/Associate Members of the Regional Commissions</u> American Samoa Commonwealth of Northern Marianas Cook Islands French Polynesia Guam New Caledonia Niue</p>	<p><u>High Income</u> Bahrain Singapore Seychelles</p> <p><u>Upper Middle Income</u> Maldives Mauritius</p> <p><u>Lower Middle Income</u> Carbo Verde Comoros Sao Tome and Principe (LDC)</p> <p><u>Low Income</u> Guinea-Bissau (LDC)</p>

⁶ See http://www.caribbeanclimate.bz/?option=com_jevents&task=month.calendar&Itemid=1&year=2014&month=03&day=12

Source: Adapted from UN-OHRLLS (2020). Additional Non-UN and Associate Members were added from UN-OHRLLS website.

The paper explores the experiences and practices in the field of disaster-related funding with a view to developing recommendations for potential improvements in the overall disaster funding support to SIDS.

1.1 The specific circumstances of SIDS.

Small Island Developing States is the collective name given to 58 States that includes UN members and Non-UN Members/Associate Members of the Regional Commissions. According to the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) the three geographical regions in which SIDS are located are: the Caribbean, the Pacific, and the Atlantic, Indian Ocean and South China Sea (AIS). The aggregate population of all the SIDS is 65 million, slightly less than 1% of the world's population, yet this group faces unique social, economic, and environmental challenges. Table 1 lists all the SIDS that are UN members or associate members of UN regional organisations.

SIDS were first recognized as a special case for their sustainable development at the 1992 United Nations Conference on Environment and Development held in Rio de Janeiro, Brazil. They face a host of challenges including their small economic size, dependence on a narrow range of sectors for employment and incomes, and in many cases their remote geography. As a result, many SIDS face high import and export costs for goods as well as irregular international traffic volumes. Yet, they are highly dependent on global markets and supply chains for many goods due to their narrow resource base. The Sendai Framework for Disaster Risk Reduction 2015-2030 also recognizes that SIDS warrant particular attention in view of their higher vulnerability and risk levels, which often greatly exceed their capacity to respond to and recover from disasters.⁷

Biodiversity is an important issue for the livelihood of many SIDS, as industries like tourism and agriculture and fisheries can constitute over half of GDP. However, the importance of these natural resources extends beyond the economy; biodiversity holds aesthetic and spiritual value for many island communities. Protecting the natural environment and biodiversity not only generates revenue through industries for SIDS, but it also helps prevent the incurrence of additional costs that can result from climate change, soil erosion, pollution, floods, natural hazards, and other destructive phenomena.

There are also increasing importance on developing the blue economy aspects in SIDS, the Exclusive Economic Zone (EEZ)—the ocean under their control—is, on average, 28 times the country's land mass. Thus, for most SIDS most of the natural resources they have access to comes from the ocean. Hence, reducing the exposure and vulnerability of key assets,

⁷ In particular, the Sendai Framework specifically makes note in section 42 that “Disasters can disproportionately affect small island developing States, owing to their unique and particular vulnerabilities. The effects of disasters, some of which have increased in intensity and have been exacerbated by climate change, impede their progress towards sustainable development. Given the special case of small island developing States, there is a critical need to build resilience and to provide particular support through the implementation of the SIDS Accelerated Modalities of Action (SAMOA) Pathway11 in the area of disaster risk reduction.”

communities and business to natural and manmade hazards is a critical investment in protecting livelihoods and living standards that can be substantially affected by a single event.

1.2 Financing for prevention and risk-informed development

The focus of this paper is about financing for disaster risk reduction, and in particular access to financing. In the paper, there is a distinction about the relative importance of ex-ante and ex-post financing. While both types are required, each have their own specific purpose. The funds received prior (ex-ante) to any event are often channelled into risk reduction to lower the vulnerability and exposure of communities and increase their levels preparation. Whereas the funds after (ex-post) often deal with the humanitarian response, recovery, and reconstruction. Different mechanisms are designed to meet different ex-ante and ex-post financing needs. Different organisations offer various financing mechanisms that serve different needs at different times, such as ex-post Balance of Payments support from the International Monetary Fund (IMF), or fast-disbursing liquidity (contingency funds or payments from insurance mechanisms such as the CCRIF or PCRAFI) to investment in longer-term resilience (IDA and global climate and disaster funds). Table 2 reviews the ex-ante and ex-post actions according to the purpose of that finance. It is complemented by Figure 2.

Table 2: Ex-Ante and Ex-Post Finance

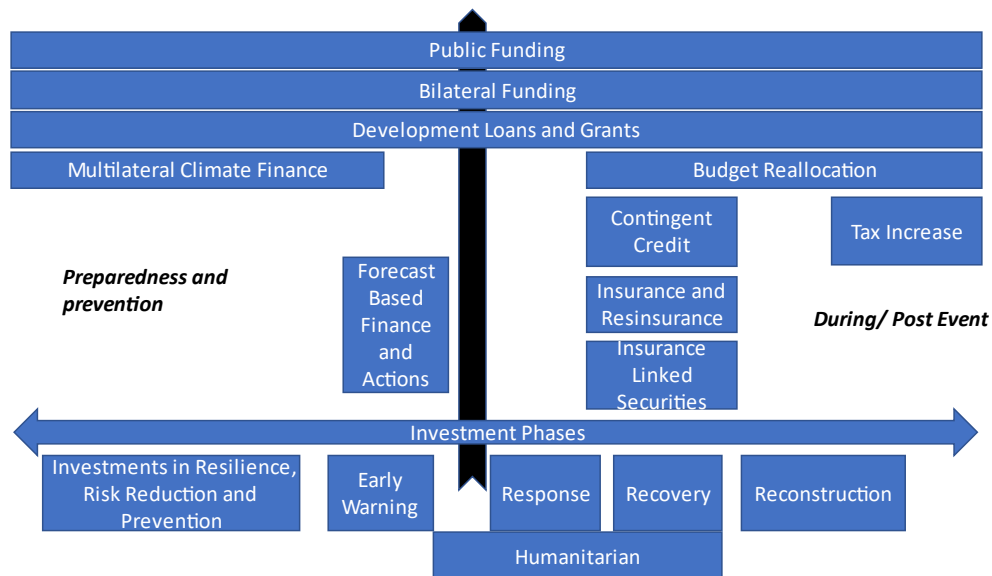
<i>Ex-ante Finance</i>	<i>Examples</i>	<i>Ex-post Finance</i>	<i>Examples</i>
Domestic resource mobilization for risk reduction and resilience	<ul style="list-style-type: none"> • Risk reducing activities (sea walls). • Regulatory standards to promote resilience. • Business continuity planning. 	Risk Transfer	<ul style="list-style-type: none"> • Emergency response and assistance.
External Risk Reduction Finance (i.e. ODC/development banks)	<ul style="list-style-type: none"> • Frameworks to support insurance, domestic risk financing pools. 	Domestic resource mobilisation for response and humanitarian support.	<ul style="list-style-type: none"> • Economic recovery and support
Domestic and international private finance	<ul style="list-style-type: none"> • Creating an enabling environment for investments that support climate change adaptation and disaster risk reduction 	Risk Retention	<ul style="list-style-type: none"> • Reconstruction of infrastructure and homes
		External Risk Finance (Grants, Loans, and Other External Finances)	<ul style="list-style-type: none"> • Loan repayments for financing.

Source: Adapted from Cisse 2021.

Figure 1 below depicts the stages of government led disaster risk management. The types of funding are quite diverse covering aspects of planning, early warning systems, training/equipment and logistics and post-disaster response and reconstruction.

Figure 1: Stages of Action for Disaster Related Finance

The different types of finance and financial instruments in relation to investment phases of a disaster event



Source: PIFS 2021 adapted by Author.

1.3 Progressing the SDGs and sustainable development.

The impacts of the shocks and stressors on SIDS challenge the traditional thinking and approaches for economic development and to progress the Sustainable Development Goals. The small size of many SIDS means that one event can reverse decades of development. The significant cumulative value of direct and indirect losses from extreme natural hazards (and when combined with the increasing impacts of climate change) tend to outstrip the expansion in national and regional GDP. Additionally, hazards can occur simultaneously, and their impacts can cascade – when coupled with other natural and man-made hazards and related environmental, technological, and biological hazards and risks. This compounds the economic fragility of SIDS and their exposure and vulnerability of their populations through temporary and/or permanent losses to the productive economic sectors, communities and to national public and private infrastructure and assets.

In 2019, there was a review of the SAMOA Pathway and the progress of SIDS. The report highlighted that there were issues in the progress of the SDGs for many SIDS especially for disadvantaged parts of the population. Delays in progressing the SDGs reflects the supply-side constraints for SIDS, which makes them vulnerable to achieving sustained economic growth and development. For instance, the role of agriculture and tourism in many SIDS economies, and the related economic assets and infrastructure and dependent commercial sectors are often highly exposed and vulnerable to the adverse impacts of disasters.

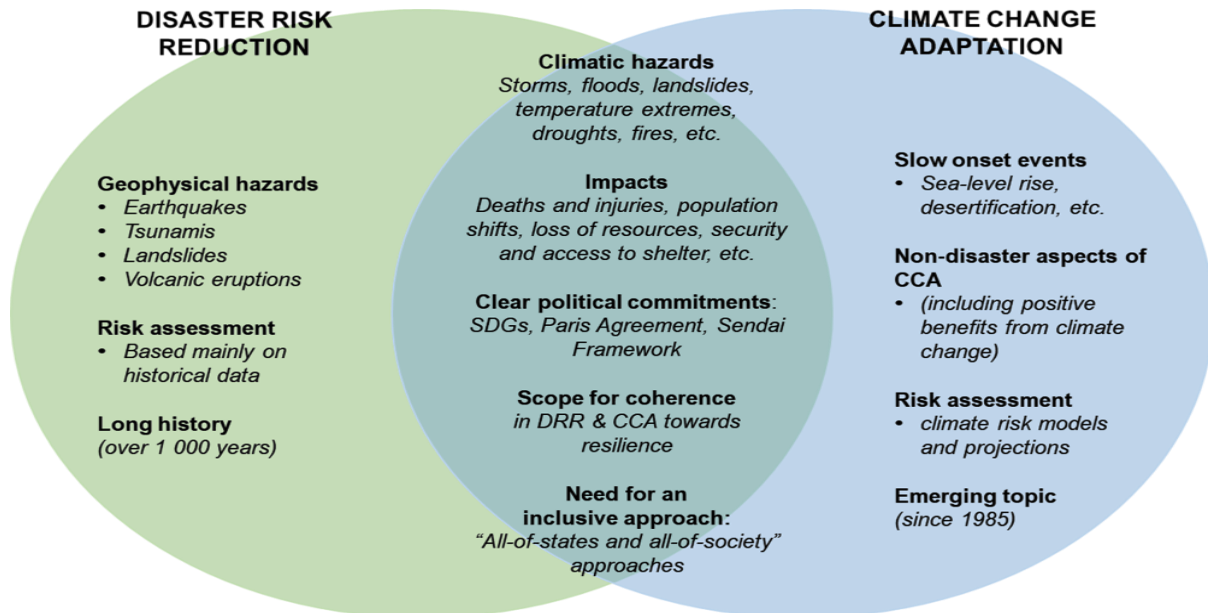
2. Existing Access to Disaster Risk Financing by SIDS.

2.1 Definitions

As noted in the Executive Summary, in this paper the discussion of disaster risk finance is broad and encompasses funds used in development, climate change, humanitarian response and those specific to disaster risk management. Disaster Finance in this paper, draws on the

definition used by GFDRR (2014) that it is financing that aims to increase the resilience of vulnerable countries to the financial impact of disasters⁸ as part of a comprehensive approach to disaster risk management.

Figure 2: The Relationship between Climate Change Adaptation and Disaster Risk Reduction



Source: Adapted from OECD 2020 (adapted from Coninx et al 2016)⁹

There is also a need to include and discuss climate change. Climate change is one factor among many having the capacity to exacerbate the frequency, intensity, and variability of disaster incidence. Anthropogenic climate change effects contribute to and exacerbate other long-term environmental issues such as deforestation, desertification, and mismanagement of natural resources.

It is important to also understand that a lot of the discussion of the data will focus on climate adaptation. Disaster Risk Reduction (DRR)¹⁰ and Climate Change Adaptation (CCA)¹¹ share many similarities. Reviewing Figure 2 we can see there is a large common area of concern in terms of the hazards, the impacts, the interaction between the political commitments and the benefits of taking an inclusive approach to the policy, finance, and actions. There are differences in language, availability of data and frameworks, and these are not inconsequential for some of the analysis in this paper. An obvious difference between DRR and CCA lies within the political action associated with climate change as opposed to DRR. The underlying notion between the two approaches is important when considering finance. The Sendai Framework

⁸ The object/focus of risk reduction must not be financial alone. It must look at the impact on people, ecosystems, and the environment. You can reduce the financial impact of disasters while having very little consequence on the human impact of disasters.

⁹ Note that the risk assessment section could be have more details such as the historical losses, as well as current, emerging and future risks, takes a multi-hazard approach that include climate risk models and projections as well as other hazards, and looks at the systemic nature of risk and the interrelation between hazards and vulnerability.

¹⁰ Disaster Risk Reduction is defined as strategies aimed at preventing new and reducing existing disaster risk and managing residual risk, all of which contribute to strengthening resilience and therefore to the achievement of sustainable development (UN 2016).

¹¹ Adaptation is defined as the adjustment in natural or human systems in response to actual or expected climatic stimuli or their effects, which moderates harm or exploits beneficial opportunities (IPCC AR4, WGII)

considers that actions related to disaster risk reduction are the responsibility of each country but requires an all-of -society approach whereas the United Nations Framework Convention on Climate Change (and Paris Agreement) agree that the responsibility of climate change rests with industrialised developed countries but requests all countries to undertake actions to reduce emissions. Similarly, there are few specific funds attached to DRR solely whereas the UNFCCC has several funds that serve the convention, such as the Adaptation Fund, Global Environment Facility, and the Green Climate Fund.

Policy actions are however bringing the activities closer together. In terms of practical policy approached the development of national Joint National Action Plans (JNAPs) for climate change adaptation and disaster risk reduction and the Framework for Resilient Development in the Pacific¹² provide examples of how DRR and CCA can be integrated and harmonised with each other and with development policy. In the Caribbean, the Caribbean Community Climate Change Centre (CCCCC) and Caribbean Disaster Emergency Management Agency (CDEMA) and other regional institutions are strategic partners in charting an integrated approach to DRR and CCA. In addition to this, the Caribbean has a novel governance mechanism in the form of the Comprehensive Disaster Management Coordination and Harmonisation Council (CDMCHC). The CDMCHC provides the overall management and technical guidance needed to ensure that the implementation of comprehensive disaster management activities within and between countries and across different sectors, is coordinated and harmonized.

The concept of resilience offers an opportunity to break down the silos between climate change adaptation, disaster risk reduction and sustainable development within the development agenda and allow a focus on a common, cross-cutting, and coherent outcomes.¹³ This can enable consideration and action on climate change and disaster risk across a range of policies and sectors, and at all levels of decision-making, given their multiple linkages with all aspects of sustainable development. For example, the allocation patterns found in the Atteridge and Canales 2017 highlights the need for donors to re-evaluate policy positions and design allocation strategies to better ensure that vulnerable states are allocated volumes of finance proportionate to their level of need.

By increasing resilience, disaster risk finance offers the promise of protecting and promoting development. As a result, it's likely that disaster risk financing would be associated with outcomes that promote:¹⁴

- **Prospective disaster risk reduction whose activities address and seek to avoid the development or creation of new or increased disaster risks.** They focus on addressing disaster risks that may develop in future if disaster risk reduction policies are not put in place and if investments in all sectors are not risk-informed. They also focus on addressing the systemic nature of risk through the integration of risk reduction measures throughout economic, environmental, social systems and policy and investments decisions in all sectors. Examples are better land use planning or disaster resilient water supply systems, risk informed public and private investment decisions.

¹² For the FRDP please see <https://www.resilientpacific.org/en/framework-resilient-development-pacific>

¹³ See <https://unsdg.un.org/resources/executive-summary-un-common-guidance-helping-build-resilient-societies> for the ongoing discussion of resilience in the context of the UN Common Guidance on Building Resilience.

¹⁴ Definitions of these aspects are drawn from the Report of the open-ended intergovernmental expert working group on indicators and terminology relating to disaster risk reduction paper 2016.

- **Corrective disaster risk management** activities address and seek to remove or reduce existing disaster risks, and which need to be managed and reduced now. Examples are the retrofitting of critical infrastructure or the relocation of exposed populations or assets.
- **Compensatory disaster risk management** activities strengthen the social and economic resilience of individuals and societies in the face of residual risk that cannot be effectively reduced. They include preparedness, insurance, response, and recovery activities, and social safety nets.

As the financial losses caused by disasters continue to rise, developing countries (especially SIDS) experience the greatest impacts. Natural hazards generate significant fiscal risk and create major budget volatility. Even countries with robust disaster risk management programs can still be highly exposed to the economic and fiscal shocks caused by major disasters. For example, Dominica experienced losses equivalent to almost 300% of GDP because of 2017 Hurricane Maria. See Table 3 for a listing of the five largest impacts of disaster by losses as a percentage of GDP.

2.2 How instruments and modalities enable access to finance

Finance is important for all countries, but it should be emphasised that SIDS are especially reliant on development partner support. Compared to other developing countries, SIDS are more reliant on Overseas Development Aid (ODA) and remittances, while private financial flows (bank lending, direct investment, and portfolio flows) make up a smaller share of total external finance than elsewhere (OECD 2018). Remittances are vitally important in many communities with large expatriate populations providing financial support for extended families.¹⁵ Some of the largest amounts have been reported for the Dominican Republic, Jamaica, Tonga, and Haiti. This lack of finance and fiscal flexibility can lead to adverse effects as debt levels could escalate quickly.¹⁶ With many SIDS already in debt distress and the national stimulus measures undertaken to support communities and businesses, further consideration of specific support, considering high debt levels and the costs of borrowing, that a temporary pause on SIDS debts considering disasters, like the G7 decision in 2020 in consideration of the adverse effects of the COVID.¹⁷

According to the UNFCCC 2019, several different instruments are used to finance standalone public and private sector projects, sector investment programs, technology transfer, information and knowledge sharing, policy and institutional reforms, and capacity development in developing countries. They can be grants, loans, or bonds and a range of other

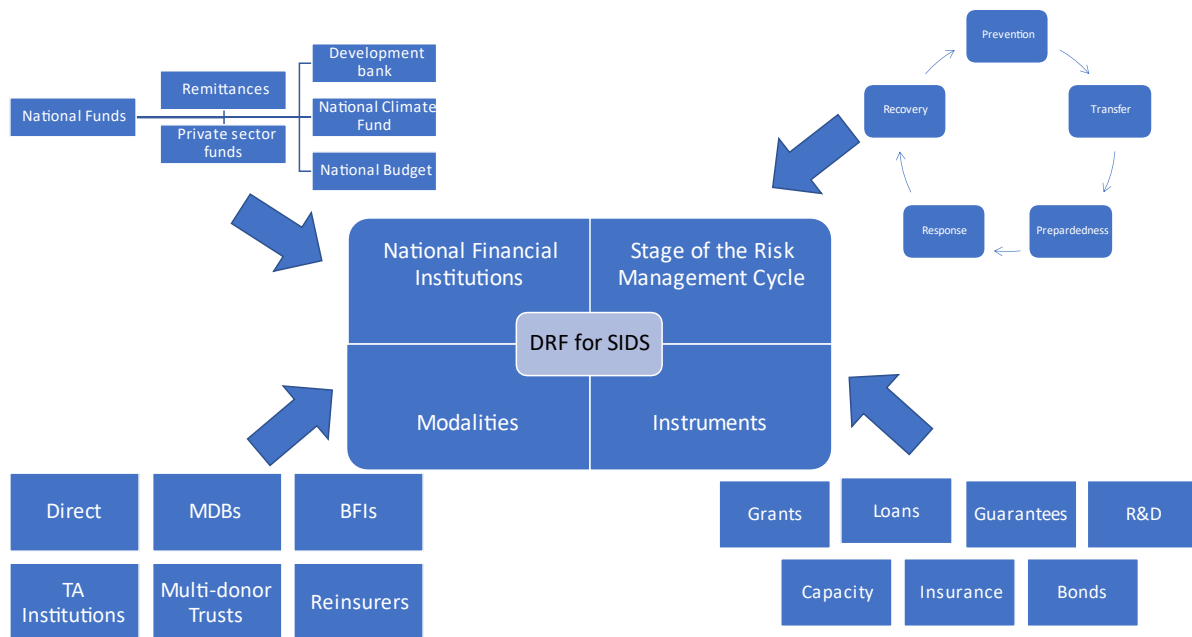
¹⁵ Over the period of analysis (2000-18), remittances are by far the predominant source of external financing to SIDS. The most recently available data show that in 2017-18 remittances represent on average about three-quarters of total external flows (or USD 28.5 billion on average per year). Furthermore, remittances grew over the period at an annual average rate of +5.2%. However, fluctuations exist across different SIDS, remittances reaching levels as high as 37.6% of GDP in Tonga and almost nil in Suriname (the median for all SIDS being 5% of GDP).

¹⁶ Many SIDS are already in debt distress. According to research by ODI SIDS' external indebtedness is considerably higher than that of other developing countries. Between 2000 and 2019, the external debt of SIDS rose by 24% (of GDP), while in developing countries debt fell by 6.2% on aggregate. By 2019, external debt accounted for 62% of GDP on average in SIDS, compared with 29% for all developing countries and economies in transition. See <https://odi.org/en/insights/small-island-developing-states-need-urgent-support-to-avoid-debt-defaults/>.

¹⁷ More information can be obtained from this link <https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative>

support. Modalities refer to the various funds that can provide these instruments, which can be national, MDBs, multi-donor trust funds etc. These are explained in Figure 3. In most discussions on finance there is a heavy focus on grants, loans (with a preference for it being concessional), blended funds, guarantee instruments and risk sharing (insurance). The type of funds and their availability varies according to the recipient with government often accessing more grant and concession finance than the private sector or households.

Figure 3: Sourcing Funds for SIDS



Source: Author design drawing on Cisse 2021.

Several funds are highlighted in later sections, but the true list is extensive. Where they can be measured and described as separate, they are highlighted in the paper. The complicated nature of the relationship between the purpose of the fund, modalities, and instruments is explained in Figure 3.

In a paper to the G20, the OECD 2012 highlights the two main approaches to financing disaster risks, which may be combined for an optimal mix: an ex-post approach that relies on existing resources and powers (e.g., budget reallocation, debt financing, taxation) that can be leveraged after a disaster to meet costs; and an ex-ante approach that relies on the use of financial mechanisms explicitly arranged or secured beforehand. An ex-post financing approach does not preclude the establishment institutional arrangements that specify, ex ante, the government’s financial commitments as well as insurance facilities. In terms of common instruments and modalities, the following are the potential modalities for ex-post DRF instruments (drawn from World Bank 2018 and cross reference with Figure 1):

- Grants and concessional loans. Often associated with direct bilateral flows and remains a significant source of finance for SIDS across all regions. A range of channels and instruments is used to provide both risk reduction and post-shock concessional finance. Access is often linked to ODA eligibility and there is growing pressure to prioritize

flows to lower income countries. One example is the ADB’s Asia Pacific Disaster Response Fund.¹⁸

- Contingency funds - these can be embedded in the country’s budget as part of a fiscal rule associated with a savings fund, or they can be extra-budgetary funds managed by the government. In the Pacific, the ADB has a contingency facility that operates for the Pacific with payments of up to \$US10 million. Similarly, Tuvalu has a fund called the Survivors Fund¹⁹ that provides funds for risk reduction and post-disaster support to a community.
- The World Bank’s Development Policy Financing with Catastrophe Deferred Drawdown Options (Cat DDO). The Cat DDOs combine the provision of immediate liquidity following a disaster with requirements for a disaster risk reduction policy program. As a policy instrument, the Cat DDO engages countries in high level dialogues about vulnerability reduction and resilient development, supporting governments in developing integrated risk management strategies and investments that go beyond responding to the immediate impact of disasters. As a financing instrument, Cat DDOs provide much-needed financing after major natural catastrophes. The first Cat DDO in the Caribbean was approved in September 2017, providing a US\$150 million contingency loan to the Dominican Republic.
- Catastrophe bonds (also known as cat bonds) are risk-linked securities that transfer a specified set of risks from a sponsor to investors. They were created and first used in the mid-1990s in the aftermath of Hurricane Andrew and the Northridge earthquake. Jamaica in 2021 has just negotiated the development of a Cat Bond.
- Regional catastrophe risk pools. The Caribbean Catastrophe Risk Insurance Facility (CCRIF), established with support from the World Bank in 2007. It was designed as a regional catastrophe fund for Caribbean governments to limit the financial impact of hurricanes, earthquakes, and excess rainfall by quickly providing financial liquidity when a policy is triggered. Over 17 countries are now members of CCRIF. The Pacific has a similar system called the Pacific Islands Catastrophe Risk Insurance Company (PICRIC) operating in five countries operating since 2014 which has evolved out of the earlier PCRAFI.
- Regional or National Facility. Most disaster risk financing options available to SIDS are only triggered after a catastrophic event, and focuses on post-disaster response, relief, and recovery. An alternative is to develop a specific country or regional facility that is focused on prevention by supporting resilience building. For example, there has

¹⁸ The Asia Pacific Disaster Response Fund is a special fund established in 2009 to provide fast-tracked grants to developing member countries (DMCs) for life-saving purposes in the immediate aftermath of major disasters triggered by a natural hazard. Assistance from the fund is provided in the form of a grant in an amount totalling up to \$3 million per event. Factors that may influence the size of the grant can be (i) geographical extent of damage; (ii) initial estimate of death, injuries, and displaced persons; (iii) the response capacity of key agencies in the country; and (iv) the date and magnitude of the last disaster that affected the country (thereby considering the cumulative effect of disasters on the country’s ability to respond).

¹⁹ The Tuvalu Survival Fund was established by the Government to financially support the building of resilience in communities, disaster response, and climate proofing infrastructure. It was started with an AU\$5 million contribution from the Government.

been development of proposals of a Pacific Resilience Facility and a Caribbean Resilience Building Facility see Box 3.²⁰

In Attachment 2 of this paper, a table with a listing of the various instruments and modalities is included.

2.3 The Demand for Funding is Increasing

Natural hazards and their costs have steadily increased in the last 40 years. Analysis by Slany 2020 for UNCTAD, indicates that climate-related natural hazards (especially meteorological and hydrological ones) have risen more strongly compared to earth-related natural and biological hazards. The occurrence per annum of climate-related disasters increased from an annual average of 153 in the 1980s to 308 on average between 2010 and 2018. In terms of the costs associated with it, meteorological disasters generate the largest amount of annual costs with an increasing trend: from annually US\$21 billion over the period 1991 to 2000 to globally US\$82 billion per annum from 2010 to 2018.

Among the world developing regions, Eastern Asia, the Caribbean, Southern Asia, and South-Eastern Asia have been hit the most in terms of absolute costs and occurrences between 1980 and 2019. However, in larger states, damages from disasters are localized and therefore represent a relatively small share of the economy, even though their cumulative impact is increasing. In smaller countries, natural hazards can have geographic impacts across the entire territory, as the bulk of their territory could be affected at the same time (see Cebotari and Youssef, 2020). For instance, the small states in the Caribbean experience the highest damage in terms of GDP. Between 1970 and 2018 disasters resulting from natural hazards caused on average an annual damage of equivalently 2.8 percent of their GDP. Pacific small states faced annual damages of around two percent of GDP. In contrast, the rest of the world faced 0.3 percent of GDP annual costs, and other small states faced 0.2 percent of GDP costs of annual disasters resulting from natural hazards (Cebotari and Youssef, 2020 cited in Slany 2020).

Monetary damage indicators are only available for a few natural hazards. Some events have a smaller impact on physical capital but have stronger systemic impacts, such as on more strongly affect human health and well-being of humans. For instance, a drought may not have much physical damage to infrastructure, but it affects people through food insecurity, malnutrition, lower productivity, loss of income, and rising poverty. Different measures need to be considered for the analysis of natural hazards that consider their impacts across economic, social, and environmental systems. EMDAT provides data on affected people, injured people,

²⁰ The Caribbean Regional Resilience Building Facility is a partnership between the European Union, GFDRR and the World Bank. The objective of the Facility is to enhance the long-term disaster resilience and adaptation capacity for the most vulnerable in the Caribbean region. This will be achieved through a comprehensive evidence-based effort, using various advisory and financial services and analytics available, to strengthen the capacity for disaster risk reduction and financial resilience at regional and national levels, as well as through co-financing of investments in resilience. Activities of the Facility cover the following countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago.

The program has three operational components: Regional Technical Assistance Facility to Mainstream Resilience; Adaptation Facility for Leveraging Investments in Resilience in the Caribbean; and, Expanding Financial Protection Against Disasters in the Caribbean Sovereign Countries.

homeless people and estimated monetary damage. Table 3 reflects the five most costly disasters to affect SIDS as a percentage of GDP.

Slany 2020 reviewed lists of the 10 globally most severe natural hazards over the period 1970 to 2018. The worst disasters resulting from natural hazards measured by damage relative to GDP have almost exclusively occurred in SIDS and are mainly storms. Of the disasters that caused the highest ratio of affected people per population worldwide, six are droughts and four were storms. The three worst hit countries since 1970 are SIDS (identified as Tonga, Antigua and Barbuda, and Samoa). The most damaging earthquake happened in Haiti in 2010 with a damage of more than 120 percent of GDP, more than 200,000 fatalities, 300,000 injured and 40 percent of the population directly affected by the earthquake. Similarly, disastrous earthquakes affected the Comoros in 2005 and the Maldives in 2004. In terms of biological disasters, these have mainly occurred in Africa. In absolute numbers, SIDS seem to be less exposed to biological disasters.

Relative to their small population however, it becomes evident that SIDS are also strongly vulnerable to health-related disasters. For example, the deadliest biological disaster happened in the Maldives in 1978, where 0.14 percent of the population died, and 1986 in Sao Tome and Principe (0.13 percent of the population), followed by the Ebola outbreak in Liberia in 2014. Of the 10 deadliest biological disasters, five countries are SIDS (Maldives, Sao Tome and Principe, Guinea-Bissau, Haiti, and Cabo Verde). It is highly likely that as more data is available on the impact of COVID-19 is also likely to show that it has fallen heavily on SIDS especially where there are fewer opportunities for large households or extended families to practice social distancing, larger proportion of low-income households, lower access to vaccines and larger urban populations.

Table 3: The five largest Natural Disasters in SIDS by total damages as a percentage of GDP

Country	Year	Type of Disaster	Total Damage in % of GDP
Dominica	2017	Storm	280.09
Samoa	1991	Storm	221.34
Samoa	1990	Storm	159.03
Grenada	2004	Storm	148.38
Vanuatu	1985	Storm	139.86

Source: Slany 2020 (drawn from EM DAT Data)

2.4 The Financing Landscape

The Disaster Risk Financing landscape is complicated and fluctuates from year to year. Disaster risk financing has found to be a low priority in the scheme of total ODA funding. Updated information from UNDRR’s recent report on this issue (UNDRR 2021) found that “Disaster-related funding forms a small portion of the overall ODA. An analysis of OECD data in the last 10 years shows that, of a total of US\$1.17 trillion of overall aid between 2010 and 2019, only 11 per cent (US\$133 billion) was disaster related. Of this US\$ 133 billion, just US\$5.5 billion was allocated for disaster prevention and preparedness while US\$119.8 billion was earmarked for emergency/disaster response and US\$7.7 billion for reconstruction, relief and rehabilitation. Thus, of overall aid financing between 2010 and 2019, only 0.5 per cent of

the total amount was spent on disaster risk reduction measures before the disaster strikes. This amounts to only 50 cents on pre-emptive actions for every US\$100 spent on development aid.²¹

Globally, governments and other donors spent \$5.2 billion on DRR from 2005 to 2017, representing 3.8% of the total humanitarian financing during that period, according to a 2019 United Nations report on DRR.²² Approximately 90% of international development funding for disasters goes toward recovery work, leaving little over 10% for prevention — a gap that could widen if climate change leads to the unprecedented extreme weather events anticipated by the Intergovernmental Panel on Climate Change.²³ Table 5 has a summary of multilateral mechanisms for SIDS. They identify the focus on low-income SIDS and the challenges for middle income SIDS to access funds.

Updated analysis for this paper of financing data from the OECD database has found that this trend has not changed. From 2010 to 2019, all OECD countries (using DAC data) had provided US\$17.3 billion (in constant terms) to the Caribbean (15 countries and territories and a regional allocation), in the Pacific the OECD reported US\$17.2 billion (16 countries and territories and a regional allocation) and for the AIMS US\$1.9 billion (seven countries). Over that same period, funding for Disaster Risk Reduction was US\$31.5 million to the Caribbean, US\$21.6 million in the Pacific and \$US5.4 for the AIMS. The data for the DRR funding is not complete and it appears that reporting has only been occurring more regularly since 2017. Similarly, in terms of humanitarian financing the Caribbean received US\$2.8 billion (noting that Haiti received US\$2.66 billion) and the Pacific US\$508 million. The AIMS region received US\$54 million for seven countries). There is a large imbalance between the funds allocated for DRR and those allocated for humanitarian assistance.

In terms of MDB support, there is a report on funding for climate finance but not one for disaster risk finance. The attached table reflects on the two measures, in Table 4 on Shock Financing and Table 5 on Adaptation Financing. We can see in Table 4 that there was a large demand for funds by the Caribbean that year (impact of 2017 Hurricane season) with funds also accessed by the Pacific but not much beside US\$3.5 million accessed by the AIMS countries. The benefits of a regional parametric financing mechanism for the Caribbean and the Pacific are also noteworthy in the data in this table.

Table 4: Shock Financing

Instrument	Units	Range	AIMS	Caribbean	Pacific	Total
IDA Crisis Window	USD accumulated	IDA 17/18	0	100	63	163

²¹ A 2015 report by ODI found that DRR has been at best a very low priority over the prior two decades. In this period, the international community committed just over \$3 trillion in aid. Of this, \$106.7 billion was allocated to disasters, and of that just a fraction, \$13.5 billion, was for risk reduction measures, compared with \$23.3 billion spent on reconstruction and rehabilitation and \$69.9 billion spent on response. ODI found that of overall aid financing over 20 years, the \$13.5 billion spent on DRR accounts for just 0.4% of the total amount spent on international aid. Essentially, for every \$100 spent on development aid, just 40 cents have been invested in defending that aid from the impact of disasters.

²² 2019 UNDRR GAR report.

²³ Note the IPCC special report on the impacts of global warming of 1.5 °C above pre-industrial levels and related global greenhouse gas emission pathways, in the context of strengthening the global response to the threat of climate change, sustainable development, and efforts to eradicate poverty.

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Sovereign Catastrophic Insurance Cover	USD payouts	2007-17	0	130	3.2	133.2
IMF Rapid Credit Facility	USD Balance due	30 Nov 2017	3.5	45.9	14.3	63.7
Total			3.5	275.9	80.5	359.9

Source: UN-OHRLLS 2020 with amendments by Author.

One additional point for Table 4, several SIDS have lost access to multilateral concessional funding because they now exceed income thresholds, and some are no longer eligible for some forms of financing. But there are exceptions and some SIDS remain eligible through special exceptions, such as the World Bank’s small island economy exception.

Table 5 is interesting given the large amounts being provided for adaptation funding. This makes up over half of all funding that was provided in 2019. While we are not looking at DRR Finance it is worthwhile to understanding these amounts as there is overlap between DRF financing and climate change adaptation finance, while noting that climate change adaptation finance can be more risk-informed to avoid maladaptation (see Figure 2).

Table 5: Access to Finance by MDBs for SIDS (\$USD million)

	Adaptation Finance		Total Finance	
	2016	2019	2016	2019
SIDS that are not LDCs	91	364	298	786
LDCs and small island states	71	200	90	329
Total	162	564	388	1,115

Source: EBRD MDB Joint Report 2020 with amendments by the Author.

2.4.1 Matrix of Existing Finance Programmes

SIDS need significant amounts of finance to reduce disaster risk and pursue risk informed development. The following table is a summary of various disaster risk finance funds. Attachment 3 has a listing of the various funding sources that are available. There are a variety of criteria for different funds. They can be summarised as follows with the inclusion of different types of instruments:

- *Prevention*: Government revenue and budget allocation, Bonds ²⁴(not Cat Bonds), DRR, Development and Climate Finance, ODA (both financial and technology transfer), risk-informed domestic and international private investment.
- *Preparedness*: Government revenue and budget allocation, Bonds (not Cat Bonds), DRR, Development and Climate Finance, Forecast based Finance, Contingency, and reserve funds.
- *Response*: Government revenue and budget allocation, Forecast based Finance, Contingency, and reserve funds.

²⁴ Clarity on what type of Bonds you are discussion – do they deal with preparedness or prevention?

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- *Recovery:* Government revenue and budget allocation, Bonds (not Cat Bonds), Contingency and reserve funds, Extrabudgetary funds.
- *Transfer:* Government revenue and budget allocation, Risk Insurance, microinsurance, CAT Bonds, Extrabudgetary funds.

Table 6: SIDS Access to Financial Instruments

Instrument	Function	Example	Used by SIDS	Stage and Type	Issues
Government Revenue and Budget Allocation	Prevention, Preparedness Response and Recovery	Countries can have specific funds that are ring fenced in the budget or a specific levy. Fiji PM fund. Ring fenced budget allocation in Tonga.	Yes, several countries already have specific funds that are collect or retain funds for an event.	Ex-ante and Ex-post Risk Retention	Relies on existing national resources.
Bonds	Prevention Preparedness Recovery	Jamaica Cat Bond issue with World Bank (up to US\$178 m) Fiji Green Bond. Seychelles Blue Bond.	Yes, Fiji has used a Green Bond issue	Ex-ante Risk Transfer	Strong Financial institutions and the financing process can be lengthy.
DRR, Development and Climate Finance	Prevention Preparedness	GFDRR and GCF	Yes, SIDS AEs for GCF for direct access.	Ex-ante External Risk Finance	Current access to funds occurring
Sovereign Risk Insurance	Transfer	CCRIF and PICRIC	Yes, already operational in the Caribbean and Pacific	Ex-ante Risk Transfer	Took a long time to develop.
Microinsurance	Transfer	UNDP has developed a few individual based schemes	Fiji	Ex-post Transfer	Small amount of funds to assist with household expenses
CAT Bonds	Transfer	Jamaica Bond Issues.	Yes	Ex-post Risk Transfer	Could be expanded to SIDS natural resources.

FINAL DRAFT – NOT UN POLICY

Contingency and Reserve Funds	Preparedness Response Recovery	Survivors Fund	Yes, Tuvalu has one operating	Ex-post	Can provide timely funds
Humanitarian Funds	Preparedness Response	CERF Specific example needs to be added – refer to CERF website - Haiti	Operated by UNOCHA	Ex-post	CERF Rapid response grant allocations for UN organizations, based on CERF life-saving criteria, at the request of RC/HC and Emergency Relief Coordinator approval. Underfunded emergency grant allocations also available.

Source: Adapted from Cisse 2021

Reflecting on previous experiences, SIDS have used a range of government budget, local community funding and international aid to address most aspects of disaster risk financing priorities, but it is necessary to consider different financing mixes considering the types and characteristics of hazards as well as the capacity to absorb their impacts, as various financing mechanisms for DRR have different strengths in addressing natural hazards depending on their severity and frequency. Government reserves and contingent credit can be widely adopted for high frequency, low severity disasters such as droughts, but protection from low-frequency, high severity disasters must be sought for other sources such as capital markets. For example, financial instruments such as CAT bonds and insurance products can also offer protection against disasters in a cost-efficient way. Table 6 provides a summary of different types funding instruments that are available.

There are many different issues to be considered when looking at funds. One relevant issue, especially in the ex-post process is the speed of disbursements which can be a defining factor in determining effectiveness. There is a need for SIDS to consider the role of developing alternatives and see finance as a multi-layered and phased approach to finance. National reserves and contingency funds are the fastest way to introduce additional resources when faced by an event with limited warning but are often far too small. Risk pools, sovereign risk insurance products, and contingent credit lines are designed to be disbursed quickly to enable the liquidity needed for effective post-disaster responses. It is this time dimension that should be considered in all instances. For individuals and sector-based insurance ‘indexes’ ensure that

payouts are immediately activated whereas indemnity-based insurance payouts can be slow as claims will need to be evaluated. By far the slowest and least reliable form of financing is donor grants and loans.

3. The Challenges that SIDS face in Finance

There are many challenges associated with accessing finance. Global climate and disaster funds present their own complex eligibility requirements, ranging from the type of funds (ex-ante or ex-post), the scope of those funds (prevention, transfer, preparedness, response, or recovery), the instrument (such as grants, loans, insurance, bonds, technical assistance etc) and whether these funds need to be leveraged with other funds. There are also the eligibility criteria with different mechanisms having different rules, applications requirements, and governance arrangements.

SIDS are usually not treated as a group, except for a few funds (and even fewer in the DRF space) are available for nearly all SIDS. For example, the LDC Fund is only available to those SIDS that are also LDCs. Funds administered by the ADB, AfDB, and IAB all provide funds for SIDS that are linked to their location. For some countries, like Barbados, Fiji, Seychelles, and Cook Islands, accessing funds is particularly more challenging since they do not qualify for concessional financing from IDA/World Bank and the IMF, but in a double blow, they may also often lack the creditworthiness to borrow from international financing institutions.²⁵ This is an issue not just for disaster risk finance and extends more generally to all development finance. Table 6 is a useful guide to the limitations faced by many SIDS because of the cut-offs in incomes.

According to a 2015 World Bank report, 21 SIDS out of the 35 considered were assessed as being at “moderate” risk, “high” risk or “in debt distress.” High debt profiles concern especially Upper Middle-Income SIDS in the Caribbean and Lower Middle-Income SIDS in Africa and the Indian Ocean. With limited fiscal space, the public expenditures of SIDS are often procyclical, and the fiscal space available for growth-promoting investments is greatly constrained, further exacerbating volatility to external shocks, and constraining their long-term growth. Acknowledging that funding for SDGs is often short of supporting the achievement of these goals remain underfunded. As a result, progress on advancing the SDGs has been limited, for example, in the Pacific there is very few SDGs being achieved.²⁶

Some SIDS may also have concessional finance terms that change over time. The joint IMF/World Bank Debt Sustainability Analysis (DSA) process is particularly important for low-income countries because it directly affects the country’s cost of borrowing from IDA. Countries with improving external debt sustainability could find themselves facing hardening terms from grant to credit status within IDA. The importance of disasters caused by natural hazards to debt sustainability is illustrated by Vanuatu, which moved from low to moderate risk of debt distress between 2013 and 2015 following cyclone recovery and reconstruction expenditures. When considering the challenges with responding to COVID-19 many countries have greatly increased their debt levels in the last 18 months (see footnote 8). There are some positive developments, ongoing DSA assessments are considering natural disaster risk in their

²⁵ Only a few SIDS are rated by the various agencies most are not. For example, Standards and Poor’s have Barbados is rated BB+ (non-investment grade speculative) and Fiji is rated B+ (High speculative).

²⁶ Note UK research found that SIDS have significantly more adverse outcomes in progressing the SDGs than other countries at the same income level 2019, p.12 The Cowrie.

analysis of a country’s vulnerabilities – for example, in the 2015 DSA of Haiti and the 2016 DSA of the Solomon Islands.

There has also been much criticism by SIDS of the slow pace in which funds from the Adaptation Fund and Green Climate Fund have been accessed. SIDS in the UNFCCC process have sought to have improvements in the processes of both entities to enable faster and simpler means for SIDS and LDCs to access funds through national accredited entities. Regarding the GCF Accreditation process, the GCF internal audit unit in 2020 reviewed the GCF processes for accreditation (for all entities and not just those from SIDS), they found that there is still a lot of learning and understanding required about the specific capacity issues that countries (especially capacity constrained) SIDS face in accessing funds from organisations like the GCF that have a blanket approach to applications, accreditation, and reporting.

The complexity and potential complementarities of climate and disaster financing can be illustrated through the example of Saint Lucia and the response to the devastating 2010 hurricane. Saint Lucia received a zero interest loans from the IMF under the Emergency Natural Disaster Assistance (a precursor to today’s Rapid Financing Instrument) and Rapid Credit Facility (RCF). While Saint Lucia substantially exceeded the RCF’s income eligibility threshold, it was able to access the Facility due to the microstate’s exception. These concessional loans complemented grant financing from bilateral donors, including Australia, Japan, and the United Kingdom (UK). Saint Lucia also received a payout from the CCRIF, providing liquidity for urgent rebuilding needs. While IMF assistance was not large in absolute terms, the IMF’s involvement was viewed as instrumental in satisfying bilateral donors and other international financial institutions regarding Saint Lucia’s ability to take on additional loans. In 2014, larger financing commitments were made to Saint Lucia by multilateral organisations for climate and disaster resilience: concessional loans from IDA/World Bank; grants and concessional loans from the PPCR; and a smaller grant from the GEF. While the funds and support are welcome each of these take time and resources to negotiate and to develop the necessary projects and the ongoing processes associated with procurement and reporting. Speed and ease of access has been a regular request from SIDS to all multilateral funds.

The current COVID-19 pandemic and associated responses is provoking or exacerbating regression in both efforts to build resilient societies and nurture a culture of risk reduction, as well as progress in realising the goals and targets for sustainable development and climate change adaptation and mitigation. Global interconnectedness through supply chains has highlighted that the transmission of risk from one country/region to another can happen quickly and disrupt governance, economic and social systems. The additional stimulus, rebuilding and recovery measures that can be introduced by governments as the COVID-19 policy moves from response to recovery and rebuilding is the platform for recasting the current institutions, systems, and societies into the foundations for such a strategy.

3.1 Are SIDS especially Vulnerable and Exposed to Disasters

Important independent studies reinforce the specific exposure of SIDS to the effects of climate change and other disasters. According to the Intergovernmental Panel on Climate Change (IPCC) Special Report on the Ocean and Cryosphere in a Changing Climate (SROCC) it is likely that Low-Lying Islands and Coasts, including SIDS, will face an increase in the frequency and intensity of such hazardous events in the future due to climate change (Magan

et. al. 2019) which might exceed existing coping strategies. In addition, slow-onset hazards such as sea-level rise are likely to compound existing hazards, such as erosion, coastal flooding, and salinity intrusion, further exacerbating climate and disaster risk in SIDS (Oppenheimer et. al. 2019). It is anticipated that climate and disaster risks might continue to be disproportionately high for SIDS in the coming decades, because of:

- (i) Increasing exposure due to interplay of increasing hazard frequency and intensity and the growing concentration of people and assets in low-lying coastal zones,
- (ii) The continued degradation of coastal ecosystem services (such as coral reefs and mangroves); and,
- (iii) Context-specific social, demographic, economic, cultural and governance dynamics influencing vulnerability (Hay et. al. 2013; Magnan et. al. 2019) and the creation of new risk.
- (iv) The continued creation of risk due to economic and development policies that are not risk-informed.

There are a variety of indexes that SIDS, as a group, score highest among developing countries including the Economic and Environmental Vulnerability Index (EVI), which was developed by the United Nations and FERDI (Fondation pour les Etudes et Recherches sur le Development International), as a central criterion for the identification of the structural vulnerability of developing countries to exogenous economic and environmental shocks. For example, Tuvalu topped the Index in 2019 with a EVI of 76.²⁷ However, payments are not based in these indexes and a countries vulnerability or exposure to disasters.²⁸

SIDS are the most environmentally vulnerable of all developing countries, according to the Environmental Vulnerability Index (OECD 2018). The index that measures the structural vulnerability of developing countries to economic and environmental shocks, and the determinants of exposure to shocks (for example population size and remoteness) (OECD 2018). Reflecting their small economies and limited state capacity it complicates policy responses to extreme events. Vulnerability is also increasing due to trends of urbanisation, population growth and low levels of governance in planning.

While there are complicated interactions between climate change and disaster risk, climate change is making natural hazards²⁹ (like hurricanes/cyclones/typhoons) more intense, and this looks set to continue, according to projections. The SIDS have higher levels of vulnerability than other larger countries with similar income levels. The World Risk Report 2020 identifies that from the top 20 countries from the index that eight are SIDS.³⁰ When damage occurs, SIDS

²⁷ The composite index (the Economic Vulnerability Index) based on indicators of (i) natural shocks (index of instability of agricultural production; share of victims of natural disasters); (ii) trade- related shocks (index of instability of exports of goods and services); (iii) physical exposure to shocks (share of population living in low-lying areas); (iv) economic exposure to shocks (share of agriculture, forestry in GDP; index of merchandise export concentration); (v) smallness (population in logarithm); and (vi) remoteness (index of remoteness).

²⁸ See ADB 2019 for a discussion of this issue for SIDS. <https://www.adb.org/sites/default/files/page/561776/framework-financing-needs-sids-discussion-paper.pdf>.

²⁹ While SIDS are in some of the world's most disaster-prone regions (OECD, 2018), natural hazards do not cause disasters, and in fact natural hazards produce widely different outcomes in different island states, indicating great variations in resilience.

³⁰ There are a variety of specific indexes that measure climate vulnerability. The *ND-GAIN Country Index: 5* summarises a country's vulnerability to climate change in combination with its readiness to improve resilience. It has data for 192 countries starting in 1995. Six focus sectors include: food, water, health, ecosystem service,

tend to suffer more than other developing countries as a percentage of national input, due to their small size. Recalling Table 3, the percentage of GDP damage are often large and can exceed 100% of GDP.

Building resilience, to the impacts of climate change and other disasters, are real and ongoing challenges for Small Islands Developing States (SIDS). Disasters emanating from hazards such as tropical cyclones, droughts and earthquakes have impacted countries that were already exposed to extreme economic, social, and environmental challenges. The Emergency Events Database (EM-DAT)³¹ from the Centre for Research on the Epidemiology of Disasters (CRED) is the most comprehensive database on the global occurrence of natural disasters. Other databases include NatCatSERVICE (Munich Re) and Sigma (Swiss Re).

One major drawbacks of the database (as well as other databases) are that the data relies on government reports and insurance statements without a common methodology and little transparency. In addition, the capacity of least-developed countries and SIDS to accurately measure the damage of disasters caused by natural hazards is often limited.

3.2 The amount of finance provided by the international community

Drawing together data in the SEI database, from 2002 to 2018, all funders worldwide committed \$226 million in development finance to SIDS for Disaster Risk Reduction (DRR). The data discussed here is for financial support from All Donors (OECD sources) that was reported as targeting Disaster Risk Reduction.³² The breakdown of this amount into different financial instruments is discussed below. The disbursement ratio for development finance to SIDS targeting Disaster Risk Reduction over this period was 44.9%. By comparison, the disbursement ratio for all development finance worldwide over the same period was 83%. The ‘disbursement ratio’ refers to the amount of finance disbursed as a percentage of the total amount committed or approved in the same period. Low disbursement ratios could indicate that there are challenges implementing projects or that funding was subsequently re-directed after approval.

human habitat, and infrastructure – in terms of their exposure, sensitivity, and adaptive capacity to climate change, focusing on the exposure and sensitivity components.

The *CGD “Vulnerability to Climate Change Index”* assesses climate change vulnerability for 233 states, based on a “Climate Drivers Index” (CDI) that quantifies the increased vulnerability to climate change resulting from weather related disasters, sea level rises, and reduced agricultural productivity. This is combined with information on governance, per capita income, and population to develop an overall model for allocating climate finance that seeks to take account of resilience and the likely effectiveness of climate spend on adaptation.

The *Climate Change Impact* rankings look at indicators of physical impact relating to agriculture, disasters, health, and coastal zones in 131 developing countries. Scores for adaptive capacity and implementation ability are also calculated.

The *Climate Vulnerability Monitor* classifies the impacts of climate change in 184 countries as acute, severe, high, moderate, or low. This is based on indicators related to environmental disasters, habitat change, health impact and industry stress, in terms of their estimated impacts on GDP and/or mortality in 2010 and 2030.

³¹ The classification of natural hazards into climate-related, earth-related, and biological disasters is based on the structure of the EM-DAT database: i) Climate-related disasters: Meteorological, hydrological, and climatological disasters. ii) Earth-related disasters: Geophysical and extra-terrestrial disaster. iii) Biological disasters (epidemics): A hazard caused by the exposure to living organisms and their toxic substances (such as venom and mould) or vector-borne diseases that they may carry.

³² Changes in the data being collected and available for analysis limits the ability to provide a continuous source of data. In 2018, the OECD started to identify specific information on disaster risk financing.

Development Finance commitments to SIDS targeting Disaster Risk Reduction has come from different funders and were allocated to different recipients. Using a different data source, an earlier study found that the largest sources of finance were EU Institutions (excl. EIB) (US\$100 million), Japan (US\$51.2 million) and United States (US\$18.8 million). The countries receiving the most finance included the Caribbean - regional (US\$95.6 million), Haiti (US\$26.1 million) and Tonga (US\$25.9 million). A breakdown by region and development partner is provided in Table 7. The EU, Japan and the World Bank were the only partners that consistently appeared in the top five for more than one region.

According to that earlier analysis by the World Bank and OECD (2016), development finance to SIDS targeting Disaster Risk Reduction (DRR) was provided to different sectors. The largest commitments were US\$120 million to Disaster Prevention & Preparedness, US\$82.9 million to Other Multi-Sector/Cross-Cutting and US\$4.85 million to Reconstruction Relief & Rehabilitation. These remain much smaller than the amounts reported for Humanitarian finance that was reported over US\$3 billion (see discussion on page 20), even when taking into consideration the total proportion received by Haiti (US\$2.66 billion).

Table 7: Main Donors by Region (2011-14) for DRR

Caribbean	Pacific	Africa and Indian Ocean
France	Australia	Japan
World Bank	EU Institutions	France
EU Institutions	World Bank	United States
All other donors	Asian Development Bank	Global Environment Facility
Norway	Japan	Adaptation Fund
Climate Investment Funds	New Zealand	EU Institutions
Global Environment Facility	Global Environment Facility	Spain
Spain	All other donors	Luxembourg
Canada	Germany	All other donors
Switzerland	Climate Investment Funds	Denmark
	United States	Australia

Source: OECD/WB 2016 amended by Author.

This also brings into the discussion the wider purpose of development finance. Financing is the key to development, the flow of funds from government, investment for businesses, support from development partners, remittances and loans are all vital in the development of basic infrastructure and the means to provide employment and create further wealth. With the additional risks that SIDS face in confronting disaster risk there has been a greater focus on risk-informed development³³ and the importance of building resilience. A lack of risk-informed development and underlying planning to consider social, economic, and environmental exposure and vulnerability mean that such shocks and stressors also tend to disproportionately affect the relatively poor and marginalized versus people with higher income and wealth, which can have impacts across the Sustainable Development Goals, including exacerbating income and wealth inequality.

³³ Risk-informed development is a risk-based decision process that enables development to become more sustainable and resilient. It pushes development decision-makers to understand and acknowledge that all development choices involve the creation of uncertain risks, as well as opportunities (UNDP 2019).

Reviewing development finance being received by various SIDS by region from 2014 to 2018 (UN-OHRLLS 2020), the Pacific received approximately US\$566 million, the Caribbean US\$445 million and AIMS US\$ 202 million. All SIDS have received some concessional financing except for Singapore, and this estimate includes some small island territories. An UN-OHRLLS 2020 paper observes that climate action in SIDS remain poorly funded given the magnitude of the challenge, and approved finance fulfills only a small part of actual needs. While in the rest of the world, most funds are directed at mitigation efforts, in SIDS funding for adaptation and mitigation has been more balanced.³⁴ According to the Climate Finance Update data (2021), about half of the climate finance (which includes disaster risk finance) for SIDS from 2014 to 2018 was for adaptation, and the remainder was for mitigation, mitigation through REDD+ and multi-focus projects while being a fair result for SIDS. The main imbalance is for global funds is that a vast majority of funding for climate change and disaster risk remain focused on supporting mitigation (the reduction of CO2).

4. The Relevance of Access, and Disbursement of Finance: Best Practices and Lessons Learned

4.1 Views and insights of countries, international financial institutions, and development partners.

Discussions with several countries, development partners and experts were undertaken for this report. The feedback focuses on project development, working with partners and experience at consultation in developing projects. Some of the general observations of that experience included:

- Timing is critical as access to funds requires different processes to be underway simultaneously and it is a challenge to ensure that they are fully implemented or have evidence of progress to partners.
- Resource/Capacity constraints and the importance of setting realistic timeframes.
- Building capability and capacity through utilising TA support is valuable and this needs to be planned out prior to a hazard event.
- Complexity of the process and the importance to ensure that the different processes are understood, and questions answered clearly for issues to be clarified.
- The Post Disaster Needs Assessment process can be a pro-active way to identify national priority areas and integrating responses from development partners. However, its applicability is limited and depends on a defined period of the event and post-event. COVID-19 has demonstrated that an event can continue for a long-time.
- Disaster risk finance funds need to be better influenced by the disaster affected country priorities and risk profiles. There is some concern that interventions are more aligned with partner priorities rather than country preferences.

There was some discussion about the importance of using national systems. Some country respondents and other observers recommended development partners to be more flexible about what qualifies as sufficient evidence of the application of policies and standards, as this is a challenge for some organisations and entities that are subject to political changes (for example

³⁴ See Watson, Charlene; Patel, Sejal; Durand, Alexis; Schalatek, Liane 2016/11 Climate Finance Briefing: Small Island Developing States available at: <https://gullivern.org/wp-content/uploads/wXaT57jq9c/think-tank-review/FIHj183T/fic1list/VEI1-2016-47a-66.pdf>

ministries). Some also recommended to streamline processes so that it is shorter and does not require the involvement of too many people/entities in the recipient countries. It should also be noted that the size and type of assistance required is rarely available and that funding courses often must come from multiple sources with different access criteria and reporting requirements.

Project development and approval process: After agreeing to funding, development partners need to prepare for their core task as implementing entities, namely the development and implementation of projects. This stage is a decisive phase for the later success of project development and implementation. To be successful, project proponents must show how the activities contribute to risk reduction and resilience, how vulnerable people benefit from the intervention, how they will minimise negative side-effects, and how to capture learning, etc. Major challenges lurk in the process, and feedback from development partners indicate that these are often underestimated by countries. This phase is, therefore, an important opportunity for countries to learn from other forerunners to successfully cope with these challenges. Some countries in reviewing the material on experience in other regions, noted that the main challenge of the funding process was the time lapse. Some countries also expressed their frustration with the fact that undergoing a thorough and time-consuming process did not result in the immediate access to funds by the development partners. More time, effort and resources had to be channelled into preparing project proposals that had to be approved by the partners before project financing would be disbursed.

Implementation of approved projects: After projects have been approved, new challenges await the SIDS. Many SIDS have pursued paths of seeking accreditation from the Adaptation Fund and GCF to enable direct access to funds for Adaptation. Regarding GCF SIDS Accredited Entities, so far only 2 SIDS (Fiji and Antigua and Barbuda) have reached successful approval of a project. The challenges in the implementation phase therefore mainly refer to other countries, in a review of the literature they have reported that they struggled with delays in project implementation, difficulties in coordinating and managing the range of information and people as well as the compliance with the Environmental and Social Standards. Other material examined for this work (Schafer et al 2014) indicated that successful countries highlighted the value of regular meetings, technical committees and executing entities and the establishment of standing steering committee for projects early on as enabling factors. Furthermore, they recommended building on existing structures and using existing capacities effectively and leveraging existing governance and compliance practices to facilitate development partner project implementation and reporting. In general, partners took the view that the project implementation phase will be a learning process (Schafer et al 2014). This is important as for many prospective SIDS, it will be the first time they will have been responsible for projects – therefore, each project will have lessons for others. It is probably important considering that any rushed project design phase (due to lack of funds or other reasons) will later provoke delays in project implementation later. Similarly, it is important to have realistic expectations at the national level on the time and effort required to progress projects.

Consultation is necessary to understand potential obstacles and risks, define problems and identify their causes, get an overview of existing measures, maximise synergies, avoid duplications and ensure coordination. Consultation may show appropriate strategies and actions to address needs and achieve desired outcomes. Additionally, consultation helps save time, raise awareness, increase the participatory involvement of members of society and the

project, to share experiences and knowledge, reduce costs, and improve project performance and impact.

A UNDP 2018 report recommends that early engagement of stakeholders in the funding process is also beneficial, particularly in the long term. For the DRR project processes, early discussions with the NDMO will facilitate the process of the linkage between national policies and support in the form of written country support can be provided. Early conversations with a variety of stakeholders may facilitate project/programme implementation and provide insight on the level of accreditation the entity should seek. Challenges included the expectation management, asking the right questions and the lack of comprehensive guidance from the development partner regarding consultations.

When asked for enabling factors, respondents reported that it is important to ‘adjust the consultation process according to local conditions regarding both selection of stakeholders and modalities of consultation’ and to obtain permission for working at the community level from key authorities. As benefits of the consultation processes, SIDS highlight the value of awareness raising process for projects at local level, the focus on most vulnerable, the inclusion of local knowledge and expertise and the establishment of a relationship crucial for the later implementation process. Views expressed in the consultation further described meaningful consultation as an opportunity to foresee and/or resolve potential obstacles, constraints and conflicts and distribute benefits equitably.

Costs of participating in the process: Time and resources is a critical element to the commitment of progressing accreditation. For example, UNDP 2018 identified that capacity needed to undertake the access to funds processes should not be underestimated. Capacity needs are in terms of 1) Number of staff working on proposal development and 2) Institutional capacity of the entity to provide the necessary concept notes and to pass the accreditation process. As each round of feedback is time consuming and the timing of the feedback is not known, it is useful to have more than one person working on the accreditation process as well as on stand-by to quickly answer questions and act as feedback is provided. This makes for a major challenge for many SIDS who face specific capacity limits. Applicants may also need to be prepared to update existing policies/procedures or create new ones. This may require significant time and costs. Feedback from discussions with countries has indicated that the timing and effort required for new processes and standards is often underestimated.

The literature identifies that the process has been lengthy and time consuming for all participants. According to Schafer et al (2014), SIDS have perceived time and money as major challenge in the stakeholder consultation process. The formulation of projects including a wide stakeholder consultation process is expensive and takes time. Respondents described a tension between limited funding and participatory and integrated project design. A specific experience of Fiji is explored in the Case Study section of the report.

Finally, the results in access by countries in accessing finance is not reflected in the resourcing and efforts made to make this happen. This reflects the notion that SIDS need further support in developing concepts, undertaking pre-feasibility and being able to mobilise multiple partners and funding sources for long-term large projects.

4.2 Insights from Development Partners

Reviewing the written material, reflecting on webinars and discussions with various development partners, there has been universal agreement that there is a desire to improve and increase the amount of finance being sought by SIDS for disaster risk reduction. Some of the main issues they have identified for countries has been picking the appropriate level of finance, speed of distribution, type of financial instruments, understanding the environmental and social safeguards and project management processes. In general, the following points are drawn from advice that indicates the:

- Process starts with the country programme/policy/framework being best aligned with their project pipeline and country priorities. There are a range of documents such as National Disaster Risk Management policies. It was noted that many countries are developing integrated policies and are being promoted under the banner of building and driving a resilience agenda.
- All the multilateral organisations claim that their processes are being streamlined and continue to be improved. However, specific experience from country feedback indicates that the process of access and choosing the right product takes time.
- Processes for many bodies, such as the GCF and AF, have been reviewed and reassessed. While there is acknowledgement that there are many lessons from the reviews it is difficult to ascertain if this will lead a streamlining of the processes that would reduce time and costs associated with access by SIDS.
- Many partners have developed specific COVID related responses being developed to allow faster access to readiness funds, and this continues to be refined. However, the length of time that these funds may be available and the uses of them (outside of health) may lower the long effective use of those funds. Flexibility in the use of funds is a common call from many SIDS.
- Speed, funds must be pre-positioned or areas at risk are identified to ensure that the response process is faster.
- There is a great benefit from having a peer support process in conjunction with written guidance on access to funds and application processes and technical support. While every specific event is different there are common issues with all SIDS in the issues of access, disbursement, and reporting experiences.

4.3 Matrix of Other Global Programs and lessons from their operation.

There are a variety of different sources of funds and the eligibility and terms of these funds are, however, complex and evolving. Different funding instruments and windows present a complex web of eligibilities, with SIDS capacity constraints presenting challenges to access windows and to design and implement coherent financing approaches. These are explored in a table in Attachments 3 and 4. As an example, the support from the World Bank and IMF³⁵ are explained in the following bullet points:

³⁵ Regional banks such as the ADB, AfDB, IADB and CDB also have a range of facilities available. These are examined in Attachment 3.

- WBG members' eligibility to access IDA resources is determined using income thresholds and a combination of poverty measures and assessments of creditworthiness and risk of debt distress. Of the 35 ODA-eligible SIDS considered, 21 are IDA-eligible, of which 14 receive financing under the IDA's small island economy exception. This exception – given to small islands (with populations of less than 1.5 million) facing significant vulnerabilities due to size and geography, and with limited creditworthiness and financing options – allows beneficiary SIDS to access IDA resources even though some have exceeded the per capita IDA operational cut-off more than five-fold.
- IMF access to concessional terms is determined by the WB income threshold, as well as the (in)ability to access international financial markets on a durable and substantial basis. The IMF applies both a small state and a microstates exception to accessing Poverty Reduction and Growth Trust (PRGT) windows, along with a five-year graduation process and additional exceptions based on serious short-term vulnerabilities and/or countries' inability to access financial markets. In contrast, only the small states exception is applied to the IMF's new Catastrophe Containment and Relief Trust,³⁶ and those countries already on the path to graduation from PRGT are ineligible.
- When reflecting on the funds and fund available, there is a bias against disaster risk financing for risk reduction and a preference for disaster financing post an event limits the ability to channel planning, financing and projects that seek to manage the risk rather than deal with the consequences of poor planning, management and take chances with the national and global response. Funding appears to favour some countries more than others.

For example, the total ODA received by Asia and the Pacific, in real terms, has remained roughly stable at an average of US\$12 billion. However, the share of funding channelled to the top 10 (out of 41) ODA recipient countries in Asia and the Pacific was around 77 percent. Kellet and Sparks (2012) further reported that the total amount of international aid for DRR was also heavily skewed towards a few countries. ODI and GFDRR (2013) also found high concentration of financing in relatively few middle-income countries and in a small number of projects, while many high-risk countries sharing little funding spread across many projects. This is important for SIDS that are facing higher exposure and vulnerability to disaster risks.

Moreover, international aid has provided financial resources for DRR, but DRR has been given an incredibly low priority as also shown in section 2.4. While dated these figures tell an important story. From 2004 to 2013, the global total annual ODA was between approximately US\$ 100 billion and US\$ 158 billion (in current US dollars), while the total global humanitarian aid rose from US\$ 5.4 billion and US\$ 10.3 billion. On average, 86 percent of the global total

³⁶ The Catastrophe Containment and Relief Trust (CCRT) allows the IMF to provide grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters. The relief on debt service payments frees up additional resources to meet exceptional balance of payments needs created by the disaster and for containment and recovery. Established in February 2015 during the Ebola outbreak and modified in March 2020 in response to the COVID-19 pandemic, CCRT grants complement donor financing and IMF concessional lending through the Poverty Reduction and Growth Trust (PRGT). Eligibility is limited to those eligible to the concessional borrowing through the Poverty Reduction and Growth Trust (PRGT) and whose per capita income is below the International Development Association's (IDA) operational cut-off (currently US\$1,185) or, for small states with a population of less than 1.5 million, per capita income below twice the IDA cut-off (currently US\$2,370).

humanitarian aid was allocated for emergency response, while the share of DRR (disaster prevention and preparedness) have increased but remained under 8 percent. In real terms, the total amount for DRR increased from US\$7.7 million to US\$630 million (in current US dollars). ODI and GFDRR (2013) also reported that the share of disaster risk reduction was only 12.7 percent (or US\$ 13.5 billion) in the international funding for natural disasters of US\$106.7 billion between 1991 and 2010. This was substantially lower than the share of emergency response (65.5 percent) and reconstruction and rehabilitation (21.8 percent). For SIDS this reflects a fact that they must wait until the disaster has occurred in most cases rather than receiving funds to reduce the exposure and vulnerability of communities and infrastructure.

Table 8 reviews these funds and their eligibility criteria. The issues of eligibility are explored in Attachments 3 and 4.

Table 8: Examples of SIDS Multilateral Funding Sources

Fund	Eligibility	Exceptions	Comments
International Development Association (IDA/WBG)	<ul style="list-style-type: none"> • SIDS members of the WBG small states forum with income level below IDA cut off level (US\$1,165/2017). • Currently 7 are eligible. 	<ul style="list-style-type: none"> • 14 “Small Island Economies through Small States” exception with a population below 1.5 million and a per capita income below twice the IDA cut-off (currently US\$2,330) • 21 SIDS eligible. 	<ul style="list-style-type: none"> • Doubling of credits for fragile states • Scaled up Crisis Response Window (CRW) and new Immediate Response Mechanism (IRM) that provides rapid access up to 5 percent of their undisbursed IDA investment project balances following a crisis • Cooperation with IFC and MIGA to scale climate related private investment in IDA countries
Rapid Credit Facility (RCF/IMF)	<ul style="list-style-type: none"> • 21 low-income IMF member states (eligible for Poverty Reduction and Growth Trust). 	<ul style="list-style-type: none"> • Extended annual access limit of 60 percent of quota¹⁰ where natural disaster that causes damage of at least 20 percent of the member’s GDP. 	<ul style="list-style-type: none"> • Eligible SIDS like IDA.

Source: UN-OHRLLS 2020 and amended by Author.

4.4 Accessing Finance

Currently, SIDS face a complex web of eligibility requirements that must be met to access different sources of concessional financing for resilience. With eligibility to several multilateral and bilateral funding sources relying critically on per capita classification, SIDS have expressed the need for a coordinated effort by development partners to review the rules governing access to concessional finance.

Why is it so hard for SIDS to access disaster risk finance? Is a gap in plans and the finance necessary? There are many factors affecting the ability of countries to access finance. In the technical review advice to the Parties for the sixth review the Financial Mechanism (UNFCCC 2017) the review noted that in terms of accessibility to climate finance (the advice is relevant to DRF), some major gaps highlighted in a number of studies included: the lack of country capacity to devise a national strategy for utilizing available resources and for attracting climate-friendly investments; legal issues within entities; financial management and integrity; institutional capacity at the design, appraisal and implementation phases; and risk assessment capacity. These are common issues that were also identified in the interviews conducted for this report in the previous section.

To overcome these gaps at the international level, scaling up and coordinating financial resources to support initiatives is a need. The 2017 Review went onto note that at the national level, better coordination among the national focal points across different ministries was underscored as being necessary. The increasing complexity of the global development finance architecture, while in principle creating more choice for countries, could create complications as countries often find it difficult to understand the requirements of the different funds and the differences between them. These also reflected some of the common views that were discussed in the assessment of interviews and feedback from countries and other stakeholders.

4.4.1 SIDS taking Control – Risk Reduction

The paper has focused on funding modalities, instruments, criteria, and the amounts of funding available. There is also the opportunity for SIDS to lead using their own policy approach to reduce their exposure to risk. Risk awareness raising and capacity building can be the most cost-effective measure for reducing vulnerability and exposure to risks. In this way, SIDS could consider policies that incentivise risk reduction, such as policies, frameworks, laws, and standards that make elements of risk reduction compulsory, such as building standards. Some of the specific ways are outlines in the following points:

- i. Planning and mainstreaming disaster risk reduction in development and climate finance. Policies can create an enabling environment to allow businesses, households, and financial institutions the guidance to act. Similarly, the policy development process enables the engagement of relevant stakeholders at all levels and should be a pre-requisite of comprehensive risk reduction and management.
- ii. Access to information. Many countries have limited data and information that can help in shaping decisions and investments. Similarly, improved information, analysis and understanding of risks can inform insurance and other forms of risk transfer and risk sharing mechanisms, as well as help in the development of contingency funds or contingent credit lines.
- iii. Capacity building and supplementation. Investing to build national capacities and expertise are important for SIDS. Small population size and high geographic dispersion of SIDS constitute structural constraints that largely challenge specialisation and overall availability of institutional capacities in SIDS. The sustainability and ownership of resilience national programs will depend on longer-term investments in national capacities. Innovative approaches and the use of new technologies could help tailor more sustainable capacity-building approaches to the specific context of SIDS.

- iv. Building partnerships. Facilitating an international dialogue on the eligibility criteria for accessing concessional finance with the aim of ensuring that SIDS can access the finance they need at terms and conditions most suited to their specific circumstances.
- v. Linking sustainability to finance. Using new financing instruments that can help SIDS at risk of debt distress improve their debt situation and avoid using financing mechanisms that can undermine debt sustainability. In recent years, several instruments to deal with the debt situation of SIDS have emerged that can be further scaled up and replicated.
- vi. Preparing project pipelines that are risk-informed and “investor and lender-ready”. engaging relevant stakeholders at all levels is a pre-requisite of comprehensive risk reduction and management.
- vii. Enacting and enforcing national legislation to ensure all public and private investments in all sectors and asset classes are based on a comprehensive, multi-hazard risk assessment.
- viii. Promote blended financing and introduce prevention in bonds. Introduce prevention as a key criterion in climate-resilience bonds, green bonds, social and sustainability linked bonds that would help in leveraging finance for prevention, adaptation and mitigation actions.

5. Conclusions and Recommendations

No one size fits all and when you consider the diversity of SIDS there are many different types of finance necessary for different purposes. Similarly, the complicated nature of the funds and the different criteria to meet and the specific resources required to access mean that most SIDS with limited capacity are unlikely to access all the funds that they may be eligible to access. Taking on the experience with climate funds as a key insight of efforts within the UNFCCC there has been a focus on seeking ways to continue to improve the simplicity of the application processes and to increase the speed of disbursements. This appears to be a useful lesson that SIDS can continue in their discussions on improved access for disaster risk finance.

The nature of the small economies and geography mean that damages can be far greater than the productive capacity of the country to respond. The losses as a percentage of GDP are much higher in SIDS compared with the global average (UN-OHRLLS 2017).

Despite the increased risk of disaster for SIDS there is unequal access to disaster risk financing. There are more instruments and more modalities to consider including rapid credit facilities and deferred drawn-down loans are now more widely available. However, not all SIDS have access to these instruments on concessional terms. Income classification has excluded upper middle-income SIDS from concessional finance for disaster financing instruments such as CAT DDO and rapid finance provided by MDBs and the IMF. While some SIDS are eligible for disaster risk finance and ODA, they do not have access to concessional post-shock instruments through these channels.

What we have seen from COVID-19 is a restatement of the exposure that SIDS have to disasters. Due to their small economic base, the disproportionately high debt-servicing burdens of many SIDS economies and their high dependency on specific sectors, such as tourism and remittances from other economies have been greatly affected by reduced travel. SIDS have been particularly exposed to the effects of the coronavirus disease (COVID-19) as it is

worsening the underlying social, economic, and environmental risk drivers, eroding coping capacities, and increasing exposure and vulnerability to all types of shocks and hazards.

5.1 Recommendations

The following changes in approach could help to tangibly advance SIDS access to disaster risk finance.

1. A new SIDS mechanism to distribute funds is not needed at this stage

There are already multiple mechanisms operating to support SIDS in risk reduction and dealing with the immediate impacts of a disaster. There is however an underinvestment in development financing for reducing exposure and the vulnerability of infrastructure and communities and building of resilience ahead of disaster events, relative to ex-post financing. There is a misalignment in the amounts of funds being given with most provided to deal with the effects of a disaster event rather than in reducing exposure and the vulnerability of infrastructure and communities. Plus, post-disaster financing beyond response needs to be support activities over longer timeframes, and more through risk-informed recovery and involved in the reconstruction and strengthening of resilience. Alternative financial support might include a freeze or waiving of debt to heavily indebted countries to enable them to finance local rebuilding efforts and financial support to business and communities.

Action: A refocus of existing funds towards reducing exposure to risk and reducing vulnerability of infrastructure and communities, improvement of post-disaster finance through longer dating and to focus on reconstruction, and inclusion of debt freezes and waivers for heavily indebted countries into the disaster response toolkit.

2. Development partners and Development Finance Institutions need to look for ways to maximize financing for SIDS' disaster risk reduction and resilience plans

Funding and support should reflect vulnerability and the effects of disaster and not likelihood of recovery. For example, per capita income is a weak metric for a country's ability to cover the costs recovery and building resilience. Resource allocations of multilateral agencies should reflect exposure to hazards and the costs of reducing risk and building resilience — independent of country size or per capita GDP or strategic importance. If governments can provide a robust and compelling risk-informed investment plan, then borrowing rules should be flexible and not focused on the immediate returns.

Action: Creation, by Development partners and finance institutions, of programmes and financing envelopes to support SIDS's risk reduction and resilience plans and to tackle SIDS' vulnerabilities.

3. SIDS governments need to think strategically in defining their risk reduction and resilience agendas

This means establishing a baseline, metrics, and targets for each sector; defining a roadmap; and prioritizing investments. Critically, the investment plans must be able to stand the test of political cycles, resilience is a marathon not a sprint. Governments will need to show a genuine desire to undertake necessary reforms — enhancing public sector fiscal management systems, adjusting national budget allocation processes to prioritize investments that reduce risk and build resilience, using public funds to crowd in private finance, and strengthening the role of

dedicated delivery entities to execute capital projects. This would give them a better chance of negotiating additional financing from donors and development financiers.

Action: Development of realistic long term risk reduction and resilience building strategies by SIDS supported by associated financing strategies.

4. Donors need to reallocate funding to risk reduction and resilience

Funding is unbalanced with most being delivered by partners after a disaster event and not prior using national systems. Once a country has been hit by disaster, funds flow — or at least are committed — quickly; but investing in resilience upfront saves money and reduces the need for humanitarian assistance and costly recovery and reconstruction over the long-term. This must be better factored into donor allocations at national and regional levels. Similarly, the rules guiding the allocation of international climate finance would benefit from being revised so that they serve the interests and agendas of the most vulnerable countries, which are predominately SIDS and LDCs.

Action: Creation of risk reduction and resilience building initiatives within development cooperation programmes by donor in support of vulnerable countries.

5. Coordination is key to maximizing investment in resilience and helping SIDS to achieve their goals

Action on the ground needs to be better coordinated and led by national plans. Coordination can benefit SIDS and partners through reduced administrative costs and burden on countries to work across a variety of partners and reporting modalities. It must be country led and work within national plans and priorities to enable a recovery that supports national development priorities. There are some encouraging signs of better coordination between development partners — such as the creation of joint World Bank/International Monetary Fund climate change policy assessments and disaster reduction strategies. Use of common assessment mechanisms, such as PNDA for assessing damage and loss are helpful instruments for identifying support but this needs to become the norm, or critical synergies between projects will be missed and redundancies created. Lessons learnt from the response and working together need to build on and enshrined in future local actions.

Action: Creation of coordination mechanisms by financing institutions to reduce the complexity of the funding environment and administrative burden on SIDS and to improve support to SIDS national and local disaster risk reduction strategies and resilience plans.

6. Improved Assessment Mechanisms to Access Finance

Acknowledging the multi-faceted nature of vulnerability along with increasing adverse climate-related impacts on SIDS, it may be timely to explore if and how vulnerability to climate change could be included in concessional finance eligibility criteria and allocations. This effort will require multi-partner research and consideration of all aspects of vulnerability – socio-economic and biophysical.

Action: Inclusion of vulnerability as a metric for access to concessional financing to address the multidimensional aspects of vulnerability.

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Attachment 1: Terms of Reference

Noting the UNGA Resolution 74/217 paragraph 10³⁷, the response has been the development of a Terms of Reference for the *Review and Examination of the Disaster Related Funding and Support Environment for Small Islands Developing States* which seeks to provide an integrated assessment and analysis of financing challenges and possible solutions for SIDS that would address, to the extent possible, the following objectives:

- i. Undertake an assessment in the form of a scoping study, of the disaster related funding and support environment for SIDS. This study should clarify the nature, scope and accessibility of all funding, financing instruments and support (concessional, non-concessional, grants, bilateral, multilateral, domestic resource mobilization, domestic private sector, foreign direct investment debt swaps/relief, insurance schemes etc.) available for SIDS, from distinct sources (development, climate, humanitarian etc.) for the purposes of reducing and managing disaster risk and responding to and building back better after disasters, including past funding disbursements and trends. This study should also review the overall policy coherence, complementarity, and effectiveness³⁸ of international frameworks for funding disaster response, risk reduction and preparing to building back better in recovery, rehabilitation, and reconstruction. The assessment should provide analysis of the incidences of disasters for SIDS and track the ex-ante and ex-post disaster finance flows including the presentation of case study examples.
- ii. Provide an analysis of the overall effectiveness of the current support framework, which should include an analysis of uptake of available mechanisms, the challenges faced by SIDS in accessing funds, the extent to which SIDS are supported in terms of tools and capacity to integrate disaster risk reduction into sectoral budgets and public and private sector investment decisions, and the overall ability of the existing framework to meet the disaster finance needs of SIDS. The analysis should also identify any gaps in the support environment for SIDS and make recommendations for potential improvements of the existing support architecture for SIDS, including the potential development of a targeted voluntary disaster fund, mechanism, or financial instrument. The analysis should also explore the best practices in the field of disaster-related funding (for example the Central Emergency Response Fund, Country-Based Pooled Funds, and funding appeals in support of humanitarian responses to disasters); regional catastrophe risk pooling/insurance facilities), including with a view to informing the recommendations for potential improvements in the overall disaster funding support to SIDS.

³⁷ A link to the decision is here: <https://undocs.org/en/A/RES/74/217> .

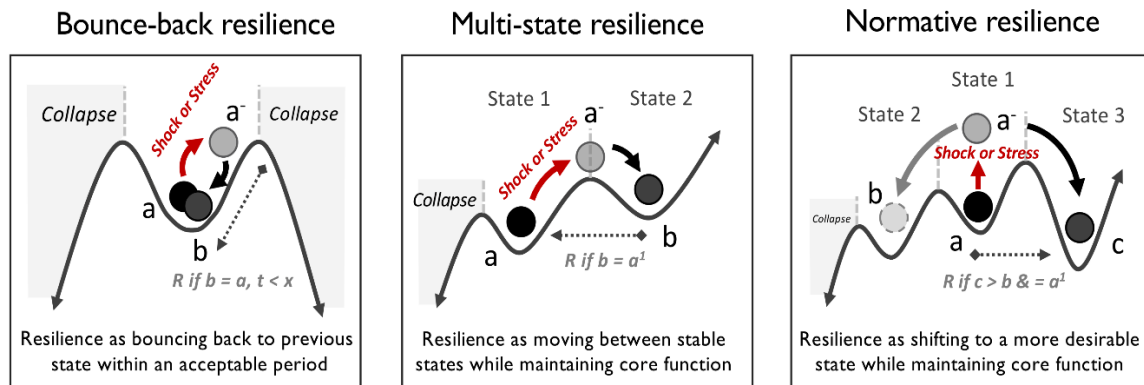
³⁸ Sjöstedt and Povitkina (2015) find that higher government effectiveness tends to result in fewer people affected by natural disasters (including homelessness and deaths), and fewer events classified as natural disasters.

Attachment 2 – Understanding Resilience

Resilience is a popular topic when considering the ability of SIDS to cope with the effects of disasters and disaster risk. Increasingly, partners seek to design projects and run programmes that are going to deliver outcomes that are ‘resilient’. It is an increasingly common term used in a whole range of proposed policy outcomes and project objectives. However, it is a difficult concept that needs to balance the ability of systems to recover but also not stop their ability to transform. Since at times systems may need to not just recover but change to ensure they are able to continue changing to meet different circumstances.

Regarding disaster risk reduction and climate change adaptation, resilience primarily refers to the ability of a human system to respond and recover from shocks or stress. It includes those inherent conditions that allow the system to absorb impacts and cope with the event, as well as post event adaptive processes that facilitate the ability of the system to reorganize, change and learn in response to the event. Note the different aspects of resilience explored in Figure 4.

Figure 4: The Different States of Resilience



Source: Unpublished paper 2019.

The value of resilience is that it can be useful as a unifying concept for adaptation, sustainable development, and disaster risk reduction. By putting resilience at the core of planning, as opposed to one of adaptation, sustainable development or disaster risk reduction, various actors can pursue solutions that contribute to all three global agendas. Sectoral approaches to planning, centred on resilience, provide an opportunity to foster better policy integration. Hence, the extensive literature that has arisen in the last several years on building and maintaining resilient infrastructure.

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Attachment 3: Assessment of the inclusion of DRR in disaster-related Funds

Fund	DRR Specific	SIDS Criteria	Financial Instruments	Notes
<i>Multilateral</i>				
Adaptation Fund	No	No – developing countries member of the Kyoto Protocol	Grants	UNFCCC fund. Antigua and Barbuda, Dominican Republic, Federated States of Micronesia, Tuvalu, Cook Islands. Jamaica and Belize have institutions accredited.
Least Developed Countries Fund	No	No – LDCs that has ratified the UNFCCC	Grants	UNFCCC fund
Special Climate Change Fund	No	No – Non-Annex 1 countries	Grants	UNFCCC fund. Work with GEF partner agencies. Projects can be executed by government, private sector, or civil society.
Global Facility for Disaster Reduction and Recovery	Yes – supports implementation of Sendai Framework	No – several priority core countries are SIDS.	Grants	Focus on creating enabling environments and building capacity. Managed by the World Bank.
Green Climate Fund	No	Yes – specific allocation to SIDS, LDCs and Africa.	Grants, Concessional loans, Equity, Guarantees.	UNFCCC fund. Private sector can access these funds.
Global Environment Facility	No	No – only for country that has ratified the UNFCCC	Grants, Concessional loans, Equity, Guarantees	UNFCCC fund administered by World Bank. Co-financing is usually required.
Climate Investment Funds	No	No – country needs to be ODA eligible	Grants, Contingent grants, Concessional loans, Market-rate	World Bank

FINAL DRAFT – NOT UN POLICY

Fund	DRR Specific	SIDS Criteria	Financial Instruments	Notes
Asian Development Fund	No	No – ADB member countries (Pacific and Asian SIDSS)	Grants	Asian Development Bank.
Asia Pacific Disaster Response Fund	Yes	No – all ADB members eligible	Grants	ADB has a concession loan available.
Integrated Disaster Risk Management Fund	Yes	No		ADB
International Finance Corporation	No	No – different funding sources with different criteria focus on private sector and local governments	Blended concession Finance for Climate	Enabling environment and building capacity.
Urban Climate Change Resilience Trust Fund	No	No		ADB
African Climate Change Fund	No	No	Grants	African Development Bank
Global Risk Financing Facility	Yes	No – to benefit countries with adequate capacity and government systems in place; or humanitarian and development partners where appropriate to the context.	Contingent grants, Market-rate loans, Insurance	Support provided by the Governments of Germany and the UK, with support from the World Bank
Bilateral Funds				
Global Climate Change Alliance	No	Yes – ODA recipient country	Grants	European Union
InsurResilience	Yes	No – ODA countries.	Equity, Insurance	KfW and BMZ.

FINAL DRAFT – NOT UN POLICY

Fund	DRR Specific	SIDS Criteria	Financial Instruments	Notes
Nordic Development Fund Nordin Climate Facility	No	No – Cape Verde and Maldives are listed but need to satisfy IDA criteria.	Grants, Concessional loans, Equity	Supported by Denmark, Finland, Iceland, Norway, and Sweden. Funding is provided on a co-financing basis.
Multi-donor Funds				
CERF – Central Emergency Relief Fund	Yes	No		Administered by UNOCHA
Multi-donor Disaster Prevention Fund	Yes	No		Support to IDB members. Supported by Canada, Japan, Korea, and Spain
African Risk Capacity	Yes	No – members of the African Union	Insurance	Provides capacity building, access to early warning technology, contingency planning, risk pooling and transfer facilities.
Caribbean Catastrophe Risk Insurance Facility	Yes	Yes – 19 Caribbean governments are members.	Insurance, technical assistance, and grants	Parametric insurance and technical assistance and grants for DRM activities.

Attachment 4: Qualification of SIDS for different funding Modalities

Type of SIDS	ODA	IDA	IMF RCF	CAT DDO	Regional Development Bank	African Development Fund	Cat Insurance	National Trust Funds	Bonds ²	Multi-donor Trust Funds
SIDS – high income	No	No	No	No	No	No	Yes	Yes	Yes	Yes
SIDS – middle income	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes
SIDS – low income	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIDS LDC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
SIDS Non-UN member state	No	No	No	No	Yes	No	Yes	Yes	Yes	Yes
SIDS regional ¹	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

1. Must satisfy criteria. 2. Favour countries with a well-developed financial system and moderate levels of debt.

Attachment 5 – Innovative Financing Examples

This section draws on a range of studies that reflect on specific insights and experiences from SIDS, development partners, and experienced researchers in the field.

Case 1: Lessons from Adaptation finance

A SEI 2019 study found while multilateral donors are found to allocate more adaptation finance to small island developing states, they are not observed to prioritise vulnerable nations in the selection stage. Overall, the allocation of adaptation finance is not found to be consistently aligned with the sentiment of the Paris Agreement, which stipulates efforts should be made to provide financial resources to assist developing countries, with priority given to countries that are particularly vulnerable to the adverse effects of climate change.

Overall, the allocation decisions of bilateral donors are more responsive to recipients' climate change vulnerability than those of multilateral donors. However, principal-classified multilateral adaptation finance — one of the smallest categories of adaptation finance — is the only classification where donors are shown to prioritise the most vulnerable to climate change. Within this category, small island developing states receive larger shares, all else held constant, as found by Robinson and Dornan (2015); however, they are not statistically more likely to be chosen as finance recipients. The most vulnerable members of the Alliance of Small Island States (AOSIS) also do not receive the largest shares of multilateral adaptation finance in general, relative to other AOSIS members. These results indicate that while certain classifications of multilateral adaptation finance fill some of the funding gap left by bilateral donors, overall, there is only limited evidence to suggest that multilateral donors prioritise the country's most vulnerable to climate change. This is contrary to expectations.

Why are the observed trends occurring? It appears that the most vulnerable states often lack sophisticated capital markets, possess lower levels of private sector activity, have difficulty demonstrating fund management experience, and have a limited ability to develop bankable projects (Barrett 2014; Robinson and Dornan 2015). These are all probable contributors to the observed allocation patterns. The complex application and accreditation processes associated with securing certain multilateral funding likely also plays a role (Afful-Koomson 2015).

Case 2: Resilience Building Facility

Lessons on comprehensiveness in designing facilities can be drawn from the Caribbean Resilience Building Facility, which is a partnership between the European Union, GFDRR and the World Bank. The objective of the Facility is to enhance the long-term disaster resilience and adaptation capacity for the most vulnerable in the Caribbean region. This will be achieved through a comprehensive evidence-based effort, using various advisory and financial services and analytics available, to strengthen the capacity for disaster risk reduction and financial resilience at regional and national levels, as well as through co-financing of investments in resilience.

Activities of the Facility cover the following beneficiary countries: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago. The program has three operational components:

1. Regional Technical Assistance Facility to Mainstream Resilience. Activities within this component focus on providing institutional, policy, or regulatory advice to beneficiary countries on a demand-driven basis to strengthen the administrative and technical capacities for advancing recovery and resilience in key development sectors.
2. Adaptation Facility for Leveraging Investments in Resilience in the Caribbean. Activities within this component focus on generating evidence-based information to support beneficiary countries as they make critical decisions on where to invest resources to become resilient and adapt to climate change. This technical advice helps countries develop sector-specific probabilistic risk assessments to prioritize public investment plans in critical areas, which include safe schools, shelters, public buildings, transport infrastructure, urban resilience, ecosystem-based adaptation, coastal zone management, flood mitigation measures, retrofitting of key infrastructure and integrated watershed management. Under this component, grants will be made available to either directly co-finance resilience investments or to finance ancillary technical assistance or financial services related to these investments.
3. Expanding Financial Protection Against Disasters in the Caribbean Sovereign Countries. Activities within this component support beneficiary countries in expanding their coverage under the Caribbean Risk Insurance Facility – Segregated Portfolio Company (CCRIF-SPC) and related insurance and risk-reduction mechanisms. Specific activities build on CCRIF SPC’s current expansion plan, which includes increasing the portfolio size by improving the coverage limits of existing members, offering new products, and expanding membership. This component also aims to enhance countries’ understanding of financial protection products that target vulnerable populations and reduce the hazard risk to low-income housing.

Source: Caribbean Regional Resilience Building Facility 2021.

Case 3: Innovative Financing

The Government of Seychelles Blue Bond has replaced \$US\$21 million in debt through an innovative Bond issue. The proceeds are being used to finance the transition to the sustainable management of small-scale artisanal fishery and the protection of marine areas. This includes measures aimed at rebuilding fish stocks, harvest control measures, restructuring of fishing capacity, post-harvest and value adding activities as well as scientific and sector support services.

As Seychelles income has grown it has become less eligible for concessional funding it has turned to innovative finance instruments to attract investors in support of its sustainable development agenda. Working with the conservation group The Nature Conservancy the deal has allowed the Seychelles’ government to buy back some of its debt at a discount and restructure it, while freeing up cash flow for conservation.

The proceeds from the Blue Bond Issuance, like the Seychelles Debt swap for Conservation and Climate Adaptation, are administered through the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT). This is a local independent trust established under Seychelles legislation, bringing financial efficiency, transparency, and accountability and at the same time building synergies between fisheries management, marine conservation, and climate resilience.

The US\$2 million saved in interest payments each year is redirected and part of the proceeds were used as loans through the Development Bank of Seychelles for prescribed activities aimed at encouraging value adding and diversification of key sectors, while staying in line with conservation and fisheries management plans milestones.

Debt-for-nature swaps have taken place in the past to preserve tropical forests in other SIDS, such as Jamaica. They could be used by SIDS as an instrument of reducing debt and supporting their environment.

Case 4: Learning from Previous Disasters

Cyclone Winston hit Fiji in February 2016 as a category five storm—making it the strongest cyclone on record. It resulted in major destruction, especially on the island of Viti Levu, leaving over 44 dead and causing around US\$1.4 billion in damages. Over 34,000 people were left without homes and infrastructure was severely damaged. Just six weeks after Winston wreaked havoc, Hurricane Zena struck Fiji in April with speeds reaching up to 105 mph, forcing the evacuation of 3,500 people and effectively halting aid distribution.

An inter-agency Flash Appeal coordinated and led launched by UNOCHA raised US\$21.8 million or 56 percent of the estimated response need of US\$38.6 million. As part of the coordinated response a Climate Vulnerability Assessment was undertaken. This identified the natural risks that threatened the development objectives of the Fijian national plan. By assessing ‘well-being losses’ it found that the fraction of GDP lost every year to tropical cyclones and floods could increase by 50 percent reaching 6.5 percent of GDP by 2050. The assessment notes that previous investments in financial inclusion had enabled the government of Fiji to use cash transfers to “swiftly and efficiently” disburse resources using the social welfare system to target relief. The use and adaptation of national systems for disaster risk reduction helped overcome administrative capacity constraints and empower the community and households to act for resilience and support local business recovery. In addition, the assessment found that scaled up support for low-income households had a benefit-cost ratio larger than 5 and that improving the social registry coverage to more households would generate even greater benefits. This was particularly beneficial for women, youth, elderly and the disabled. The assessment highlighted a balanced portfolio of actions natural disaster management and resilience that would further reduce vulnerability and future costs by an estimated F\$9.3 billion (nearly 100 percent of GDP) over ten years plus additional maintenance and operation costs and social expenditure. The benefits from these investments go beyond reducing climate and disaster risks, bringing Fiji closer to achieving development goals such as poverty reduction and improving access to infrastructure services. The main areas identified are:

1. Capturing the window of opportunity to design economically viable, inclusive, and resilient cities focused on greenfield sites.
2. Improving infrastructure services to achieve universal access while boosting resilience.
3. Supporting the development of agriculture and fisheries projects that are beneficial for the environment and economy simultaneously.
4. Conserving ecosystems and the local environment to protect valuable development assets.

5. Building socio-economic resilience by taking care of the poor and encouraging inclusive economic growth by improving the quality and scope of social protections.

Finally, while the government of Fiji had made significant investments for resilience, it did not have sufficient reserve funds, contingent credit or catastrophe insurance that combined, could save Fiji F\$2.2 million per year when compared to the budget reallocation and ex post borrowing deployed (USD100 million ADB/ IBRD non-concessional terms) in response to TC Winston. In addition to urgent action to reduce global emissions, the report calls for financial instruments to support investment in resilience and adaptation, as well as manage volatility in public spending. (Source: Government of Fiji et al, 2017 and UN-OHRLLS 2020)

Case 5: Insurance.

Donor countries have supported investment in insurance initiatives as a potential alternative to the broader considerations of loss and damage. InsuResilience is a G7 initiative launched at the Elmau summit in 2015. The G7 set a goal to *'increase by up to 400 million the number of people in the most vulnerable developing countries who have access to direct or indirect insurance coverage against the negative impact of climate change related hazards by 2020'* **Leader's declaration, G7 Summit, 7-8 June 2015**

Following increased international appetite to invest in innovative insurance models and following disaster events within several regions, there has been increased interest amongst countries to take advantage of insurance as a tool for resilience building. There are two operating schemes for SIDS, the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Pacific Catastrophe Risk Insurance Company (PCRIC). These pooled arrangements are attractive as they can lead to reductions in the cost of insurance by a country acting alone. According to World Bank's (2014) estimations, the placement of the disaster insurance policies of PICs through a pooled portfolio resulted in 50 percent cost reduction, compared to the prices that would have been obtained if the PICs had gone to reinsurance market individually.

In the Pacific, the Pacific Catastrophe Risk Insurance Company (PCRIC) was opened in the Cook Islands in 2016 following a ministerial decision at the Forum Economic Ministers Meeting (FEMM) in 2015 to establish a dedicated regional entity to cater for the region's climate and disaster risk insurance requirements. It replaced an earlier mechanism, the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), had run since 2012, and was responsible for piloting and developing what is now the only operative disaster risk insurance instrument in the Pacific.

The current membership of PCRIC's Sovereign Risk Insurance product includes, RMI, Vanuatu, Cook Islands, Samoa, and Tonga and currently has recently achieved a coverage limit of US\$45 million. The international donor partners to the initiative are Germany, the United Kingdom, Japan, and the US. The first payment of the pilot program was done on in January 2014 when Tonga suffered from Tropical Cyclone 'Ian' (a category 5 cyclone). Only 15 days after the event, Tonga received US\$ 1.27 million. Additional payments have been made since.

Criticism

Parametric risk finance products have received some criticism from SIDS who have questioned the payout versus premium levels, the focus of coverage on short term high intensity disasters and a lack of coverage for slow onset events.

Both the PCRIC and CCRIF current Sovereign Risk products are based on parametric that are triggered in the event of a major cyclone, earthquake, or cyclone-driven flooding event. The payout levels and coverage are based on options chosen by the client. The product is designed to quickly provide payouts to ensure liquidity following a catastrophic event and is not intended to serve as a form of compensation. The speed of payout ensures there is increased resources available to enhance the speed of disaster response and reduce risks in the wake of a major disaster event.

Case 6: Innovative Financing – Loss and Damage

Pacific Island Climate Change Insurance Facility: The Government of Tuvalu has proposed a standalone funding entity, which has been developed in response to discussions within the Pacific. Tuvalu’s proposal for ‘insurance’ that focuses on the need to insure vulnerable states against slow onset climate and disaster risks such as droughts, erosion, land loss, and fisheries collapse. The proposal may be seen to blur lines between the parameters of insurance and those of loss and damage. It is possible that creating insurance for anticipated long term, high probability impacts will be problematic for insurance underwriters.

In the climate change negotiations in Paris in 2015, SIDS called for an international mechanism on Loss and Damage which they argued must be a central and distinct element of the Paris Agreement. The resulting standalone article 8 of the Paris Agreement speaks to this call. With the increasing number of adverse events affecting SIDS, it is likely that the Facility being considered by Tuvalu will continue to be assessed as a more focused approach will be required to develop a fit for purpose solution for those countries that are highly vulnerable to slow onset climate risks and less vulnerable to disaster events such as cyclones and earthquakes.