Mobilizing Adaptation Finance

Case Study
Petro Caribe Agreement

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Adaptation Financing

- Adaptation in SIDS;
- What is at stake;
- Recent AR5 report findings

Is there any “spare change somewhere”

- Where will this money come from;
- National budgets stretched;
- Economic crisis and IMF programs;
- Debt in SIDs is overwhelming government;
- Donors cannot pay for all;
- Need cheaper and better access to Financing;
- Need created Financing Mechanisms;

Petro Caribe Agreement

- Began in 2005 between 17 Countries, Mostly from Latin America and the Caribbean;
- Each Country signing MOU.
- 40 – 60 of the Fuel purchased from Venezuela will be upfront cost and the rest on credit at 1% interest rate, to be payable in two years or can be extended to 15 years;
- MOU provides guidance for the use of the Loan portion and this includes programs for poverty alleviation, renewable energy, energy efficiency and for infrastructure development.
- National structures to manage the funds;
- Not part of the Consolidated fund;

Impact of the Program

- The Petro Caribe program was credited as the main source of financing to get the countries of the region through the economic crisis;
- Only a few countries however, used the funds for renewable energy or energy efficiency;
- Even with this program many countries still had to turned to IMF programs;
- These loans fund represents over 200M USD per year for the Caribbean region. This is larger than funding from the Caribbean development bank. It is therefore one of the largest source of low interest loan financing to many of the participating countries.
- If the program continues this program potentially represents the greatest source of financing for mitigation thus giving the Government the budget space for adaptation.

Budget Space, *"Mitigation paying for Adaptation".*

- Over the past 5 years the Government of Antigua and Barbuda have conducted assessments for the cost of Adaptation, Protected areas, Sustainable Land Management and other environmental issues.

- The results have shown that the cost of these exceeds the present spending by over 800%;

- In response to this Government has formed the SIRF fund as a mechanism to give much needed Budget space. The fund will use grant financing and low interest loans, when combined equally will provide electricity at 8 US Cents per kwh. This will save the electricity company about 10US cents per kwh. Through this savings the company can restructure and pay off some of its debts and other obligations;

- The 8 cents per kwh will be directed to the Fund for adaptation funding as well as addressing other environmental issues;

- The fund will be the owner of the asset.

- One source of loan financing will be the Petro Caribe agreement as well as other sources.

Conclusion

- Transformation of economies is a programmatic approach that must first begin with a measure to provide Budget space
- Financial Mechanism with a programmatic approach will provide predictability of financing for both the Government and especially the private sector.
- The success of the Petro Caribe agreement and its failures can be an example of the future of climate finance for the Private sector as well as the government.
- As long as the countries still have high debt, and the responsibilities for purchasing oil and other demands of the public, the transformation of markets and movement to the below 2 degrees scenario will continue to be a challenge;
- Adaptation is a long term commitment and any financial mechanism to address this should be in it for the long haul. The Financial Mechanism of the Convention should target its projects and programs to providing a directed approach to creating the necessary budget space to allow for the redirecting of existing funds to Climate Financing particularly Adaptation.