

ADVOCACY PAPER

# Financing climate adaptation and mitigation in African Island States (AIS)



Under the leadership of the United Nations Development Coordination Office (UN DCO) Regional Office for Africa and the UN Resident Coordinators (RCs), this advocacy paper has been produced by the Economists from the UN Resident Coordinator's Offices (RCOs) in five African Island States (Cabo Verde, Guinea-Bissau, Mauritius, São Tomé and Príncipe, and Seychelles) and the Head of RCO and the Economist from the UN Development Programme (UNDP) in Comoros.

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Photographs: Ben Charafaine, Dário Pequeno Paraíso, Hélio Buba, Stehnam Cardoso and Van Ingen.



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## Executive Summary

This report addresses the profound impacts of climate change on African Island States (AIS), including **Cabo Verde, Comoros, Guinea-Bissau, Mauritius, São Tomé and Príncipe, and Seychelles**. Despite their diverse economic landscapes, these island countries share common hurdles: small-scale economies, limited fiscal resources, and high vulnerability to climate catastrophes. This paper delves into existing funding avenues, pinpoints financial gaps, and explores innovative financing solutions to boost climate resilience in these countries.

**AIS are facing mounting challenges from climate change**, such as soaring temperatures, rising sea levels, and increasingly severe weather events. These shifts jeopardize vital sectors such as agriculture, fisheries, and tourism – the backbone of their economies. Challenges specific to each country include water scarcity, shrinking fertile lands, coastal infrastructure erosion, and heightened health risks from diseases carried by insects. Unique country-specific issues are also highlighted, from geological shocks in Cabo Verde to biodiversity losses in Mauritius and Seychelles, and from flooding in Comoros to reduced rainfall in Guinea-Bissau, further intensifying their vulnerabilities.

Despite their limited contributions to global emissions, **AIS are proactively forging ahead with adaptation and mitigation plans**. These efforts are woven into national planning, updating Nationally Determined Contributions (NDCs) with ambitious mitigation targets, and shifting towards renewable energy solutions. Nevertheless, these actions are significantly hampered by financial constraints.

To meet their climate action goals, African SIDS collectively require over US\$1.1 billion annually, yet funding realities fall short, with only US\$399 million secured in 2020. The financial landscape is marked by a lack of substantial global public investment, limited access to concessional loans – especially for middle-income countries – and minimal private sector engagement. However, innovative financing models such as blue bonds and environmental finance platforms are being explored to leverage additional resources.

Highlighting innovations, Seychelles' trailblazing blue bond and Cabo Verde's blue finance exchange platform exemplify new pathways for attracting investments. Additionally, debt-for-nature swaps and digital financial solutions are also being pursued to create sustainable funding streams. These pioneering initiatives are pivotal in harnessing natural capital and strengthening financial resilience against climate impacts.

## RECOMMENDATIONS

This report underscores the urgent need for enhanced global financial support tailored to the unique circumstances of African SIDS. It proposes actionable recommendations that build on existing initiatives:

### Governments of African SIDS

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- **Develop Comprehensive National Adaptation Plans:** Enhance resilience to climate impacts by integrating comprehensive adaptation strategies into national development plans. Prioritize sectors most vulnerable to climate change, such as agriculture, fisheries, and coastal infrastructure.
- **Strengthen Data and Reporting Mechanisms:** Improve the collection and dissemination of climate-related data to support informed decision-making. Establish robust monitoring and evaluation frameworks to assess the effectiveness of adaptation and mitigation measures and to ensure accountability in the use of climate finance.

### Multilateral and Bilateral Agencies and Partners

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- **Prioritize Concessional Financing:** Increase the allocation of concessional loans and grants to African SIDS, recognizing their high vulnerability to climate impacts despite their low contribution to global emissions. Support should focus on both adaptation and mitigation efforts.
- **Implement a Multidimensional Vulnerability Index (MVI):** Adopt the MVI as a criterion for funding allocations to better reflect the complex realities of vulnerability in SIDS. This approach aims for a more equitable distribution of funds, focusing on those most in need.

- **Simplify Access to all climate funds, including Green Climate Fund (GCF):** Streamline procedures for accessing climate funds to reduce the bureaucratic complexities that currently hinder the timely and effective use of resources. Implement more flexible criteria that consider the unique challenges of SIDS beyond traditional economic indicators.
- **Expand Grant-Based Financing:** Increase the provision of grants instead of loans to prevent exacerbating the debt burdens of African SIDS. Focus on grants that support critical areas such as renewable energy projects, coastal defense works, and sustainable agriculture practices.

### Private Sector

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- **Invest in Sustainable Projects:** Engage in investment opportunities that focus on sustainability, such as renewable energy, sustainable tourism, and climate-smart agriculture. These sectors not only offer long-term profitability but also contribute to the resilience of SIDS economies.
- **Partner in Risk Sharing Instruments:** Develop financial instruments such as green bonds, blue bonds, and other blended finance options that can mitigate investment risks. Collaborate with governments and multilateral agencies to create incentives for investing in high-risk regions like African SIDS.



# I. Introduction

Climate change has emerged as a defining and even existential issue for Small Island Developing States (SIDS), particularly for the six African Island States (AIS) in Africa: Cabo Verde, Comoros, Guinea-Bissau, Mauritius, São Tomé and Príncipe, and Seychelles. These countries are often more vulnerable due to their fragile economies and poor infrastructures. Despite varying considerably in economic development, from Least Developed Countries (LDCs) to Upper Middle-Income Countries (MICs), these islands are characterized by limited tax bases and economies of scale, stemming from their small population and high levels of public debt.

The future of AIS depends on the international community's ability to halt climate change, and on the AIS' capacity to adapt to it. Climate change adaptation and mitigation are therefore key priorities for all AIS. However, the question remains: where will the funding come from?

This advocacy paper seeks to outline the current state of play for AIS concerning funding for climate change, and to propose improvements to financing to prepare them for a substantive and active contribution to the fourth SIDS Conference, scheduled between 27 and 28 May 2024 in Antigua and Barbuda.





## II. Climate change impacts in

Climate change poses a significant threat to the African AIS, including Cabo Verde, Comoros, Guinea-Bissau, Mauritius, São Tomé and Príncipe, and Seychelles. These island countries share common vulnerabilities due to their geographical and economic circumstances, such as susceptibility to environmental and economic shocks, high exposure to natural disasters, and reliance on sectors like tourism, fishing, and agriculture, which are sensitive to climate impacts.

Rising sea levels directly threaten sensitive coastlines, coastal infrastructure, and aquifers, while the increasing frequency of hurricanes and cyclones exacerbates the situation. Changing rainfall patterns affect rainfed agriculture, and the degradation of marine

### Increased frequency and strength of hurricanes and cyclones

**Cabo Verde** is facing geological and climate-related shocks, including volcanic eruptions, droughts, landslides, and floods. The average temperature has risen by 0.4 degrees Celsius per year between 1995 and 2014, leading to reduced rainfall and more intense extreme rainfall events, which adversely affect the agriculture and fishing sectors.

The direct economic losses from climate change shocks have been felt more directly in these sectors, with production growth in agriculture decreasing by 3.1% due to fewer rainfalls and by 4.1 due to droughts.

### Rising sea-levels and temperature

**Mauritius and Seychelles** are confronting significant challenges due to climate change, including rising temperatures, rising sea levels, extreme weather events, and biodiversity loss, exacerbating vulnerabilities in sectors such as agriculture, tourism, infrastructure and public health. Mauritius has observed an average temperature rise at all stations at a rate of 0.15°C per decade, resulting in an overall increase of 0.74 - 1.2°C. In Seychelles, rising sea levels pose significant threats to coastal infrastructure, freshwater sources, and ecosystems due to increased erosion, inundation, and saltwater intrusion.



# African Island States (AIS)

ecosystems, due to coral bleaching and ocean acidification as sea temperatures rise, threatens fisheries. This results not only in a reduction of available land for the population but also in areas suitable for agriculture, posing a significant risk to food security, the livelihoods of agriculture-dependent populations, and the economy. Additionally, waterborne, and vector-borne diseases increase with climate warming, putting additional pressure on their fragile health systems.

Efforts toward adaptation and mitigation are actively underway across AIS to confront the multifaceted challenges posed by climate change. These endeavors embody a holistic strategy encompassing policy reforms, sustainable development programmes, and international partnerships. The overarching goal is to mitigate their vulnerabilities to climate-related impacts, fortify resilience across key sectors, and transition towards sustainable energy sources and practices, to ultimately safeguard their populations.

## OVERVIEW<sup>1</sup> OF THE IMPACTS OF CLIMATE CHANGE ON AIS

### Change in rainfall patterns, waterborne and vector-borne diseases

**Guinea-Bissau**, with its predominantly lowland and ecologically sensitive coastline, is threatened by extreme weather events, leading to diminishing rainfall, rising temperatures, rising sea levels, and coastal flooding and erosion, which have led to salinization that harms aquifers and rice fields. These changes have resulted in decreased agricultural yields, jeopardizing food security and livelihoods of those dependent on agriculture. The frequent extreme weather events, such as floods and droughts, have caused infrastructure damage and exacerbated poverty. Additionally, the country faces heightened risks of waterborne and vector-borne diseases due to the changing climatic conditions, impacting public health.

**Comoros** faces increased annual rainfall variation, higher temperatures, and sea-level rise, resulting in saltwater intrusion and coastal erosion. The country has lost over 30 meters of coastline in certain areas. These changes threaten agriculture, by decreasing crop yields and production and affect fisheries due to altered marine ecosystems. The damage caused by climate change probably exceeded the value of Comorian GDP in 2020. The frequency and severity of climatic hazards such as tropical cyclones, droughts, and heavy rainfall have increased, further exacerbating the vulnerability of local communities and infrastructure.

### Degradation of marine ecosystems

**São Tomé and Príncipe**, in turn, has seen its forested areas decline from 60.5% of its total territory in 2010 to 54.7% in 2019, with deforestation leading to erosion and environmental degradation.

The country's agricultural sector, a key livelihood for many, is severely affected, putting food and nutrition security at serious risk. Climate-induced changes have also impacted the fisheries sector, with potential decreases in catch potential by 40% by the end of the century.

1 Given their exposed geography and heightened vulnerability, AIS experience a disproportionate impact from climate change, with many of the events listed in the table commonly affecting them.



### III. Adaptation and mitigation strategies

AIS exhibit varying vulnerabilities to climate change, with some facing higher risks due to limited resources and development challenges. Comoros, Guinea-Bissau, and São Tomé and Príncipe are classified as LDCs, while Cabo Verde, Mauritius, and Seychelles have higher levels of development and, consequently, are equipped with more informed policies and mechanisms to combat climate change.

Nonetheless, all six AIS are actively working on adaptation and mitigation strategies to reduce climate-related impacts, strengthen resilience in key sectors, and protect their citizens. They prioritize strengthening food systems and integrating climate adaptation into national planning through the National Adaptation Plan (NAP) processes. Despite their minimal contribution to global climate change, the per



### **Mauritius and Seychelles: Restore marine ecosystem services by rehabilitating coral reefs**

Mauritius has implemented initiatives such as the “Restoring Marine Ecosystem Services by Rehabilitating Coral Reefs” project. This effort aims to restore coral reefs, crucial for biodiversity and disaster risk reduction. Additionally, Mauritius is taking measures to manage water resources and mitigate biodiversity loss exacerbated by decreased rainfall, safeguarding critical sectors such as tourism and natural resources, which are critical for the nation’s GDP and economic stability. Similarly, Seychelles is undertaking projects to restore coral reefs and protect seagrass meadows, vital for biodiversity and disaster risk reduction, alongside ambitious mitigation targets to substantially reduce greenhouse gas emissions through renewed NDC targets. Seychelles has committed to protecting 100% of its seagrass, recognizing its significant carbon sequestration potential, some 35 times faster than rainforests.



### **Guinea-Bissau: Integrate climate resilience into national planning and sectoral policies through NAP**

Guinea-Bissau has established a NAP process to integrate climate resilience into national planning and sectoral policies. This initiative emphasizes agriculture and tourism, acknowledging their economic significance and susceptibility to climate impacts. The country has also updated its NDC, committing to a 30% reduction in greenhouse gas emissions by 2030, with international assistance. This commitment aligns with a vision for low-carbon, climate-resilient development, emphasizing gender equality and women’s empowerment. Furthermore, Guinea-Bissau prioritizes strengthening the resilience of coastal areas through GEF’s Least Developed Countries Fund-financed projects aimed at enhancing community and ecosystem adaptive capacities.



capita emissions in AIS can be high due to reliance on fossil fuels. Hence, they have set ambitious mitigation targets in their Nationally Determined Contributions (NDCs), with goals ranging from a 27% reduction in greenhouse gases in São Tomé and Príncipe to 84% in Comoros, aiming for significant reductions by 2030.

*African Island States are addressing the severe threats of climate change through holistic strategies, aiming to secure their futures and strengthen key economic sectors.*



### **São Tomé and Príncipe: Enhance NAP to fortify resilience against climate change impacts and review NDC to achieve a 27% reduction in emissions by 2030**

São Tomé and Príncipe exemplify this commitment through a dual-pronged approach of adaptation and mitigation strategies. The country is poised to bolster its climate resilience through the forthcoming National Adaptation Plan (NAP), aimed at enhancing the capacity for climate adaptation planning and execution. On the mitigation front, São Tomé and Príncipe has revised its Nationally Determined Contribution (NDC), pledging a 27% reduction in emissions by 2030. This ambitious target encompasses substantial increases in renewable energy generation and the decarbonization of the transport sector. Additionally, the country prioritizes enhancing the adaptive capacity of vulnerable coastal communities with support from Global Environment Facility (GEF)-funded projects, focusing on early warning systems and coastal defenses. However, financial constraints pose significant challenges, with the NDC implementation plan lacking funding for its US\$150 million budget, and the environmental sector receiving a mere 1% of the state budget. Recognizing the vulnerability of vital sectors such as agriculture, water resources, and coastal zones.



### **Comoros: Enhance the resilience of the agricultural sector, a cornerstone of GDP and vital for livelihoods**

Comoros is strategically focusing on enhancing the resilience of its agricultural sector, a key component of its GDP and vital for sustaining livelihoods. Projects such as “Strengthening the Resilience of Climate-Smart Agricultural Systems and Value Chains” aim to promote climate-smart practices and better climate risk management. Additionally, Comoros has also committed to ambitious targets to reduce greenhouse gas emissions, with a forecasted 84% reduction by 2030. An estimated investment of US\$675 million is needed to achieve this, underscoring the need for substantial investment and innovative financing to integrate climate action with socioeconomic development. Moreover, the country is engaged in reforestation efforts, planting 1.4 million trees, and improving water resource management to mitigate climate risks, acknowledging the significant impacts on agriculture, fishing, and the broader economy.



### **Cabo Verde: Prioritize economic resilience through the National Climate Change Adaptation Plan**

Cabo Verde is prioritizing economic resilience through its National Climate Change Adaptation Plan. This includes measures to manage vulnerability to decreasing rainfall and increasing droughts in the agricultural sector. Efforts are also underway to safeguard the fishing sector and enhance resilience against geological and climate-related shocks. Furthermore, Cabo Verde is addressing the water-energy nexus, ensuring water availability through energy-efficient desalination solutions to support vulnerable households and economic sectors.

## IV. Financial constraints in African Island States (AIS)

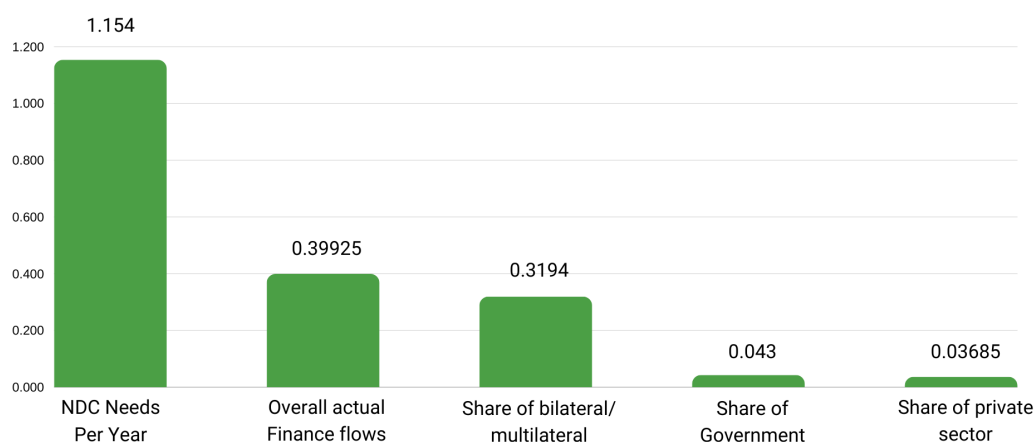
Based on their NDCs, implementing climate priorities for AIS will require more than US\$1.1 billion annually. However, in 2020, only US\$399 million was mobilized from various sources, accounting for an average of 2.6% of their GDP. Despite variations among countries, climate finance has not matched the escalating vulnerability and damages caused by climate change.

The economies of AIS, predominantly small and dependent on ocean sectors like tourism and fisheries, capture only a minimal fraction of the value-added from the global value chain of oceans<sup>2</sup>. Limited capital markets and a weak domestic private sector further constrain climate finance inflows from the private sector. They face significant constraints in mobilizing adequate climate finance due to limited fiscal space for effective investment in adaptation and mitigation. Their average debt burden exceeds that of the average global AIS at 74.2%<sup>3</sup>, with figures ranging from 120% of GDP in Cabo Verde to 32.7% in Comoros. In between are Sao Tome (91% of GDP), Mauritius (80% of GDP), and Guinea-Bissau (80% of GDP). Debt servicing

costs consume a large proportion of government revenue, hindering investment in critical climate-informed priorities for achieving the SDGs. The ability to generate domestic revenues through taxation is less than optimal and varies among the six AIS, from 19% of GDP in Mauritius to 9.5% of GDP in Guinea-Bissau. Debt servicing costs average 59% of the government’s revenues and 38% of the fiscal expenditures<sup>4</sup>. This hinders the ability to invest in social development, structural transformation of the economies, and climate actions (figure 1).

Public investment and financing systems are currently insufficient to mitigate the effects of climate change. In 2020, the overall contributions to the AIS accounted for less than 10% of the tracked climate finance, totaling US\$43 million. Multilateral and bilateral development financing dominates climate finance flows, constituting over 88% of funding in 2020<sup>5</sup>. However, the composition of financing instruments is notably unbalanced, with limited access to concessional financing – loans or grants offered at more favorable terms than market loans – for middle-income AIS like São Tome and

**Figure 1:** Climate Finance to the African SIDS US dollar (million)



2 OECD (2020) Climate Finance Provided and Mobilised by Developed Countries.

3 UN-OHRLLS, Financing for Development of Small Island Developing States, 2022.

4 Calculations based on Debt Service Watch database 2023.

5 Calculations based on the databases of Climate Policy Initiative (CPI).

Príncipe<sup>6</sup>, Cabo Verde, Mauritius, and Seychelles. Their financial composition also shows variability: 63% in grants and 36% in debts<sup>7</sup>.

The proportion of equity investment remains marginal. Over 38% of the debts are on non-concessional terms (loans with market-level interest rates and shorter grace periods), with implications for the sustainability of their already heavy debt burden. Overseas Development Assistance (ODA) to middle-income AIS like Cabo Verde has decreased substantially, dropping from 11.4% of GDP in 2015 to 6.6% in 2022<sup>8</sup>. Foreign direct investment (FDI)

remains insufficient, with AIS attracting a smaller share compared to their peers. Between 2012 to 2022, they secured an average of 4% of FDI as a share of their GDP, in contrast to 15% for all AIS<sup>9</sup>.

Meanwhile, remittances are becoming an increasingly vital source of private finance, particularly given their large diaspora populations. Efforts to harness and optimize the potential of diaspora resources are underway, aiming to diversify and increase sources of financing for climate change investments.

## V. External climate finance opportunities for African Island States (AIS)

To meet their adaptation and mitigation investment needs, AIS require a significant scale-up in global climate finance (GCF), tailored to their specific contexts. While GCF has increased substantially, reaching close to US\$1.3 trillion annually between 2021 and 2022, up from US\$653 billion between 2019 and 2020, its distribution has been largely concentrated in mitigation finance<sup>10</sup>, and within a few countries – Brazil, China, Europe, India, Japan and USA, which collectively received 90% of the funds<sup>11</sup>.

Given the high level of public debt in AIS, concessional loans and grants are crucial to support their climate adaptation investments. Currently, these instruments account for only

11% and 5% of total GCF, respectively – a stark contrast to market-rate loans, which represent 53%<sup>12</sup>. There is, however, significant potential for bilateral and multilateral stakeholders operating in Africa, including multilateral development banks (MDBs)<sup>13</sup> and multilateral climate funds (MCFs)<sup>14</sup>, to mobilize additional resources and leverage concessional loans and grants.

Concessional loans can be challenging, as they are typically offered based on income per capita, potentially limiting access for middle-income AIS like São Tome and Príncipe, Cabo Verde, Mauritius and Seychelles, despite their high degree of vulnerability. To address this, implementing a Multidimensional Vulnerability Index (MVI) could

6 Even though STP will graduate from LDC status in Dec 2024, the country is classified as lower middle income by some development partners. Thus, the country is susceptible having limited concessional financial.

7 Calculations based on ODI database.

8 <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/>

9 Calculations based on UNCTAD database.

10 Mitigation finance represents 91% of total global finance, while adaptation finance only represents 9%. Arguably adaptation is a priority in African AIS, as they contribute less to climate change, but are more vulnerable to its impacts.

11 Climate Policy Initiative (2023). Global Landscape of Climate Finance 2023. November 2023.

<https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>

12 Idem

13 African Development Bank; European Bank for Reconstruction and Development; World Bank.

14 Green Climate Fund; Global Environment Facility; Adaptation Fund; LDCs Fund; Global Climate Change Alliance; Special Climate Change Fund; Climate Change Fund; Adaptation for Smallholder Agriculture Programme.

replace Gross National Income (GNI) per capita as the main criterion, enabling effective prioritization of funding for resilience-building in AIS. Several multilateral stakeholders have already extended their concessional loan mechanisms to middle-income AIS. For example, the World Bank's International Development Association (IDA), which traditionally provides concessional loans to low income countries, has in recent years increased concessional loans based on the criteria "small economy terms" or to countries lacking the creditworthiness needed to borrow from the International Bank for Reconstruction and Development (IBRD). This is the case of Cabo Verde, which has benefited from this type of loans for various programmes, including adaptation and mitigation. Similarly, the African Development Bank (AfDB) launched the Alliance for Green Infrastructure in Africa to offer concessional financing options for countries at moderate risk of debt distress.

In addition to concessional loans, scaling up global climate finance through grant-based instruments, especially for AIS with high levels of public debt, is crucial. MCFs have the potential to expand grant-based financial instruments. While MCFs still represents only 0.5% of total public climate finance<sup>15</sup>, when considering their contribution per capita they are important players in countries such as Seychelles and São Tomé and Príncipe<sup>16</sup>. However, they often have complex governance structures and application processes, posing challenges for AIS.

To overcome these challenges, streamlining accreditation processes, enhancing human and technical capacity, and improving climate and environmental data availability are essential. For instance, there are relevant programmes supporting processes to strengthen capacities related to climate finance, including the readiness programme of the Green Climate Fund, from which Cabo Verde is already benefiting.

Adjusting existing mechanisms and measures to the constraints of AIS is necessary for them to fully benefit from MCFs' grants. Establishing new dedicated financing mechanisms within MCFs for certain groups of countries, such as AIS, could improve access without fundamentally changing the established mechanisms. For example, a proposal has been made to establish a dedicated envelope for AIS within the Enhanced Direct Access under the Green Climate Fund. Such a solution would likely result in better access for AIS to this fund without completely changing established mechanisms. Furthermore, private finance can also play a significant role in

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15 Climate Policy Initiative (2023). Global Landscape of Climate Finance 2023. November 2023. <https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf>

16 International Policy (2017). Mapped: Where Multilateral Climate Funds Spend Their Money. <https://www.carbonbrief.org/mapped-where-multilateral-climate-funds-spend-their-money/>





supporting adaptation efforts in AIS. However, its contributions to climate finance in Africa remain modest, at about 15%, and has been concentrated in mitigation projects, especially in the energy sector<sup>17</sup>.

Addressing the challenges of higher risks, transaction costs, and limited project sizes for small, vulnerable economies will be essential to attract more private climate finance. Public support from national governments and multilateral institutions, including through blended financing options, can help develop a pipeline of bankable opportunities and de-risk private investments in AIS.

Both the fourth International Conference on Small Island Developing States (SIDS4) and the forthcoming Summit of the Future in September 2024 present critical opportunities for African SIDS and MICs to join voices in advocating for reforms to the international financial architecture. By presenting a united front, they can push for changes that ensure more equitable access to

financial resources, improved debt sustainability, and enhanced support for climate action. Collaborative advocacy can amplify their influence, ensuring the global financial system evolves to better support their sustainable development goals and resilience against external shocks. For AIS, the UN-proposed reforms advocate for enhanced access to liquidity through a more equitable distribution of Special Drawing Rights and the establishment of a multilateral currency swap facility, innovative debt instruments with state-contingent clauses for better debt sustainability, and a significant increase in climate finance, emphasizing adaptation financing.

For MICs, the proposed benefits include reforms to lower sovereign borrowing costs, more inclusive governance of international financial institutions to enhance their representation, access to multilateral swap arrangements to provide liquidity during shocks, and an expansion of the global financial safety net to better manage economic volatility and external shocks<sup>18</sup>.

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17 Climate Policy Initiative (CPI). (2022). Landscape of Climate Finance in Africa. Paper prepared by Chavi Meattle, Rajashree Padmanabhi, Pedro de Aragão Fernandes, Anna Balm, Githungo Wakaba, Daniela Chiriac, Bella Tonkonogy and Dharshan Wignarajah. Climate Policy Initiative. September 21, 2022

18 United Nations (UN). Our Common Agenda Policy Brief 6: Reforms to the International Financial Architecture. May 2023. <https://sdgs.un.org/sites/default/files/2023-08/our-common-agenda-policy-brief-international-finance-architecture-en.pdf>



## VI. Innovative financing

Amidst a challenging climate finance landscape and enormous needs, AIS must innovate to create the enabling environment and innovative instruments needed to mobilize finance from new sources. Some of these initiatives are summarized below, not as an exhaustive mapping but rather as a sample of best practices. These examples showcase how AIS can harness their natural wealth to mobilize finance at scale to boost their funding of sustainable development priorities, including climate change adaptation and mitigation.

### i. A regulatory framework for a Blue Bonds market

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In 2018, **Seychelles** launched the world's first sovereign blue bond – a pioneering financial instrument designed to support sustainable marine and fisheries projects. The bond, which raised US\$15 million from international investors, demonstrates the potential for countries to harness capital markets for financing the sustainable use of marine resources. The proceeds from the bond include support for the expansion of marine protected areas, improved governance of priority fisheries and the development of the Seychelles' blue economy. Grants and loans are provided through the Blue Grants Fund and Blue Investment Fund, managed respectively by the Seychelles' Conservation and Climate Adaptation Trust (SeyCCAT) and the Development Bank of Seychelles (DBS).

### ii. The first ever Blue Finance exchange platform

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The world's first blue finance exchange platform, Blu-X, was established in **Cabo Verde** in 2021, to catalyze private finance for sustainable development goals. The platform now provides innovative development financing solutions, with a focus on the blue economy as a catalyst of economic diversification, in a country that is 99% ocean. The results of this digital and capital markets-based

solution were the issuance of several sustainable blue bonds, amounting US\$35 million by end 2023.

### iii. A “deal-room” for innovative environmental financing

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In **São Tomé and Príncipe**, government entities, UN agencies, international partners, international financial institutions and private sector gathered to discuss and build joint solutions to upscale environmental financing. The main output was a comprehensive roadmap, emphasizing partnership, resource mobilization, and international visibility. The pivotal role for the private sector was highlighted, showcasing initiatives like the Nature Dividend and ECOBLASA's ecological charcoal production. The proposed roadmap outlines short- and long-term objectives, including financing for national parks, waste management, fisheries, renewable energy, and investments in essential services.

### iv. Debt-for-Nature swaps

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In 2017, **Seychelles** became the first country in the world to successfully undertake a debt-for-nature swap aimed at specifically protecting the world's oceans. The Nature Conservancy (TNC) acquired Seychelles' foreign external debt at a discounted price and raised additional donor funding worth US\$5 million from private actors. The government of Seychelles repaid the loans to the SeyCCAT.

**Cabo Verde and Portugal** agreed on a debt-for-nature swap in June 2023, triggering the conversion of part of the bilateral debt (12 million euros, representing close to 10% of the total bilateral debt to Portugal) into a climate resilience fund, thereby reinforcing long-term debt sustainability, while freeing up additional resources to build climate change resilience.

## VII. Conclusion

African Island States are being disproportionately impacted by climate change and often encounter challenges in accessing climate finance through grants or concessional loans, which are crucial for them. One of the main issues is the complex application procedures and selection criteria of multilateral climate funds (MCFs), which do not adequately reflect the unique circumstances of African AIS.

Measures to ameliorate these processes within the MCFs could significantly assist AIS in meeting their adaptation and mitigation goals. Grants are especially vital as AIS are already facing a combination of limited fiscal space coupled with high debt burdens. Accumulating further debt to address climate challenges could potentially restrict funding available for other development goals.

However, even if MCFs funding was to become readily available, it's not likely to be enough to cover the annual shortfall of \$700 million that AIS currently face. Therefore, a variety of financial innovations are being developed in some AIS to help bridge the gap. While it is too early to assess the outcomes of these new financial instruments, they represent a promising area for investment.





