Accessing Development and Climate Finance

Issues and Challenges in the Commonwealth Countries

The Commonwealth

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Abbreviations

ADB	Asian Development Bank
COP	Conference of the Parties
DFI	Development Finance Institutions
DFC	Debt for Climate
EMDE	Emerging and Developing Economies
GCA	Global Commission on Adaptation
GCF	Green Climate Fund
GEF	Global Environment Facility
GDP	gross domestic product
GHG	greenhouse gases
GNI	gross national income
IBRD	International Bank for Reconstruction and Development
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
LDCs	Least Developed Countries
LDF	Loss and Damage Fund
MDGs	Millennium Development Goals
MIC	middle income countries
MDB	Multilateral Development Bank
NAP	national adaptation plan
NDC	Nationally Determined Contribution
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PICs	Pacific Island Countries
PPP	purchasing power parity
RST	Resilience and Sustainability Trust
SIDS	Small Island Developing States
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights

Executive summary

The Least Developed Countries (LDCs) and Small Island Developing States (SIDS) in the Commonwealth face several developmental and climate-related challenges: low per capita income, low life expectancy, low energy access and high vulnerability to the impacts of climate change. Furthermore, these countries have also committed to decarbonising their economies, thereby supporting global efforts on climate action although contributing least to the problem. Paradoxically, several countries in the Commonwealth are also the least capable of adapting to climate change and of taking action on climate mitigation. They do not possess enough financial resources to step up their low-carbon and climate-resilient developmental actions due to their low per capita income, volatile economies, lack of fiscal space, low saving rates, lack of institutional capacity and structural weaknesses. They need financial and institutional support from developed countries and international institutions for their climate actions.

Unfortunately, for several reasons, the international climate finance flows to climate mitigating and adaptation sectors are very low compared to the requirements of these countries. There is no internationally agreed definition of climate finance, which leads to misleading reporting of climate finance flows from developed to developing countries. Climate adaptation projects – the priorities of LDCs and SIDS – mostly do not generate investment returns, so they do not attract international climate finance. Most of the climate finance is also going to middle income countries (MICs), not the poorest, most vulnerable countries.

Since climate change and development challenges are closely related in several sectors, there is a tendency to integrate climate finance and development finance. Since climate finance contributed by developed countries can also qualify as development finance, developed countries report this assistance as climate finance. Developing countries are worried that an increase in climate finance would lead to a decrease in development finance. Climate finance is additional and separate from development finance. Development finance should not be compromised for climate finance – both are urgent for LDCs and SIDS.

Given that the amount of capital required to fund their necessary climate actions is far more than their fiscal capacity and domestic resources, the role of multilateral development banks (MDBs) and international development financial institutions (DFIs) is vital for the vulnerable countries in the Commonwealth. MDBs and DFIs, which are vital sources of international public capital, can be deployed to maximise developmental impact with a focus on climate change. However, the preference of MDBs to provide debt capital to LDCs and SIDS should be reconsidered when these countries are already under pressure from high debt. DFIs and MDBs should facilitate and accelerate grants to low income and vulnerable income countries instead of debt to meet their minimum climate adaptive and development needs in order to generate higher social returns.

Several climate projects in LDCs and SIDS in the Commonwealth region are not commercially viable without incentives and subsidies as there is uncertainty around revenue and profit. Here, grants can be used/blended as a subsidy for these projects, thereby improving private financiers' risk-adjusted rates of return. DFIs and MDBs must be careful that undue grants are not given to projects where risk is shared between DFIs, MDBs and private financiers.

MDBs and DFIs deploy equity, loan and risk management instruments to provide concessional financing in the capital structure or as a guarantee or insurance to enhance the financial profile of projects. Empirical evidence suggests that risk management instruments such as guarantees and credit enhancement products have maximised the leverage of public capital compared to equity and debt/loan capital. MDBs should change their capital deployment strategy, and use risk-mitigating financial instruments such as guarantees, insurance and local currency hedging, which can de-risk project/business or financial risk.

We recommend three alternative funding mechanisms to fund climate actions: blended financing, debt swaps and subsidising foreign currency swaps. In addition, the Resilience and Sustainability Trust (RST) and Loss and Damage Fund (LDF) must be designed and scaled up

to meet the needs of developing countries. The success of the above alternative funding mechanisms warrants reform of the international financial architecture. The Bridgetown Initiative, a radical proposal to make a transformative impact on capital flows to developing countries for climate and sustainability actions, echoes these views.

The blend of public and private capital can develop an efficient capital structure that would help enhance the interest of private financiers. This can be attractive for private financiers, because public capital can be used to take on higher risks, thereby bringing down the risk to a level that can attract private capital. The unused and new Special Drawing Rights (SDR) available to lower and middle income countries can be used smartly to attract the private sector for climate and development projects. The Bridgetown Initiative's proposal to use the SDR as collateral to borrow capital in the SDR basket and use the proceeds to finance climate projects in lower and middle income countries can mobilise a large amount of private capital.

'Debt for climate' (DFC) or 'debt for sustainability' or 'debt for nature' swaps are one of the debt swap tools to restructure sovereign debt. A DFC swap involves an agreement between the sovereign state and creditors to reduce some of the borrowing country's debt in exchange for commitments to invest in climate and environment outcomes. DFC swaps support a country's climate actions and potentially bring macro-economic stability efforts. This is one of the best mechanisms that international public finance can deploy because it offers long-term environmental benefits while meeting developmental objectives.

International public finance can be used to subsidise currency swap costs for borrowers in LDCs and SIDS. A subsidising currency swap can potentially mobilise a large amount of foreign capital into LDCs and SIDS. There are exchange funds that are currently offering foreign currency swaps in these countries that can be used to subsidise swap fees.

The International Monetary Fund (IMF's) RST, which aims to support vulnerable and low to middle income countries in building their economic climate and pandemic resilience, has the potential to strengthen the existing climate finance mechanism and to better align development finance and climate finance. However, the stringent conditions, eligibility criteria to access the RST, terms of credit and size of the fund need to be reconsidered to effectively redirect the RST's funding resources towards development and climate actions.

The new LDF offers a chance to assist vulnerable developing nations to respond to the effects of climate change and increase their resilience. The fund's effectiveness relies on its mechanism and size. Since climate-induced incidents are becoming more frequent and severe, vulnerable countries require immediate loss and damage support, which means the fund needs to be established and operational as soon as possible. The rapid and efficient distribution of capital is crucial in aiding a country's prompt recovery from a disaster and setting its economy on a sturdy path to recovery. The LDF must swiftly provide financial aid without going through a complicated process. Besides, it is essential to clarify the fund's scope and to differentiate it from other humanitarian and disaster management funds that provide similar loss and damage support. Clear governance structures and guidance are necessary to guarantee the fund's smooth facilitation and to ensure that it is fit for purpose.

International institutions can not only provide critical capital but also manage risks, share knowledge and develop institutional capacity and partnerships for development projects in the target countries. The Commonwealth Climate Finance Access Hub (CCFAH) develops human and institutional capacity of target countries. These supports help these countries to be self-sufficient in designing the right policies and regulations. They develop a pipeline of projects to access finance. The CCFAH also provides technical support for project preparation and implementation. Through its hub-and-spoke model, the CCFAH shares best practice with the central hub and national counterparts to create an interconnected network.

1. Context

The Commonwealth is a voluntary association of 56 independent and equal countries across continents and oceans. The Commonwealth's 2.5 billion people account for 30 per cent of the world's population and contribute approximately 13.5 per cent to global GDP.[1] Thirty-three of the world's 42 small countries are Commonwealth members, comprising developed and developing countries with populations of less than 1.5 million and with more than 60 per cent of the population aged under 30.

Many Commonwealth countries face diverse developmental challenges, including low per capita income, low life expectancy, low energy access, poor gender mainstreaming and high vulnerability to the impacts of climate change.[2] The infrastructure gap is visible among most of the member countries in the Commonwealth. Twenty per cent of the population does not have access to electricity (47 per cent in Africa),[3] 360 million people lack clean drinking water, and a large number of households do not have basic sanitation nor safe and affordable houses[4]. The average per capita income (PPP – purchasing power parity) of the Commonwealth for 2020 was US$16,462. However, this number is deceivingly high given the huge difference between the minimum and maximum per capita income (PPP): as low as US$1,297 in Mozambique and as high as US$99,681 in Singapore.[5]

In 2020, the per capita land use was only 4.7 hectares in the Commonwealth compared to the world average of 8.6 hectares. In the same year, the per capita agricultural land use was 1.1 hectare in the Commonwealth compared to the world average of 0.8 acres.[6] In 2020, per capita electricity use was 2,500 kilowatt hours (kWh) in the Commonwealth compared to 3,429 kWh across the world. However, there is a wide variation in per capita energy consumption within the Commonwealth: it reaches as low as 26 kWh in Sierra Leone, for instance.[7] Energy is another challenge, with 348 million people lacking access to electricity. Life expectancy at birth ranges from 84 years in Singapore to 55 years in Lesotho. The size of countries is just as diverse, with the smallest country of Nauru having a population of 10,873 versus that of 1.3 billion in India.[8]

Several countries in the Commonwealth need substantial capital to prepare themselves to be low-carbon and climate-resilient[9] and, at the same time, advance their sustainable development goals. This volume of capital mobilisation is impossible for countries with low per capita income, volatile economies, a lack of fiscal space and low savings. However, often, these countries have also committed to ambitious targets to decarbonise their economies.[10] In this scenario, international climate finance mobilisation is crucial to enable countries to become more resilient and prosperous. The longer the delay in building much-needed climate-resilient infrastructure, the more the cost of building climate-resilient infrastructure increases and exposes the countries to extreme events for a longer time. In addition, there must be a distinction between development finance and climate finance to track whether sufficient capital flows to each. The lack of clarity leads to double counting. The increase in climate-related finance must not be at the expense of development finance, as both are critical for these countries.

1 The Commonwealth (no date). Facts. https://thecommonwealth.org/about/facts#:~:text=The%20combined%20GDP%20of%20Commonwealth,those%20in%20non%2Dmember%20countries

2 Pisupati, B. (2018). Commonwealth and Sustainable Development Goals. Discussion Paper #225. Research and Information System for Developing Countries. https://www.ris.org.in/sites/default/files/Publication/DP%20225%20Balakrishna%20Pisupati.pdf

3 World Bank (2022). World Development Indicators. https://databank.worldbank.org/source/world-development-indicators

4 The Commonwealth (2020). Water and Sanitation. https://www.commonwealthofnations.org/?sectors=business/water_and_sanitation

5 World Bank (2022). World Development Indicators. https://databank.worldbank.org/source/world-development-indicators

6 FAO (2022). Food and agriculture organization (FAO) statistics. https://www.fao.org/faostat/en/#data/RL

7 Our World in Data (2022). https://ourworldindata.org/grapher/per-capita-electricity-generation?tab=table&time=2017..2020

8 World Bank (2022). World Development Indicators. https://databank.worldbank.org/source/world-development-indicators

9 Based on Norte Dame Global Adaptation Index, which suggests several Commonwealth countries are highly vulnerable to climate change.

10 World Bank (2022). World Development Indicators. https://databank.worldbank.org/source/world-development-indicators

Multilateral financial institutions such as the World Bank and IMF play a critical role in mobilising capital for development and climate-related projects in developing countries. But the existing capital mechanisms and instruments of these institutions are not able to support developing countries in mobilising sufficient capital for climate actions and other developmental work. Hence, there is an urgency to reform these multilateral financial institutions to step up development and climate finance. The Bridgetown Initiative, proposed by Barbados and supported by many Commonwealth member countries to reform global development finance architecture, is a radical initiative that can transform development and climate finance mechanisms.[11]

11 https://caricom.org/final-declaration-eighth-caricom-cuba-summit-bridgetown-barbados-6-december-2022/

2. Background

Climate change and development are strongly interconnected. The economic transmission channels of climate-change risks are businesses, households, and public infrastructure and services that adversely affect the macroeconomy and society.[12] Climate-change-induced severe weather events such as cyclones, floods, droughts, sea-level rise and wildfires can damage properties and disrupt business operations resulting in stranded assets, new expenditure and transition costs for businesses. Similarly, climate change can adversely affect households through reduced income from weather disruption, health impacts, labour market frictions and damaged properties and crops. These negative events cause capital depreciation and increased expenditure, inflation, a decline in productivity, trade imbalance and lower fiscal space. These factors severely affect economies and consequently constrain development. Several Commonwealth countries are on both sides of climate change – their carbon emissions are expected to grow rapidly, albeit from a low base, and they are also highly vulnerable to the impacts of climate change.

Climate change presents a significant threat to the global economy and society. The top three out of five severe risks the world is facing today are related to climate change.[13] The Global Attitudes survey also listed climate change as the top global threat.[14] The Commonwealth Living Lands Charter, adopted by the Commonwealth Heads of Governments Meeting (CHOGM) in 2022, recognises the economic impact of climate change on vulnerable countries, particularly LDCs and SIDS, and has been developed to help address these challenges.[15] Of the top 50 most climate-vulnerable countries, 17 are Commonwealth members (see table 2.1). It is estimated that the Asia-Pacific region's GDP will decrease by up to 3.3 per cent by 2050 and 10 per cent by 2100 without climate action.[16] Historically, the Caribbean region has also faced many severe natural disasters. From 1980 to 2015, natural disasters reduced the rate of the combined economic growth of the region by two-thirds (1.1 per cent with natural disasters versus 3.2 per cent without).[17] The economic cost of cyclones is projected to increase to at least 10 per cent of GDP in the Caribbean region by 2050 under business-as-usual policies.[18]

As several economies in the Commonwealth are growing at a higher rate than the global economy, their energy consumption is expected to increase. The rapid increase in energy consumption means a rapid increase in carbon emissions from fossil fuel intensive energy systems. Greater adoption of renewable energy and other measures is needed to decarbonise these energy systems in Commonwealth countries and to meet national determined contributions (NDC) targets. Unfortunately, countries are often not equipped to make energy transitions at the necessary rate due to challenges in accessing finance.

On the other hand, several countries in the Commonwealth, particularly SIDS, and South Asian and African countries, are more prone to climate hazards and disasters in terms of intensity and frequency. SIDS are likely to be hit hardest by land degradation, sea-level rise, tropical cyclones, marine heatwaves and ocean acidification due to their geographies. African countries are exposed to

12 Network for Greening the Financial System (2021). *NGFS Climate Scenarios for central banks and supervisors*. https://www.ngfs.net/sites/default/files/media/2021/08/27/ngfs_climate_scenarios_phase2_june2021.pdf

13 World Economic Forum. (2022). *The Global Risks Report 2022*. 17th edition. https://www3.weforum.org/docs/WEF_The_Global_Risks_Report_2022.pdf

14 Pew Research Center. (2018). *Spring 2018 Global Attitudes Survey*. https://www.pewresearch.org/global/2019/02/10/climate-change-still-seen-as-the-top-global-threat-but-cyberattacks-a-rising-concern/

15 Commonwealth Secretariat (2022). Commonwealth Living Lands Charter: A Commonwealth Call to Action on Living Lands (CALL). https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-06/Commonwealth%20Living%20Lands%20Charter.pdf?VersionId=VpfEof7DYAEd5yI1BFG42xzurHe_S19d

16 UNESCAP (2016). *The Economics of Climate Change in the Asia-Pacific Region*. https://www.unescap.org/sites/default/files/The%20Economics%20of%20Climate%20Change%20%20in%20the%20Asia-Pacific%20region.pdf

17 UNCTAD (2015). Background paper on: Climate Change and Debt Sustainability in the Caribbean: Trouble in Paradise? https://unctad.org/system/files/non-official-document/tdb_efd2c01_Munevar_en.pdf

18 Climate Analytics (2022). The IPCC has highlighted the Caribbean's vulnerability to climate change: what does this mean for climate justice. https://climateanalytics.org/blog/2022/the-ipcc-has-highlighted-the-caribbeans-vulnerability-to-climate-change-what-does-this-mean-for-climate-justice/

Table 2.1 Climate risk profile of selected Commonwealth countries (2020) according to vulnerability and readiness rankings

Country name	Vulnerability rank	Readiness rank	Country name	Vulnerability rank	Readiness rank
Bangladesh	154	168	Nigeria	130	179
Belize	111	135	Pakistan	147	150
Cameroon	124	178	Papua New Guinea	153	163
Fiji	96	66	Rwanda	172	90
Gabon	87	156	St Kitts and Nevis	109	33
Gambia	155	141	Samoa	128	88
Ghana	119	124	Seychelles	118	75
Guyana	112	147	Sierra Leone	163	144
India	132	104	Solomon Islands	166	94
Jamaica	88	99	Sri Lanka	123	100
Kenya	144	154	Tanzania	138	153
Kiribati	..	76	Togo	141	127
Lesotho	127	149	Tonga	168	95
Malawi	158	160	Trinidad and Tobago	45	131
Maldives	143	83	Tuvalu	..	..
Mauritius	90	32	Uganda	170	161
Mozambique	135	172	Vanuatu	157	117
Namibia	121	109	Zambia	139	143
Nauru	..	61			

Source: Notre Dame Global Adaptation Index. Vulnerability rank is based on the country's exposure, sensitivity and ability to adapt to the negative impact of climate change. Higher rank means more vulnerable, and vice versa. Readiness rank is based on the country's ability to leverage investments and convert them to adaptation actions. Lower rank means the country is less ready to adapt to climate change and vice versa.

heatwaves, drought, coastal erosion and sea-level rise. [19] The countries in South Asia are exposed to severe droughts due to warmer temperatures, floods due to heavy rain and low-lying coastal areas, coastal erosion due to increased sea levels and increasingly frequent and devastating cyclones due to increased ocean temperature.[20] Additionally, the retreating glaciers in the Himalayas and the long-run depletion of water supplies could create severe problems for several countries in South Asia including India, Pakistan[21] and Bangladesh.[22] The high population density and a large portion of the population living near coastal areas in these three areas in the Commonwealth make them vulnerable to climate change events. According to the Structural Vulnerability and Resilience Index (SVRI) developed by the Commonwealth, small Commonwealth countries are among the most vulnerable countries not only to climate change but also economics.[23] The same study

19 IPCC (2019). *Summary for Policymakers*. Cambridge University Press. Cambridge, UK and New York, USA. pp.3–35. https://www.ipcc.ch/report/ar6/wg2/downloads/report/IPCC_AR6_WGII_SummaryForPolicymakers.pdf

20 World Bank. (2021). *Climate Change Action Plan 2021–25. South Asia Roadmap*. https://openknowledge.worldbank.org/bitstream/handle/10986/36321/164599.pdf

21 Yale School of Environment (2022). As Himalayan Glaciers Melt, a Water Crisis Looms in South Asia. https://e360.yale.edu/features/himalayas-glaciers-climate-change

22 Observer Research Foundation (2020). Retreating Glaciers and Water Flows in the Himalayas: Implications for Governance. https://www.orfonline.org/research/retreating-glaciers-and-water-flows-in-the-himalayas-implications-for-governance/

23 The Commonwealth (2021). The Commonwealth Universal Vulnerability Index. https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/migrated/inline/Universal%20Vulnerability%20Index%20Report.pdf

suggests that many SIDS and Commonwealth members also appear among the more vulnerable developing countries.

Climate adaptation is a response to climate change that requires investing in climate-resilient infrastructure, changing people's ways of living and designing policies and regulations to face climate change events. For example, consideration of climate change in land-use laws, spreading awareness among households and firms on the importance of climate-change adaptation, and providing adequate support are critical climate adaptation actions.[24] Of the 50 least prepared countries to adapt to the effects of climate change, 15 countries are also in the Commonwealth (see table 2.1). Historically, these countries have a relatively smaller share of global greenhouse gas (GHG) emissions, but they are disproportionally affected by climate change, particularly SIDS[25] and LDCs.[26] Adaptation efforts often need large financial resources, but these countries commonly face financial constraints, lack institutional capability and have structural weaknesses that prevent them from preparing to step up their climate actions. They need support from developed countries and international institutions for their climate actions.[27]

24 Global Commission on Adaptation. (2019). *Adapt Now: A Global Call for Leadership on Climate Resilience*. https://gca.org/wp-content/uploads/2019/09/GlobalCommission_Report_FINAL.pdf

25 House of Commons Library. (2021). Commonwealth small island developing states and climate change. https://researchbriefings.files.parliament.uk/documents/CBP-9339/CBP-9339.pdf

26 United Nations. (2019). Unprecedented Impacts of Climate Change Disproportionately Burdening Developing Countries, Delegate Stresses, as Second Committee Concludes General Debate. https://press.un.org/en/2019/gaef3516.doc.htm

27 Commonwealth Secretariat (2022). Commonwealth Living Lands Charter: A Commonwealth Call to Action on Living Lands (CALL). https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-06/Commonwealth%20Living%20Lands%20Charter.pdf?VersionId=VpfEof7DYAEd5yI1BFG42xzurHe_S19d

3. Development finance vs climate finance

Lack of clarity about development finance and climate finance

Although climate finance is a prerequisite for several countries to meet their international climate commitments, there is no internationally agreed definition of climate finance.[28] The lack of an agreed definition leads to misleading reporting of climate finance flows from developed to developing countries. For example, there is a big question about whether private or commercial finance can be counted as climate finance.

Development finance and climate finance are different. Development finance is commonly understood as providing necessary financial resources for developmental projects, for example, education, healthcare and infrastructure in LDCs and developing countries. Climate finance is related to financing projects and programmes in developing countries and LDCs that can specifically support their climate actions. There are two types of international climate finance: climate mitigation and climate adaptation. Climate mitigation is related to the activity that helps reduce or limit GHG emissions, including GHG sequestration.[29] Climate adaptation is related to the activities that enable adaptation to the adverse impact of climate change.[30] The LDF, agreed at COP27, has great potential to alleviate the extreme weather events due to climate change. Loss and damage financing refers to financing the losses and damages attributed to climate-induced extreme weather events.[31] Loss and damage financing helps vulnerable countries to recover quickly from the worst impacts of climate-related extreme events such as hurricanes. If structured fairly, it can help vulnerable countries to recover more quickly, thereby enabling them to pursue sustainable development goals (SDGs). The loss and damage financing from developed countries must clearly be separated from existing climate finance (adaptation and mitigation). Also, it must not be clubbed with development finance since loss and damage financing is ex-post (after the climate-induced event) financing support, and developed countries would incline to consider it as development finance.

Most of the time, climate finance and development finance are used interchangeably as several facets of climate finance resemble development finance characteristics. Out of US$121.3 billion of official development assistance (ODA), 27 per cent (US$33 billion) had climate objectives in 2019. Of this, climate mitigation was the focus of 45 per cent of climate-related ODA, followed by climate adaptation, accounting for 25 per cent, and the rest had both climate mitigation and adaptation objectives.[32] While climate mitigation areas involve transport and energy, climate adaptation often focuses on ecosystems.

Another interesting observation on climate finance is related to fund recipients. While there is synergy between climate adaptation finance and development finance in LDCs and MICs, the relationship between climate mitigation finance and development finance is weak in the MICs.[33] While energy access, closely related to development, is no longer a developmental challenge in the MICs, the transition to low-carbon energy is. This lack of clarity between development finance and climate

28 Climate Policy Initiative (2020). *Accelerating Green Finance in India: Definitions and Beyond*. https://www.climatepolicyinitiative.org/wp-content/uploads/2020/07/Accelerating-Green-Finance-in-India_Definitions-and-Beyond.pdf

29 World Bank. (2015). *Common Principles for Climate Mitigation Finance Tracking*. https://www.worldbank.org/content/dam/Worldbank/document/Climate/MDB%20IDFC%20Mitigation%20Finance%20Tracking%20Common%20Principles%20-%20V2%2015062015.pdf

30 UN Environment Programme (no date). Climate Finance. https://www.unep.org/explore-topics/climate-action/what-we-do/climate-finance

31 Shawoo, Z., Maltais, A., Bakhtaoui, I. and Kartha, S. (2021). Designing a fair and feasible loss and damage finance mechanism. SEI brief. http://doi.org/10.51414/sei2021.024

32 OECD (2022). Climate Change: OECD DAC External Development Finance Statistics. https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/climate-change.htm

33 Steele, P. (2015). Development finance and climate finance: achieving zero poverty and zero emissions. International Institute for Environment and Development. https://www.iied.org/development-finance-climate-finance-achieving-zero-poverty-zero-emissions

finance leads to unreliable reporting of climate finance, resulting in a loss of confidence among developing countries in the developed countries' commitment to offering climate finance.

Official Development Assistance: eligibility and exclusion

The eligibility criteria for receiving ODA expose several SIDS to developmental challenges. After SIDS migrate to upper income for three consecutive years, they are no longer eligible to receive ODA. Similarly, as countries migrate from lower/middle income to upper middle income status, they are no longer eligible to receive concessional capital from multilateral financial institutions. The criteria for categorising different income buckets are based on gross national income (GNI) per capita. However, this criterion often does not indicate the true developmental progress in the countries concerned.[34] The indicator also does not reflect the vulnerability and smallness of SIDS. They are heavily exposed to extreme weather-related events, and their small economic size constrains them from investing in resilient infrastructure to climate-related disasters and other natural shocks. Evidence suggests that bilateral aid for the eligible countries scales down when they move up to become MICs. This concern is reflected in paragraph 41 in the communique of the 2022 CHOGM,[35] during which it was emphasised that international climate financiers should consider countries' vulnerability to the impact of climate change in their climate finance mobilisation and access support mechanisms.

While climate finance is important for these countries, development finance is equally important and cannot be compromised. Vulnerable countries need additional assistance for climate finance, separate from development finance. Further, too much disbursement of development finance into climate-change-related activities may compromise all other developmental aspects. Evidence suggests that international public finance for climate finance in the MICs is crowding out finance for SDGs, particularly in the LDCs.[36] For example, climate-related bilateral climate-related ODA as a percentage of the total increased from 21.2 per cent in 2013 to 28.3 per cent in 2020, but the share of non-climate developmental components shrank from 78.8 per cent in 2013 to 71.7 per cent in 2020. Healthcare, education and basic infrastructure may not directly or fully help in climate-change mitigation and adaptation action, but they are equally or more important than climate action, and thus cannot be compromised.

34 Bishop, M. L. and Murray-Evans, P. (2020). Five little B (R) ICS: Huffing and puffing, but not blowing your house. *New Political Economy*, *25*(5), pp. 691–702.

35 The Commonwealth (2022). Communique of the Commonwealth Heads of Government Meeting (CHOGM). 'Delivering a common future: connecting, innovating, transforming'. https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-06/CHOGM%202022%20Communique.pdf?VersionId=sqWEwpE4gyzg8wIdTCoPO0yQgVNZ7Izy

36 Steele, P. (2015). Development finance and climate finance: achieving zero poverty and zero emissions. International Institute for Environment and Development. https://pubs.iied.org/sites/default/files/pdfs/migrate/16587IIED.pdf?

4. Challenges to accessing development finance with a focus on climate finance

Macro-economic challenges

Several Commonwealth countries do not have diversified economies due to the absence of a strong domestic market driven by the export of commodities[37] and heavy reliance on tourism. Several SIDS also depend heavily on fossil fuel to meet their energy needs, rendering them vulnerable to volatile global energy prices.[38] The SIDS do not have economies of scale owing to small populations. This constrains them from producing goods and services at the minimum efficient scale and leads to a lack of competitive advantage.[39] All these factors cause lower per capita income and limited financial savings.

Governance challenges

Some LDCs and SIDS are also hampered by governance challenges leading to inefficient economic and fiscal policies. The challenges with the enforcement of laws and contracts, ineffective regulatory frameworks, poor property rights and uncertain policies and regulations impede capital flows to commercial and developmental activities. There are also concerns over transparency in public procurement and project contracts. Often there is a lack of co-ordination between different stakeholders, which constrains the mobilisation of climate capital flows.[40]

For example, the limited co-ordination across different ministries inhibits capital flows for climate actions.[41] Moreover, there is an information gap on the costs and benefits of climate action change.[42] Climate-related projects are sometimes not prioritised in annual or long-term development planning.[43] One of the requirements for international climate finance institutions to approve climate finance is if climate finance proposals align with the respective government's national policies and objectives.

Institutional and structural capacity

The financial institutions in several LDCs and SIDS do not have the administrative and financial capacity to manage international climate finance effectively and efficiently by following pertinent regulations. Also, the financial reporting and disclosure mechanisms are not in place to provide reliable and complete information on the management of funds. In addition, there are challenges related to programme management and accountability in managing international climate finance. Some institutions also do not have the capacity to conduct audits to assess the effectiveness of institutional funding. The climate-change policies and regulations, sectoral and holistic, are not properly developed to attract public and private financiers. The skills, knowledge and capacity required to develop climate mitigation and adaptation projects are limited.[44]

37 Gelb, A. (2010). Seminar Paper. Economic Diversification in Resource Rich Countries. https://www.imf.org/external/np/seminars/eng/2010/afrfin/pdf/Gelb2.pdf

38 Atteridge, A. and Savvidou, G. (2019). Development aid for energy in small island developing states. *Energy, Sustainability and Society,* 9(1), pp. 1-16. https://doi.org/10.1186/s13705-019-0194-3

39 Chand, S. (2004). *Development Challenges for Small Economies of the Commonwealth*. https://www.um.edu.mt/library/oar/bitstream/123456789/61278/1/Development_challenges_for_small_open_economies_of_the_commonwealth.pdf

40 Prasad, A., Loukoianova, E., Xiaochen Feng, A. and Oman, W. (2022). *Climate Financing in Emerging Market and Developing-Economies*. International Monetary Fund. https://www.imf.org/en/Publications/staff-climate-notes/Issues/2022/07/26/Mobilizing-Private-Climate-Financing-in-Emerging-Market-and-Developing-Economies-520585

41 Fouad, M., Novta, N. Preston, G., Schneider, T. and Weerathunga, S. (2021). *Unlocking Access to Climate Finance for Pacific Islands Countries*. International Monetary Fund. https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/09/23/Unlocking-Access-to-Climate-Finance-for-Pacific-Islands-Countries-464709

42 Energy & Climate Intelligence Unit (2022). Climate economics costs and benefits. https://eciu.net/analysis/briefings/climate-impacts/climate-economics-costs-and-benefits

43 As in footnote 40.

44 Commonwealth Secretariat (2022). *Toolkit to Enhance Access to Climate Finance. A Commonwealth Practical Guide*. https://unfccc.int/sites/default/files/resource/Toolkit_to_Enhance_Access_to_Climate_Finance_UPDF.pdf

Lack of project pipeline

There is a limited number of robust and tangible pipelines due to issues associated with project development, financial structuring and misalignment with the country's NDCs, national adaptation plans (NAPs) or any other national plans.[45] Project development constraints are related to the technical deficiency in identifying suitable project sites or the right technologies and vendors, completing feasibility studies and developing an effective public bidding process. There is also a limited number of commercially viable climate projects due to a lack of ability to pay for climate projects and the higher cost of capital. The limited ability to develop the right financial proposals to meet the needs of the international climate financial institutions is a key constraint on a country's climate finance mobilisation efforts.

Project design

The international climate finance institutions' criteria for choosing which climate projects are financed are quite complex, and often pose a significant barrier to access. These institutions assess project proposals from multiple angles, including the country ownership of the project, development impact, catalytic potential, stakeholder engagement and involvement of other financiers, preferably domestic financiers.[46] The inability of several LDCs and SIDS in the Commonwealth to meet these stringent conditions strains their access to climate finance. Further challenges are associated with the financial structuring of climate adaptation projects. These projects often resemble the characteristics and challenges of public goods – unclear revenue generation and difficulty in monetising. Adaptation projects therefore require a different approach to developing financial proposals.

The Commonwealth Climate Finance Access Hub (CCFAH) developed a 'Toolkit to Enhance Access to Climate Finance'. The toolkit offers an overview of the key international climate funding opportunities, as well as the associated procedures, policies and requirements of the various climate funds. This is a practical guide based on hands-on experiences from the last five years of work of CCFAH that will enable governments and other climate finance access entities to increase methods of access.

45 As in footnote 40.

46 As in footnote 43.

5. Mainstreaming climate investment planning into development financing

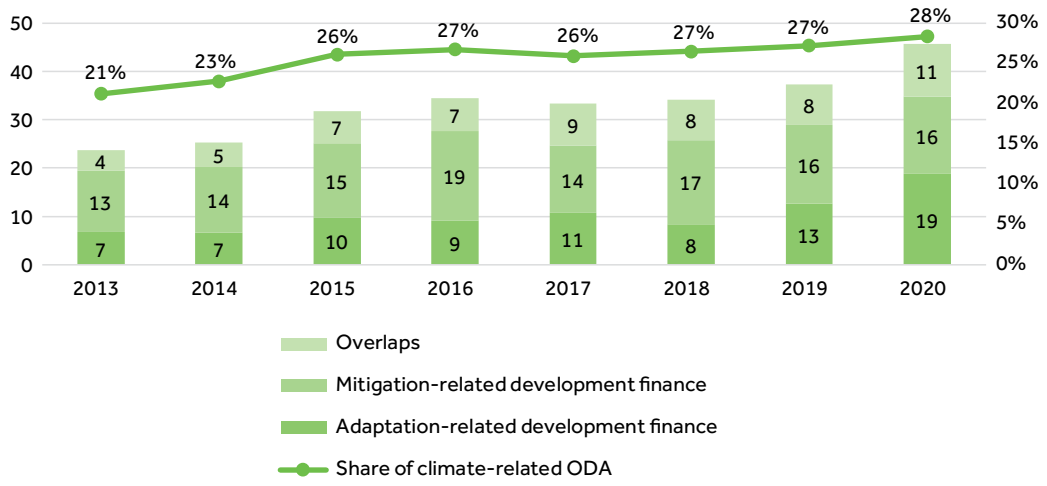
Issues in integrating climate finance and development finance

Developed countries have committed to increasing development assistance to 0.7 per cent of their GDP to developing countries.[47] Climate finance support is additional to conventional development assistance. However, the integration of climate finance and development finance is raising concerns in developing countries. Since climate finance contributed by developed countries can also qualify as development finance, developed countries often report this assistance as climate finance.[48] Development projects offer climate benefits, and climate projects have developmental benefits. However, developing countries are worried that an increase in climate finance would lead to a decrease in development finance (see Figure 5.1). The increase in international public climate finance to MICs may crowd-out development finance from LDCs. It must be amply clear that climate finance is new and additional, and it must not undermine development finance – both are equally crucial for vulnerable countries.[49]

Synergies between climate and development finance

There are several commonalities between the development of an economy and the protection of the environment: their relationship is more relevant in developing countries and LDCs. These countries still rely heavily on agriculture which is vulnerable to climate change. They are also more vulnerable to

Figure 5.1 Bilateral climate-related ODA: development finance and climate finance



Source: OECD. (2022). Aggregate trends of climate finance provided and mobilised by developed countries in 2013–2020. https://doi.org/10.1787/d28f963c-en.

47 OECD (2016). The 0.7% ODA/GNI target – a history. https://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/the07odagnitarget-ahistory.htm

48 Steele, P. (2015). Development finance and climate finance: Achieving zero poverty and zero emissions. Discussion Paper. International Institute for Environment and Development. http://pubs.iied.org/16587IIED

49 Mitchell, I., Ritchie, E. and Tahmasebi, A. (2021). Is Climate Finance Towards $100 Billion 'New and Additional'? CGD Policy Paper 205. Washington, DC: Center for Global Development. https://www.cgdev.org/publication/climate-finance-towards-100-billion-new-and-additional

extreme weather events in terms of intensity and frequency. Their lower resilience is due to a lack of properly developed infrastructure, weak social safety nets and limited fiscal space.

Climate-change events aggravate developmental challenges. Therefore, investment in climate adaptation can significantly help development by lessening the adverse impact of climate-related extreme events. Subsidising low-carbon energy systems instead of fossil fuels will mitigate carbon emissions and pollution challenges. As climate change and development are complementary challenges for these countries, channelling capital to economic activities that can address these twin challenges is the best use of development finance.[50]

Aligning climate finance and development finance

Capital must be channelled towards developmental activities in developing countries and LDCs, not only to protect life and livelihood but also to improve standard of living. However, there is a high possibility that financing for development without considering environmental sustainability will expose countries to climate-change risks, thereby aggravating developmental challenges. Short-sighted economic development measures can increase carbon emissions and leave countries exposed to material climate change and biodiversity risks that they can ill afford to ignore.

Although development finance has the singular goal of developing a country's economy, there are specific ways that development finance can be deployed. This can offer long-term environmental benefits and transition to a low-carbon economy, making the country climate-resilient. There are ways to make the twin goals complementary instead of competing. Hence, it is essential to explore developmental finance mechanisms that support climate mitigation and adaptation projects and push a country's developmental agenda. Here, it is important to identify climate adaptation and mitigation projects that offer environmental benefits while alleviating developmental challenges. There are two ways in which climate finance and development finance can go hand in hand: supporting green economic transition; and integrating development projects with climate plans.

Green economic transition

Almost all the countries, including developing countries, LDCs and SIDS in the Commonwealth, have signed the Paris Agreement and agreed to decarbonise their economies.[51] The decarbonisation of economies requires financing across different sectors and functions, with a particular focus on energy and agriculture.[52] As these countries' economies grow, these two sectors will be the major sources of rising GHG emissions. The demand for a 'just transition' is noted in para 16 in the communique of the CHOGM 2022.[53] It highlights that developing countries, LDCs and SIDS need financial support for their climate actions with reference to the COP26 Glasgow Climate Pact.

For several countries in the Commonwealth, the transition to green energy and transport systems will help them reduce their reliance on imported fuels,[54] thereby reducing foreign exchange pressure. The financial saving from energy transitions in electricity and transport can be diverted to other developmental activities. Besides reducing GHG emissions, adopting renewable energy offers additional benefits such as reducing pollution levels, generating employment and widening energy access efficiently.[55] For example, integrating distributed solar irrigation systems with rural electrification strategies mitigates electricity access and supply challenges. Distributed electricity can be used for many activities, including drinking water treatment, cold storage, agro-based industries and household electrification.

50 Klein, R. J. (2010). Linking adaptation and development finance: A policy dilemma not addressed in Copenhagen. *Climate and Development*, 2(3), pp. 203–206.

51 UN Sustainable Development Goals. (2022). List of Parties that signed the Paris Agreement on 22 April. https://www.un.org/sustainabledevelopment/blog/2016/04/parisagreementsingatures/

52 Climate Watch (no date). Global Historical Emissions. https://www.climatewatchdata.org/ghg-emissions?breakBy=sector&chartType=percentage&end_year=2019&start_year=1990

53 Commonwealth Secretariat (2022). Commonwealth Living Lands Charter: A Commonwealth Call to Action on Living Lands (CALL). https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-06/Commonwealth%20Living%20Lands%20Charter.pdf?VersionId=VpfEof7DYAEd5yI1BFG42xzurHe_S19d

54 World Bank (2022). Energy Imports. https://data.worldbank.org/indicator/EG.IMP.CONS.ZS

55 Gielen, D., Boshell, F., Saygin, D., Bazilian, M.D., Wagner, N. and Gorini, R. (2019). The role of renewable energy in the global energy transformation. *Energy Strategy Reviews*, 24, pp. 38-50. https://www.sciencedirect.com/science/article/pii/S2211467X19300082

Integrating development projects with climate plans

Countries' national development plans must mainstream climate-change aspects:[56]

1. Projects and programmes should not be carbon-intensive during the development and operational stages.
2. Projects and programmes must be climate-resilient – integrating climate-change adaptation with development planning.

The developing countries, LDCs and SIDS will continue to increase their spending on infrastructure assets[57] (for example transport, energy systems, water supplies, waste management and so on), including social infrastructure assets, like housing, to grow their economies and improve standard of living. All these assets have a long life and can be carbon-intensive at the construction and/or usage stages. These assets should not only be less carbon-intensive over their lifetime but also must be built to withstand natural disasters. International public financial institutions can identify ways and means to decarbonise these assets at both construction and usage stages, and ensure that all the assets are climate-proof. For example, developing countries are expected to invest in affordable housing, a key developmental indicator. However, housing is carbon-intensive during the construction stage (materials) and the entire lifecycle (electricity).[58] The focus should be on using less carbon-intensive construction materials and building the houses in a way that requires less energy over their lifetime. Similarly, houses must be resilient against climate-related events such as heatwaves or increasing temperatures and cyclones. Development finance can help meet multiple objectives in this case: making housing affordable and accessible (development objectives), reducing energy needs and saving on electricity bills over the life of houses (climate and development objectives), and making housing climate-resilient (climate and development objectives).

Gender-based financing

Of the 1.8 billion people who live in poverty, the proportion of women is higher than that of men.[59] Women are disproportionally affected by climate change as the household work undertaken by them can be highly dependent on natural resources – collecting water, food and fuel, for example. Finance can ensure that gender-aligned policies and strategies are implemented to accelerate programmes and projects for the benefit of women.[60] For example, solar energy-powered cooking stoves and water pumps can reduce the time and effort spent collecting wood and water. Hence, there is a need to develop financial instruments to accelerate the mobilisation of capital to advance gender equality. Out of US$40 trillion of global sustainable assets under management, only US$17 billion are gender-labelled.[61] To scale up finance for gender equality, it is equally important to both design policies and regulations and to develop best practices that consider gender equality. Several countries in the Commonwealth are integrating gender equality into NDCs. The CCFAH is developing a best practice guide that outlines actions with examples from Commonwealth member countries to help improve the gender responsiveness of NDCs.

56 Chimhowu, A.O., Hulme, D. and Munro, L.T. (2019). The 'New' national development planning and global development goals: Processes and partnerships. *World Development*, 120, pp. 76–89. https://www.sciencedirect.com/science/article/pii/S0305750X19300713

57 Aye, G.C. and Edojal (2017). Effect of economic growth on CO_2 emission in developing countries: Evidence from a dynamic panel threshold model. *Cogent Economics & Finance*. (5)1. DOI: 10.1080/23322039.2017.1379239

58 Lucon O., D. Ürge-Vorsatz, A. Zain Ahmed, H. Akbari, P. Bertoldi, L.F. Cabeza, N. Eyre, A. Gadgil, L.D.D. Harvey, Y. Jiang, E. Liphoto, S. Mirasgedis, S. Murakami, J. Parikh, C. Pyke, and M.V. Vilariño, (2014). Buildings. In: *Climate Change 2014: Mitigation of Climate Change. Contribution of Working Group III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change* [Edenhofer, O., R. Pichs-Madruga, Y. Sokona, E. Farahani, S. Kadner, K. Seyboth, A. Adler, I. Baum, S. Brunner, P. Eickemeier, B. Kriemann, J. Savolainen, S. Schlömer, C. von Stechow, T. Zwickel and J.C. Minx (eds.)]. Cambridge University Press. https://www.ipcc.ch/site/assets/uploads/2018/02/ipcc_wg3_ar5_chapter9.pdf

59 Climate Funds Update (2021). *Gender and Climate Finance*. https://climatefundsupdate.org/wp-content/uploads/2022/03/CFF10-Gender-and-CF_ENG-2021.pdf

60 OECD (2022). *Gender equality and the empowerment of women and girls: Guidance for development partners*. https://www.oecd-ilibrary.org/sites/0bddfa8f-en/1/3/4/index.html?itemId=/content/publication/0bddfa8f-en&_csp_=041825ef98737ed8609694a86239d7ce&itemIGO=oecd&itemContentType=book

61 Uzsoki, D. and Rahim, S. (2021). Integrating Gender in Sustainability-Linked Bonds. Policy brief. International Institute for Sustainability Development. https://www.iisd.org/system/files/2021-10/integrating-gender-sustainability-linked-bonds.pdf

6. Climate-change mitigation and adaptation finance

Priorities of Commonwealth countries

While reducing GHG emissions is critical to mitigating climate-change risk, adapting to climate change is equally important. Even if all countries meet their commitment made at COP15 to limit the temperature increase to 1.5 degrees since industrialisation, the impact of climate change will still be severe. Thus, it is critical for countries to prepare themselves to adapt to climate risk by building climate-resilient economic systems. Developing countries, LDCs and SIDS, though contributing only a small amount to global GHG emissions, are more vulnerable to the impact of climate change (see table 2.1). Such impact can be further exacerbated due to their socio-economic and geographical characteristics like long coastlines, course-shifting rivers, high population densities, high dependence on monsoons for agricultural activities, low per capita income and low fiscal space.[62,63,64]

Developing countries, LDCs and SIDS are expected to prioritise economic development to meet their development goals. They are less bound by stringent rules and obligations on climate-change mitigation. Additionally, as their contribution to climate mitigation is significantly lower than that of developed countries, they can prioritise climate adaptation over climate mitigation. Since there is a strong correlation between climate adaptation and development, investment in climate-resilient infrastructure and systems could reduce the vulnerability of these countries to climate-related risks.

The Global Commission on Adaptation (GCA) has identified five priority areas for climate adaptation: climate-resilient infrastructure; early warning systems; global mangrove protection; improved dryland agriculture and crop production; and water resource management resilience.[65] For example, investing US$800 million in early warning systems in vulnerable countries can avoid climate-related disaster losses by US$3–16 billion a year.

Nevertheless, climate mitigation is still important for developing countries and LDCs. As these economies are expected to grow faster than developed countries, their contribution to GHG emissions will also increase. These countries have declared their intention to decarbonise their economies through their NDCs. They are prioritising climate mitigation that can offer short- and medium-term economic benefits while not compromising their climate adaptation. For example, shifting to renewable energy will offer immediate economic benefits for several oil-importing LDCs and SIDS. The international public finance institutions must consider the potential impact of climate change on these countries' development plans and policies while supporting low-carbon economic growth.

Current funding mechanism for climate mitigation and adaptation

The sources of climate finance for developing countries, LDCs and SIDS are domestic and foreign private financiers (through banks and institutional investors and so on), domestic public capital (government budgets, for example) and international public climate finance. International public climate finance is in the form of grants, technical assistance, loans, guarantees and

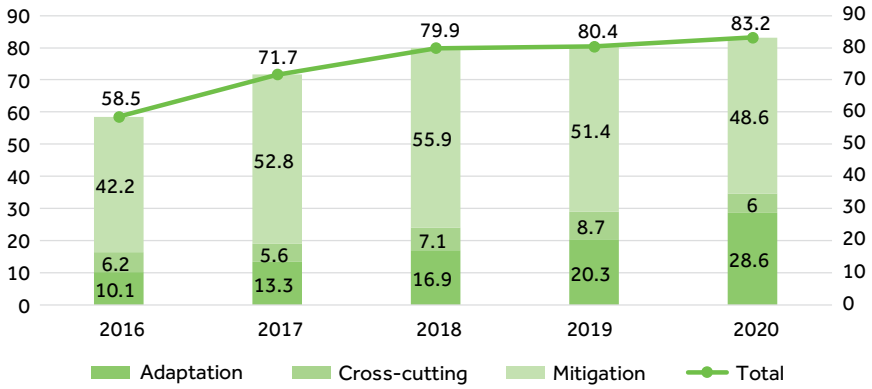
62 Asian Development Bank [ADB] (2010). *Climate Change in South Asia: Strong Responses for Building a Sustainable Future*. https://www.adb.org/sites/default/files/publication/27475/climate-change-sa.pdf

63 Fouad, M., Novta, N. Preston, G., Schneider, T. and Weerathunga, S. (2021). *Unlocking Access to Climate Finance for Pacific Islands Countries*. International Monetary Fund. https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/09/23/Unlocking-Access-to-Climate-Finance-for-Pacific-Islands-Countries-464709

64 Signé, L. and Aly Mbaye, A. (2022). Renewing global climate change action for fragile and developing countries. Working Paper #179. Brookings. https://www.brookings.edu/wp-content/uploads/2022/11/NOV-2022-Signe_Mbaye_FINAL-1.pdf

65 Global Commission on Adaptation (2019). *Adapt Now: A Global Call for Leadership on Climate Resilience*. https://files.wri.org/s3fs-public/uploads/GlobalCommission_Report_FINAL.pdf

Figure 6.1 Split of climate finance provided and mobilised (US$ billion)



Source: OECD (2022). Aggregate trends of climate finance provided and mobilised by developed countries in 2013–2020. OECD Publishing: Paris. https://doi.org/10.1787/d28f963c-en

insurance, channelled primarily through MDBs (for example the World Bank, Asian Development Bank), specialised green finance institutions (for example the Green Climate Fund, Global Environment Facility) or bilateral transfers. While developing countries can access domestic and international private capital in a business-as-usual scenario, the effective deployment of international public climate finance is a critical issue, with key challenges associated with the quality and composition of climate finance.[66]

Based on recent estimates from the Organisation for Economic Co-operation and Development (OECD), climate finance mobilised by developed countries for developing countries was US$83.3 billion in 2020. These estimates are, however, disputed unequivocally by most recipient countries because a proper method is not used to estimate the actual finance mobilised by developed countries towards the US$100 billion obligations.[67] Such inconsistency in estimating international climate finance arises primarily because of two key issues related to the taxonomy of international climate finance:[68] clubbing development finance with climate finance; and counting private finance as climate finance support.

The developing countries have concerns over the classification and tracking of climate finance. For example, private capital as a natural commercial orientation should not be termed climate finance. Development assistance by MDBs and bilateral institutions through loans, guarantees and export credits is often classified as climate finance.

Before commitment to climate finance, this financing was available to developed countries in a business-as-usual scenario. [69]

Another cause of concern is that the allocation of international climate finance for climate adaptation is significantly less than climate mitigation (see Figure 6.1). The total climate adaptation finance mobilised so far is significantly lower than the needs of developing countries, LDCs and SIDS to make themselves climate-resilient. Over 2016-20, the OECD estimated the share of climate adaptation finance to be only US$20.1 billion of the total US$79.6 billion climate finance tracked.[70] Investment in mitigation projects is politically popular as it leads to a reduction in carbon emissions. Additionally, several climate mitigation projects in MICs are commercially viable and attract private financiers. On the contrary, climate adaptation projects are not commercially viable and rely heavily on public funding. These projects usually do not yield investment returns commensurate with the risk involved.

Another concern is the allocation of international public climate finance among countries – climate

66 Independent Experts Report Summary. (n.d.) Delivering on the $100 billion climate finance commitment and transforming climate finance. https://www.un.org/sites/un2.un.org/files/climate_finance_report.pdf

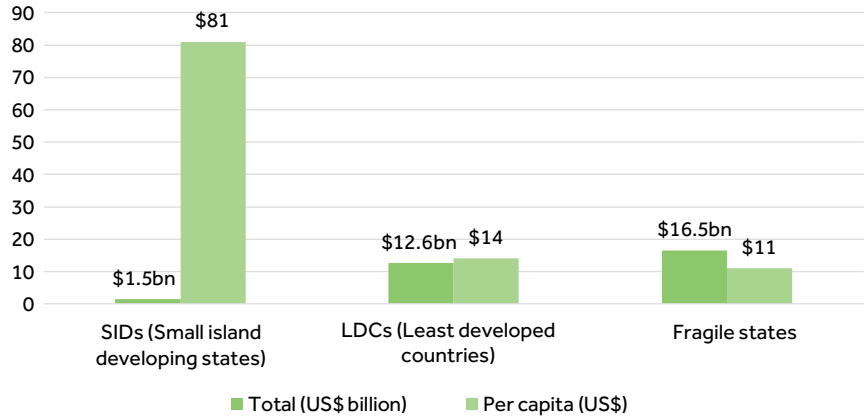
67 Timperley, J. (2021, October 20). The broken $100-billion promise of climate finance — and how to fix it. *Nature*. https://www.nature.com/articles/d41586-021-02846-3

68 Weikmans, R. and Roberts, J. T. (2019). The international climate finance accounting muddle: Is there hope on the horizon? *Climate and Development*, *11*(2), pp. 97–111.

69 OECD. (2022). *Aggregate Trends of Climate Finance Provided and Mobilised by Developed Countries in 2013–2020*. https://doi.org/10.1787/d28f963c-en

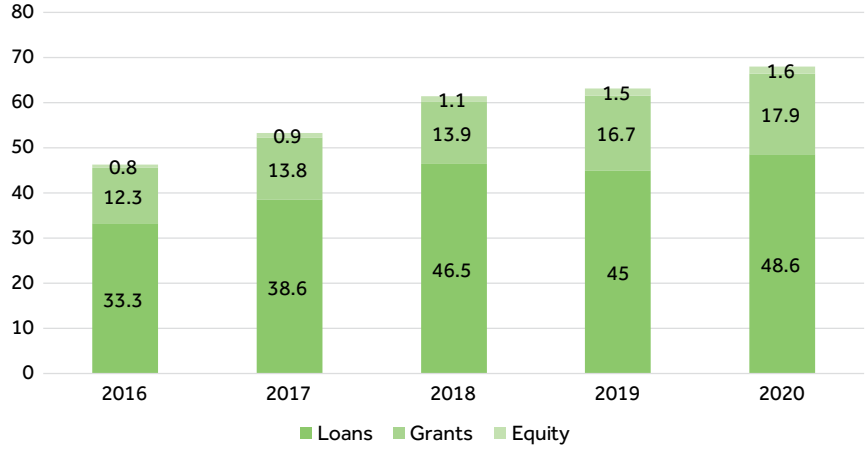
70 Ibid.

Figure 6.2 Climate finance provided and mobilised in SIDS, LDCs and fragile states in 2016–2020 (annual average)



Source: OECD (2022). Aggregate trends of climate finance provided and mobilised by developed countries in 2013–2020. OECD Publishing: Paris. https://doi.org/10.1787/d28f963c-en

Figure 6.3 Instrument split of public climate finance in 2016–20 (US$ billion)



Source: OECD (2022). Aggregate trends of climate finance provided and mobilised by developed countries in 2013–2020. OECD Publishing: Paris. https://doi.org/10.1787/d28f963c-en

finance is not provided to countries based on the needs of recipient countries. While a large chunk of public capital is allocated to MICs, LDCs and SIDS get a smaller proportion of climate finance even though they are more vulnerable to climate change (see Figure 6.2).

The common form of international public climate financing instruments is debt capital – concessional and non-concessional (see Figure 6.3). There are concerns about whether the concessional capital provided by international public climate finance institutions is as concessional as they claim.[71] There is also evidence that suggests that climate finance is crowding out private capital.[72]

Current climate finance funding gaps in the Commonwealth

The capital flows to climate sectors are very low compared to the requirements. The IPCC estimates that for a 1.5°C trajectory, there is a need to increase annual climate finance flows by a multiple of between four and five, from US$700–750

71 Government of India (2015). *Climate Change Finance, Analysis of a Recent OECD Report: Some Credible Facts Needed.* https://dea.gov.in/sites/default/files/ClimateChangeOEFDReport_0.pdf

72 Bhandary, R.R., Gallagher, K.S. and Zhang, F. (2019). *Climate Finance Policy in Practice: A Review of the Evidence.* The Center for International Environment & Resource Policy, Tufts University. https://sites.tufts.edu/cierp/files/2019/11/CPL_ClimateFinancePolicyinPractice.pdf

billion to more than US$3 trillion.[73] The scale of climate finance needed in developing countries is comparatively larger than in developed countries. While developing countries must invest 5–10 per cent of their current GDP in climate mitigation, developed countries must invest only two to four per cent of their current GDP.[74] The scale of the climate finance gap is even more in vulnerable countries and SIDS. For example, Pacific Island Countries (PICs) face average additional annual spending needs estimated at 6.5 to 9.0 per cent of GDP. For some countries in the PIC region, the expected costs exceed 10 per cent of GDP.[75]

Emerging and developing economies (EMDE) need to invest about US$1 trillion a year in renewable energy over 2021-2030 but invested less than US$500 billion between 2016 and 2020.[76] In a business-as-usual scenario, the investment gap in low-carbon infrastructure would be US$15–30 trillion by 2040.[77] The investment gap does not include the funding required to transition to a green economy and will lead to massive loss and gain of direct and indirect jobs. The countries must invest extensively in knowledge sharing, skilling and reskilling, and training their workforce to prepare them for new jobs in a green economy.

73 IPCC. (2022). *Climate Change 2022: Impacts, Adaptation and Vulnerability.Contribution of Working Group II to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*. https://www.ipcc.ch/report/ar6/wg2/

74 IPCC (2022). *Climate Change 2022: Mitigation of Climate Change*. https://www.ipcc.ch/report/ar6/wg3/

75 Fouad, M., Novta, N. Preston, G., Schneider, T. and Weerathunga, S. (2021). *Unlocking Access to Climate Finance for Pacific Islands Countries*. International Monetary Fund. https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2021/09/23/Unlocking-Access-to-Climate-Finance-for-Pacific-Islands-Countries-464709

76 IEA. (2021). Financing clean energy transitions in emerging and developing economies. https://www.iea.org/reports/financing-clean-energy-transitions-in-emerging-and-developing-economies

77 Green Climate Fund. (2020). *Tipping or turning point: Scaling up climate finance in the era of COVID-19*. Working Paper No. 3. https://www.greenclimate.fund/sites/default/files/document/gcf-working-paper-tipping-or-turning-point-scaling-climate-finance-era-covid-19.pdf

7. Bridging the funding gap: the role of stakeholders

Rethinking the role of MDBs and DFIs

The role of MDBs and DFIs is vital for vulnerable countries in the Commonwealth, given that the amount of capital required to fund their necessary climate actions is far more than their fiscal capacity. Additionally, private finance is scarce in these countries for climate projects, particularly adaptation projects. Here, MDBs and DFIs, vital sources of international public capital, can be deployed to maximise the developmental impact with a focus on climate change.

In principle, development additionality and financial additionality (the amount of private capital deployed per unit of public capital) should be the two principles of the capital deployment strategies of MDBs since sovereign governments fund MDBs. While climate mitigation projects can address carbon emission issues, thereby addressing global challenges, climate adaptation projects more commonly target country- and region-specific challenges.

Leverage of public capital is essential since the total amount of MDBs is too low to meet all the developmental projects. For example, the combined asset-size of the International Bank for Reconstruction and Development (IBRD) and Asian Development Bank (ADB) was less than US$500 billion by the end of 2018 compared to the annual financing needs of developing countries of US$2.5 trillion to achieve the 17 SDGs.[78] Since MDBs have a higher appetite for risk than private capital, their capital should focus on de-risking projects to attract private capital. Hence, MDBs should change their capital deployment strategy. They should use risk-mitigating financial instruments such as guarantees, insurance and local currency hedging, which can de-risk project/business or financial risk. These mitigating risk instruments can bridge projects and private capital, thereby attracting much-needed private capital into green projects.

MDBs' preference of providing debt capital to LDCs and SIDS should be reconsidered when these countries are already under debt pressures. The debt level of vulnerable countries is already high after the COVID-19 pandemic, so additional debt capital will increase the risk of debt distress and defaults. Vulnerable countries could face challenges in debt servicing even if the debt is concessional and long-term. Several climate projects in the LDCs and SIDS are not viable even if financed by concessional debt capital. DFIs and MDBs should facilitate and accelerate grants to low income and vulnerable income countries instead of debt to meet their minimum climate adaptive and development needs to generate higher social returns. For example, in several LDCs and SIDS the market-determined tariff from the solar sector is not attractive for households whose per capita income is low[79,80]; the deployment of solar projects is addressing electricity access challenges. Here, DFIs and MDBs can make it possible to bridge the gap between affordable and market-determined electricity tariffs by offering grant capital.

DFIs and MDBs can not only provide critical capital but also manage risks, share knowledge and develop institutional capacity and partnerships for development projects in the target countries. MDBs and DFIs can support vulnerable countries by strengthening administrative and financial structures for better transparency and accountability. This can help these vulnerable countries access global public capital. They can support these countries in identifying and designing projects to develop pipeline projects for funding. The CCFAH supports LDCs and SIDS in the Commonwealth to develop proposals to access

78 Data extracted from World Bank and Asian Development Bank websites.

79 Asian Development Bank (2021). *Pacific Energy Update 2020*. https://www.adb.org/sites/default/files/institutional-document/671701/pacific-energy-update-2020.pdf

80 IRENA (2021). *The Renewable Energy Transition in Africa*. https://www.irena.org/publications/2021/March/The-Renewable-Energy-Transition-in-Africa

climate finance and build the country's capacity. It also offers policy, regulatory and other technical advisory services.[81]

Alternative funding mechanisms of these institutions

Blended financing

As public capital is limited, there is an urgent need to attract private capital to climate projects.[82] However, private financiers are often reluctant to invest in these projects as perceived/real risk is high.[83] Higher risk in these projects translates into a higher cost of capital, which often makes the project commercially unviable. An efficient blending of private and public capital through appropriate structuring can reduce risks in these projects and, consequently, the cost of capital.[84] An efficient capital structure would help attract low-risk-seeking financiers and make the project commercially viable by reducing the cost of capital. The blended financing fund structure can be attractive for private financiers: public capital can be used as first loss protection.[85] Public climate finance can be deployed in projects either as equity or debt investors or by offering a partial credit guarantee that helps in enhancing the credit profile of projects.[86] Improvement in credit profile can attract private financiers to these climate projects.

81 Commonwealth Climate Finance Access Hub. https://thecommonwealth.org/our-work/commonwealth-climate-finance-access-hub

82 Prasad, A., Loukoianova, E., Xiaochen Feng, A. and Oman, W. (2022). Mobilizing Private Climate Financing in Emerging Market and Developing Economies. IMF Staff Climate Note. IMF. https://www.imf.org/-/media/Files/Publications/Staff-Climate-Notes/2022/English/CLNEA2022007.ashx

83 Mutambatsere, E. and Schellekens, P. (2020). The why and how of blended finance. Recommendations to Strengthen the Rationale for and Efficient Use of Concessional Resources in Development Finance Institutions' (DFI) Operations. International Finance Corporation World Bank Group. https://www.ifc.org/wps/wcm/connect/768bcbe9-f8e9-4d61-a179-54e5cc315424/202011-New-IFC-Discussion-Paper.pdf?MOD=AJPERES&CVID=no0db6M

84 OECD (2018). *OECD DAC Blended Finance Principles for Unlocking Commercial Finance for the Sustainable Development Goals*. https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf

85 International Development Finance Club (2019). Blended Finance: A Brief Overview. https://www.idfc.org/wp-content/uploads/2019/10/blended-finance-a-brief-overview-october-2019_final.pdf

86 UNEPFI (2021). Scaling Blended Finance. UN-convened Net-Zero Asset Owner Alliance Discussion Paper. https://www.unepfi.org/wordpress/wp-content/uploads/2021/12/NZAOA_Scaling-Blended-Finance.pdf

For example, the unused and new SDR available to lower and middle income countries can be used judiciously to attract the private sector for climate and development projects. Bridgetown Initiative proposed to set up a Global Climate Mitigation Trust that can hold US$500 billion of unused or new SDRs.[87] The trust can borrow capital in the underlying currencies in the SDR basket. The proceeds can be used to finance climate mitigation at a lower cost in lower and middle income countries and engage private sectors meaningfully.[88] The trust can judiciously blend its own capital with private capital. It can take higher risks in these projects so that risks can be reduced to a level that will encourage private financiers to participate in climate mitigating projects. The Bridgetown Initiative is steered by Barbados and supported by other Commonwealth member countries in Antigua and Barbuda, Grenada, Guyana, and Trinidad and Tobago.[89]

Debt for Climate swaps

Several developing countries, LDCs and SIDS do not have the fiscal muscles to mobilise the necessary capital for their climate actions. They were under severe debt pressure before COVID-19, and 30 to 70 per cent of developing countries' revenue was used for debt servicing in 2019.[90] The debt burden of LDCs alone touched a record US$744 billion.[91] The COVID-19 pandemic exacerbated country debt profiles and led to ballooning fiscal deficits, further weakening countries' capacity to take necessary climate actions. This precarious situation warrants grant-based finance instead of loans, and meaningful debt relief or debt swaps for climate actions.[92]

87 https://www.foreign.gov.bb/the-2022-barbados-agenda/

88 https://www.brettonwoodsproject.org/2022/12/bridgetown-initiative-calls-for-new-global-climate-mitigation-trust-financed-via-sdrs/

89 https://thecommonwealth.org/our-member-countries

90 Picolotti, R. and Miller, A. (2020). Debt-for-climate swaps can help developing countries make a green recovery. *Climate Home News, 5 November*. https://www.climatechangenews.com/2020/11/05/debt-climate-swaps-can-help-developing-countries-make-green-recovery/

91 World Bank. (2020, October 12). Debt burden of least developed countries continues to climb to a record $744 billion in 2019. Press release. https://www.worldbank.org/en/news/press-release/2020/10/12/debt-burden-of-least-developed-countries-continues-to-climb-to-a-record-744-billion-in-2019

92 Chowdhury, A., & Jomo, K.S. (2020). The Climate Finance Conundrum. *Development* 65, pp. 29–41. https://doi.org/10.1057/s41301-022-00329-0

A 'debt swap' is one of the international public finance programmes in which new bonds will replace the existing bonds with revised clauses. Debt swaps offer multiple benefits to a country reeling from a debt crisis: infusing much-needed liquidity, reducing the debt overhang, buying back existing debt at a discount, and preventing a financial crisis. Reducing or extending debt stock or debt service payments can stabilise the economy and stimulate growth and investment. In the past, debt relief has contributed to achievement of the Millennium Development Goals (MDGs).[93]

DFC or 'Debt for Sustainability' swaps are one of the Debt for Swap tools used to restructure sovereign debt. DFC swaps involve an agreement between the sovereign country and creditors to reduce some of the borrowing country's debt in exchange for commitments to invest in climate actions. A DFC swap offers traditional debt swap benefits. It also helps countries to build a climate-resilient economy by accessing international financial and technical assistance. DFC swaps are not new. This kind of transaction has been previously implemented in many countries including Bolivia, Ecuador, Belize, Indonesia and Seychelles.[94] However, in these cases the relative transaction size was small.[95] In the DFC structure there are enough incentives for countries to get the necessary financial support for quick economic recovery and much-needed restoration of the country's environment.

There are various ways that transactions can be implemented. One way is for the sovereign country to swap existing foreign debt with local currency debt; the proceeds are used in climate-friendly projects. Another is when existing debt is replaced with new debt, conditional on the sovereign country's commitment to invest proceeds in climate-friendly projects.[96]

DFC swaps support climate action and potentially bring macro-economic stability. This could be one of the best mechanisms that international public finance can deploy as it offers long-term environmental benefits while meeting developmental objectives.[97]

Subsidising foreign currency swaps

Domestic capital mobilisation on its own cannot fund the required climate action for many LDCs and SIDS in the Commonwealth region.[98] Therefore, they will continue relying on private and public foreign debt to fund their climate actions. Currency risk is a significant barrier that discourages borrowers from raising debt capital from international private and public capital providers.[99] Similarly, foreign capital providers are also hesitant about providing capital in domestic currency. This risk is typically addressed by purchasing a currency swap in the market. In this case, the domestic borrower buys long-only options from an over-the-counter market (usually a foreign currency dealer) or exchange to mitigate foreign currency risk. However, a long-only options strategy is costly and unsustainable for borrowers in developing countries.[100] This proposition makes the currency swap option expensive for borrowers, be they corporate or financial institutions, and often discourages them from borrowing foreign currency even if reasonably priced. In addition, the long-only swap tenors available in the foreign exchange market for long-call options are too short compared to the debt requirements of the borrowers.[101] The governments in these countries are also hesitant about taking foreign currency risks

93 Ondoa, H. A. (2018). The effects of heavily indebted poor countries initiative (HIPC) on millennium development goals (MDGs) for education. *Review of Social Economy,* 76(4), pp. 453-479

94 d Chamon, M., Klok, E., Thakoor, V.V. and Zettelmeyer, J. (2022). Debt-for-Climate Swaps: Analysis, Design, and Implementation. IMF Working Papers. https://www.imf.org/en/Publications/WP/Issues/2022/08/11/Debt-for-Climate-Swaps-Analysis-Design-and-Implementation-522184

95 Singh, D. and Widge, V. (2021). Debt for Climate Swaps. Climate Policy Initiative. https://www.climatepolicyinitiative.org/publication/debt-for-climate-swaps/

96 Singh, D. and Widge, V. (2021). Debt for Climate Swaps Blueprint. Supporting a Sustainable Recovery. Climate Policy Initiative. https://www.climatepolicyinitiative.org/wp-content/uploads/2021/05/Debt-for-Climate-Swaps-Blueprint-May-2021.pdf

97 The Task Force on Climate, Development and the International Monetary Fund (2022). *Meeting the Moment. The IMF, Debt-for-Climate Swaps and Development.* https://www.bu.edu/gdp/files/2022/10/TF_PB_005_FIN.pdf

98 Selin, H. (2016). Climate Finance and Developing Countries: The Need for Regime Development. Boston University Global Economic Governance Initiative. https://people.bu.edu/selin/publications/SelinClimateFinance2016.pdf

99 Convergence (2017). The need to reduce FX risk in development countries by scaling blended finance solutions. https://assets.ctfassets.net/4cgqlwde6qy0/3UYrVVpyqckCsw802wWoOi/7abfe71c3b60ff521635f713865cad16/FX_Risk_in_Development_Primer.pdf

100 Ibid.

101 Farooquee, A., Trivedi, S. and Shrimali, G. (2016). Foreign Currency Hedging Facility. *Lab Instrument Analysis*. The India Innovation Lab for Green Finance. https://www.climatefinancelab.org/wp-content/uploads/2017/08/FX-Hedging-Facility_full-report.pdf

due to the volatility of their domestic currencies against foreign currencies being higher owing to their small economic base and heavy reliance on tourism and commodities. One possible solution is subsidising the cost of the swap.[102] International public finance can be used to subsidise currency swap costs for borrowers in LDCs and SIDS. A subsidising currency swap can potentially mobilise a large amount of foreign capital into LDCs and SIDS. There are exchange funds that are currently offering foreign currency swaps in these frontier markets.[103]

The Resilience and Sustainability Facility

In 2022 IMF launched the Resilience and Sustainability Facility (RSF) under the RST. This aims to support vulnerable and low to middle income countries in building their economies' climate and pandemic resilience. The facility will source capital from the unused allocation of US$650 billion in SDR approved by the IMF in 2021. This facility has the potential to strengthen the existing climate finance mechanism and to better align development finance and climate finance. However, the stringent conditions, eligibility criteria for the RSF, terms of credit and size of the fund need to be reconsidered to effectively redirect SDRs towards development and climate actions.[104]

There is a limit on RSF funding – 150 per cent of RSF of a member's quota or US$1 billion, which is small.[105] This will not solve things for the small and vulnerable countries as their SDR quota is very small, depending on their GDP size. RSF funding will also be priced modestly with a margin of up to 100 basis points over the three-month SDR interest rate.[106] This interest rate is not very different from the borrowing rate from IMF of MICs.[107] The goal of the RSF is to mobilise US$45 billion, which is extremely low compared to the requirement of vulnerable countries. To make the RSF truly catalytic, the size and quota of the fund should increase and be replenished every year. IMF should provide zero-interest loans like its Poverty Reduction and Growth Trust to make it truly concessional.

Loss and Damage Fund

The new LDF offers a chance to assist vulnerable developing countries to respond to the impacts of climate change and to build their resilience. However, it is essential that the LDF is passed over, similar to the unfulfilled commitments of climate finance support by developed countries. The effectiveness of the LDF depends on the mechanism of the fund and the willingness of developed nations to provide an adequate amount of capital to it.

The key to aiding a country to quickly recover from a disaster and to put its economy on a strong path to recovery is the speed and agility of disbursing capital. However, the Green Climate Fund (GCF) takes several years to decide whether or not to provide financial support for a project. Therefore, it is expected that the LDF will quickly disburse capital without undergoing a cumbersome process. The LDF should act as an insurance company, paying back policyholders immediately after the event based on the event's intensity, without the need for a time-consuming loss-assessing exercise.

Defining the clear scope of the fund, and differentiating it from existing humanitarian and disaster management funds that resemble loss and damage support, is crucial. Vulnerable countries are already worried about the mix of development and climate finance, where climate finance is additional. The LDF's size should be significant enough to provide adequate financial support to vulnerable

102 Atal, V., Purkayastha, D. and Shrimali, G. (2018). *Transitional Foreign Exchange Debt Platform: Paths to Enable Foreign Currency Debt to the Rooftop Solar Sector in India. Climate Policy Initiative*. https://www.climatepolicyinitiative.org/wp-content/uploads/2018/06/Transitional-Foreign-Exchange-Debt-Platform_Paths-to-Enable-Foreign-Currency-Debt-to-the-Rooftop-Solar-Sector-in-India-1.pdf

103 Verdouw, W., Uzsoki, D. and Ordonez, C.D. (2015). Currency risk in project finance. International Institute for Sustainable Development https://www.iisd.org/system/files/publications/currency-risk-project-finance-discussion-paper.pdf

104 Ahmed, S. J., Bárcena, A. and Titelman, D. (2021). IMF misstep on climate finance. *The Asset: Green Finance/Viewpoint*. https://mag.theasset.com/article-esg/45666/imf-misstep-on-climate-finance

105 IMF (no date). Resilience and Sustainability Trust Frequently Asked Questions. https://www.imf.org/en/About/FAQ/Resilience-and-Sustainability-Trust

106 OECD. (2021). Making Special Drawing Rights Work for Climate Action and Development. *Development Matters*. https://oecd-development-matters.org/2021/10/07/making-special-drawing-rights-work-for-climate-action-and-development/

107 Chowdhury, A. and Jomo, K.S. (2022). The Climate Finance Conundrum. *Development* 65, pp. 29–41. https://doi.org/10.1057/s41301-022-00329-0

countries, unlike climate finance support, for which developing countries' requirements exceed the developed countries' financial support.

The fund's risk coverage percentage should strike a balance between being too low, rendering it ineffective, and being too high, discouraging investment in climate adaptation. To ensure the LDF is suitable, clear governance structures and guidance are necessary to facilitate the smooth operation of the fund.

8. Choice of tools and instruments for climate finance

There are various methods that MDBs and DFIs use to deploy their capital to development projects, including green projects. We can broadly categorise these financial instruments into four categories: equity, loan, risk management and grants.[108] While equity, loan and risk management instruments are used to finance developmental projects, grant capital is used at a project preparation level.[109]

LDCs and SIDS need substantial grant support

Grants by DFIs and MDBs are used for capacity development, project preparation, technical assistance, ecosystem development and closing the viability funding gap.[110] Grants capital is suitable for project design and preparation. This is because external private financiers do not provide capital before the financing stage of the projects as they are not sure of winning the public project.[111] Several climate projects in LDCs and SIDS in the Commonwealth region are not commercially viable without incentives and subsidies because of uncertainty around revenue and profit. Here, grants can be used as a subsidy for these projects, thereby improving private investors' risk-adjusted rate of return. DFIs and MDBs must be careful that undue grants are not given to projects where risk is duly shared between DFIs, MDBs and private financiers.

More guarantee, less debt

MDBs and DFIs deploy equity, loan and risk management instruments to provide concessional financing in the capital structure or as a guarantee or insurance to enhance the financial profile of projects. Empirical evidence suggests that risk management instruments such as guarantees and credit enhancement products help maximise the leverage of public capital compared to equity and debt/loan capital.[112] Risk management instruments can be used to de-risk projects and thereby attract private capital to development projects. In mitigating risk instruments, DFIs and MDBs do not have to disburse capital immediately, unlike debt or equity investment: capital is disbursed only when a risk event is triggered. However, the capital deployment of MDBs suggests they are comfortable about providing concessional loans to projects, including green projects. According to an estimate, guarantees were only 5 per cent of the total commitment approved by MDBs but attracted 45% of the total private capital mobilisation of MDBs.[113] MDBs also crowded out private capital.[114]

Since MDBs treat guarantees on the same basis as a loan in their book, there is no financial benefit for using guarantees instead of a loan from the shareholder perspective. MDBs are also conservative in their lending approach as they do not want to risk their rating to downgrade. The triple-A (AAA) rate balance sheet allows them to raise capital at a very low cost. Remarkably, the IBRD was envisaged as a guarantee institution, not a lending institution.

108 Congressional Research Services (2020). *Multilateral Development Banks: Overview and Issues for Congress.* https://sgp.fas.org/crs/row/R41170.pdf

109 Global Infrastructure Hub (2019). Financing project preparation. https://cdn.gihub.org/umbraco/media/2345/chapter-3-financing-project-preparation-pages-37-50.pdf

110 World Bank (2015). *From Billions to Trillions: MDB Contributions to Financing for Development*. https://thedocs.worldbank.org/en/doc/883731485963739623-0270022017/original/frombillionstoTrillionsMDBcontributionstofinancingfordevelopment.pdf

111 Koh J.M. (2018). *Green Infrastructure Financing. Institutional Investors, PPPs and Bankable Projects.* Palgrave Macmillan.

112 Betru, A. and Lee. C. (2017). *Clearing a Path for Global Development Finance: Enabling Basel and Development Guarantees to Deliver on Sustainable Development Goals.* Milken Institute. https://milkeninstitute.org/sites/default/files/reports-pdf/Clearing%20a%20Path%20for%20Global%20Development%20Finance.pdf

113 Ibid.

114 Uzsoki, D. (2014). Financing Infrastructure: How can multilateral development banks avoid crowding out institutional investors? International Institute for Sustainable Development. https://www.iisd.org/library/financing-infrastructure-how-can-multilateral-development-banks-avoid-crowding-out

MDBs should change their capital deployment strategy and use risk-mitigating financial instruments such as guarantees, insurance and local currency hedging, which can de-risk project/business or financial risk. These mitigating risk instruments can bridge projects and private capital, thereby crowding-in the much-needed private capital to green projects in these countries.

9. Way forward

The Commonwealth countries are committed to energy transition action and several strengthened sustainable energy goals within their updated NDCs.[115] At the same time, several countries, LDCs and SIDS in particular, have ambitious sustainable development plans – intending to increase economic growth while being inclusive and also less carbon- and pollution-intensive. On the other side, several LDCs and SIDS are among the least carbon emitters and the most vulnerable to climate-related risks. Although they have ambitious climate action commitments, there is a lot to be done if they are to achieve international climate action commitments. Further, they need structural and institutional transformation of their economies and societies to overcome development challenges and achieve their climate goals.

The essential structural and institutional transformation required for LDCs and SIDS needs large-scale investment. However, capital mobilisation for development and climate actions has fallen short of requirements. The LDCs and SIDS require additional support to manage vulnerabilities and build resilience to climate change while transitioning towards sustainable development. International public finance institutions play a catalytic role in filling this financing gap, and can help LDCs and SIDS to achieve their sustainable development goals.

115 Commonwealth Living Lands Charter: A Commonwealth Call to Action on Living Lands (CALL). 2022. https://production-new-commonwealth-files.s3.eu-west-2.amazonaws.com/s3fs-public/2022-06/Commonwealth%20Living%20Lands%20Charter.pdf?VersionId=VpfEof7DYAEd5yI1BFG42xzurHe_S19d

Appendix

Macro-economic profile of the Commonwealth countries

Country name	Population (000s, 2021)	GDP per capita, PPP (current international US$, 2020)	Life expectancy at birth, total (years) (2020)	Access to electricity (% of population, 2020)	Adjusted savings: gross savings (% of GNI, 2020)	HDI rank (2021)	Per capita electricity use (kilowatt hours) (2020)
Antigua and Barbuda	99	18,240	77	100	17	71	3,453
Australia	25,739	53,317	83	100	25	5	10,332
Bahamas	397	29,065	74	100	19	55	4,896
Bangladesh	166,303	5,995	73	96	34	129	532
Barbados	288	14,046	79	100	..	70	3,456
Belize	405	6,166	75	97	18	123	1,494
Botswana	2,397	15,471	70	72	28	117	805
Brunei Darussalam	442	65,607	76	100	49	51	9,961
Cameroon	27,224	3,867	60	65	14	151	330
Canada	38,246	46,572	82	100	19	15	17,133
Cyprus	1,216	39,593	81	100	9	29	3,918
Dominica	72	10,818	..	100	..	102	2,222
Eswatini	1,172	8,865	61	80	17	144	542
Fiji	903	12,158	68	100	22	99	1,076
Gabon	2,279	15,105	67	92	..	112	1,287
Gambia	2,487	2,277	62	62	33	174	113
Ghana	31,732	5,750	64	86	24	133	625
Grenada	113	15,274	72	94	..	69	1,617
Guyana	790	19,703	70	93	..	108	1,380
India	1,393,409	6,525	70	99	31	132	1,120
Jamaica	2,973	9,241	75	100	29	110	1,425
Kenya	54,986	4,587	67	71	..	152	208
Kiribati	121	2,172	69	92	..	136	237
Lesotho	2,159	2,569	55	47	..	168	222
Malawi	19,648	1,591	65	15	..	169	82
Malaysia	32,776	27,921	76	100	24	62	5,106
Maldives	544	13,442	79	100	15	90	1,108
Malta	517	43,243	83	100	25	23	4,114
Mauritius	1,266	20,529	74	100	13	64	2,111
Mozam-bique	32,163	1,297	61	31	..	185	571

Country name	Population (000s, 2021)	GDP per capita, PPP (current international US$, 2020)	Life expectancy at birth, total (years) (2020)	Access to electricity (% of population, 2020)	Adjusted savings: gross savings (% of GNI, 2020)	HDI rank (2021)	Per capita electricity use (kilowatt hours) (2020)
Namibia	2,587	9,359	64	56	16	139	426
Nauru	11	14,337	..	100	..	..	3,242
New Zea-land	5,123	44,658	82	100	19	14	8,800
Nigeria	211,401	5,186	55	55	24	164	135
Pakistan	225,200	5,426	67	75	17	161	596
Papua New Guinea	9,119	4,286	65	60	..	157	435
Rwanda	13,277	2,214	69	47	12	165	63
Saint Lucia	184	12,709	76	100	..	107	1,841
St Kitts and Nevis	54	25,639	..	100	..	75	4,406
St Vincent and the Grenadines	111	13,403	73	100	..	89	1,433
Samoa	200	6,765	73	100	..	111	651
Seychelles	99	28,339	77	100	19	72	5,022
Sierra Leone	8,141	1,727	55	26	..	181	26
Singapore	5,454	99,681	84	100	46	12	8,980
Solomon Islands	704	2,618	73	73	7	155	145
South Africa	60,042	13,359	64	84	15	109	4,072
Sri Lanka	22,156	13,227	77	100	25	73	775
Tanzania	61,498	2,780	66	40	..	160	116
Togo	8,478	2,223	61	54	..	162	62
Tonga	107	6,694	71	100	14	93	570
Trinidad and Tobago	1,403	26,125	74	100	..	57	5,661
Tuvalu	12	4,792	..	100	..	130	..
Uganda	47,124	2,294	64	42	23	167	105
United Kingdom	67,327	46,527	81	100	14	18	4,653
Vanuatu	314	3,036	71	67	40	142	225
Zambia	18,921	3,457	64	45	47	154	844

Source: Global Change Data Lab (no date). Our world in data. https://ourworldindata.org/grapher/per-capita-electricity-generation?tab=table&time=2017..2020. University of Oxford

Commonwealth Secretariat
Marlborough House, Pall Mall
London SW1Y 5HX
United Kingdom

thecommonwealth.org

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