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Accessing Development and Climate Finance

ISSUES AND CHALLENGES IN THE COMMONWEALTH COUNTRIES

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Developing countries in the Commonwealth face developmental and climate-related challenges

- Low per capita income - As low as US$1,297 in Mozambique
- Low life expectancy - As low as 55 years in Lesotho
- Low energy access - 20% of the population does not have access to electricity (47% in Africa); per capita electricity use 2,500 kWh vs. 3,429 kWh; As low as 26 kWh in Sierra Leone
- High vulnerability to climate change impacts
- High social infrastructure gap - 360 million people lack clean drinking water, and a large number of households do not have basic sanitation nor safe and affordable houses

Development vs. Climate Finance - Issues on lack of clarity

- **Lack of clarity about development finance and climate finance**
    - Most of the time, climate finance and development finance are used interchangeably as several facets of climate finance resemble development finance characteristics
    - 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.
    - 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**
    - Categorising different income buckets are based on gross national income (GNI) per capita.
    - Small economic size constrains them from investing in resilient infrastructure to climate-related disasters and other natural shocks
    - International climate financiers should consider countries' vulnerability to the impact of climate change in their climate finance mobilisation and access support mechanisms.

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Development Challenges to accessing development finance with a focus on climate finance

- **Macro-economic challenges**
  - Lack diversified economies, heavy reliance on tourism, heavily on fossil fuel to meet their energy needs, small population, small size economies lead to a lack of competitive advantage.
- **Governance challenges**
  - Enforcement of laws and contracts, and uncertain policies and regulations impede capital flows
- **Institutional and structural capacity**
  - Limited capacity to manage international climate finance effectively and efficiently
- **Lack of project pipeline**
  - Lack of capacity to build a pipeline of bankable projects.
- **Project design**
  - Projects are not meeting international funding agencies' norms

Mainstreaming climate investment planning into development financing

- **Issues in integrating climate finance and development finance**
  - Developing countries are worried that an increase in climate finance would lead to a decrease in development finance.
- **Synergies between climate and development finance**
  - Climate-change events aggravate developmental challenges.
- **Aligning climate finance and development finance**
  - Explore developmental finance mechanisms that support climate mitigation and adaptation projects and push a country's developmental agenda.
  - Important to identify climate adaptation and mitigation projects that offer environmental benefits while alleviating developmental challenges
- **Gender-based financing**
  - Finance can ensure that gender-aligned policies and strategies are implemented to accelerate programmes and projects for the benefit of women

Climate-change mitigation and adaptation finance

- **Priorities of Commonwealth countries**
  - While reducing GHG emissions is critical, adapting to climate change is equally important
  - Developing countries, LDCs and SIDS prioritise climate adaptation
- **Current funding mechanism**
  - Clubbing development finance with climate finance; and counting private finance as climate finance
  - Allocation of international climate finance for climate adaptation is significantly less than Climate finance
  - Support 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
  - The common form of international public climate financing instruments is debt capital
- **Current climate finance funding gaps in the Commonwealth**
  - While developing countries must invest 55–10% of their current GDP in climate mitigation, developed countries must invest only two to four per cent of their current GDP.
  - 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.

Bridging the funding gap: the role of stakeholders

- Rethinking the role of MDBs and DFIs
  - Since MDBs have a higher appetite for risk than private capital, their capital should focus on de-risking projects to attract private capital.
  - They should use risk-mitigating financial instruments such as guarantees, insurance and local currency hedging, which can de-risk project/business or financial risk.
  - They can manage risks, share knowledge and develop institutional capacity and partnerships for development projects in the target countries.
- Alternative funding mechanisms of these institutions
  - Blended Financing
  - Debt for climate swap
  - Subsidising foreign currency swaps
  - The Resilience and Sustainability Facility
  - Loss and Damage Fund

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Thank You

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