



Submission to the UNFCCC Baku to Belém Roadmap to 1.3T: Scaling Nature-Based Finance

The Pew Charitable Trusts (Pew) would like to commend the “Baku to Belém Roadmap to 1.3T” effort and its determination to demonstrate realistic pathways to mobilize at least USD 1.3 trillion annually by 2035 for developing countries. Reaching this goal will require a combination of financial instruments and incentives designed to expand fiscal capacity and allocate much-needed resources towards climate solutions.

Sovereign and non-sovereign outcome and results-based finance instruments represent a critical evolution in climate and nature finance architecture that should be prioritized within a suite of financing tools to achieve the USD 1.3 trillion annual target by 2035. Countries could be encouraged to consider a suite of financing options, including debt conversions; outcome-based mechanisms such as results-based climate finance (RBCF); environmental impact bonds; and sustainability-linked bonds (SLBs). Experience from Ecuador and Chile illustrates how these approaches may be scaled.

“What are priority short-term (by the end of 2028) and medium-to-long-term (beyond 2028) actions necessary to enable the scaling up of financing for climate action to developing countries? Based on experience to date and evidence, what can those actions contribute to in terms of progress in enabling the scaling up of financing?”

Contingent on their fiscal status, and with the appropriate enabling conditions and policies, governments can close substantial debt conversion transactions and complete Sustainability-Linked Bond (SLB) issuances by 2028 – with more to follow beyond 2028.

Both mechanisms provide very real and scalable opportunities for many countries to effectively utilize debt operations to manage existing liabilities or raise new capital to address climate and nature commitments. These instruments can enhance fiscal space for developing countries by reducing upfront debt burdens while maintaining accountability through independent verification processes, making them particularly valuable for debt distressed nations to access climate and nature finance without compromising fiscal sustainability.

Expanding sovereign debt swaps can help to reduce countries’ debt burdens while also directing funds to climate and nature priorities. These swaps lower debt service costs, enabling developing countries to invest in resilience and mitigation, while independent oversight ensures accountability. Scaling up swaps in debt stressed nations can ease fiscal burdens and advance progress toward the \$1.3 trillion target for climate action.

By 2028, the creation and/or expansion of dedicated guarantee and insurance facilities within multilateral development banks (MDBs) and development finance institutions (DFIs) would be a useful early step. The 2023 Galápagos debt-for-nature conversion in Ecuador demonstrated the

utility of risk reduction tools, such as political risk insurance from the U.S. International Development Finance Corporation and credit guarantees from the Inter-American Development Bank, which supported the deal. Expanding the utilization of these and similar facilities could enable more developing countries to pursue comparable transactions, reduce financing costs, and attract additional capital. Creating new private credit enhancement facilities, backed by private capital, will also be valuable. The new Coalition on Sovereign Debt Conversions for Nature has been created to help scale this approach while maintaining high standards for all deals.

SLBs feature performance-based coupon adjustments which tie financial disbursements to the verified achievement of specific, measurable climate and nature results². The growing market for SLBs which include climate and nature Key Performance Indicators (KPIs) could be enhanced by integrating adaptation related KPIs alongside those focused on mitigation. Chile has set a precedent in the sovereign SLBs arena by developing a verified bond framework which incorporates the country's emissions reduction, renewable energy generation, and nature conservation goals, for which it has secured a Second Party Opinion in compliance with the standards set by the International Capital Markets Authority (ICMA). The Chile example demonstrates that it is possible to extend this approach to encompass robust implementation measures, such as improved management systems in protected areas, to help catalyze large-scale investment in climate adaptation.

In addition to Chile, Uruguay has emerged as a global leader in outcome-based climate finance when it issued the world's first sovereign sustainability-linked bond (SLB) featuring a step-down coupon mechanism, raising USD 1.5 billion in 2022 with an additional USD 700 million reopening in November 2023, totaling USD 2.2 billion outstanding³.

Beyond 2028 Pew foresees additional innovation occurring in this space, with new mechanisms being developed and adapted to different contexts, to unlock larger funding streams.

What strategies can be implemented to enhance and scale up public and private financing mechanisms for climate adaptation, especially in vulnerable regions?

One potential method for increasing adaptation finance is to combine grant-based payments with sovereign debt transactions in creative ways. Debt-for-nature conversions can generate conservation funding; for example, in Ecuador, \$450M has been unlocked to support conservation in the Galápagos region. Adding in grant funding can 'sweeten these deals' for countries and can expect to benefit from significant leverage with governments, leading to much larger impacts than those from standalone grants can deliver. They can also benefit from the governance structures – such as Conservation Trust Funds - and monitoring protocols developed by these deals. The

² What You Need to Know About Results-Based Climate Finance
<https://www.worldbank.org/en/news/feature/2022/08/17/what-you-need-to-know-about-results-based-climate-finance>

³ <https://www.iadb.org/pt-br/noticias/uruguay-issues-global-sustainability-linked-bond-idb-support>

desired goal is to deliver consistent, durable financial resources for adaptation projects such as coastal protection, water management, and sustainable livelihoods.

Effectively addressing enabling regulations and capacity is important to ensure the effective adoption and scaling of these financing options. Enabling regulations, particularly addressing constraints imposed by financial and monetary authorities which can hinder or support the uptake of these instruments. Capacity building and a lack of awareness and familiarity about these options as part of a suite of sovereign and non-sovereign financing mechanisms to be considered by Ministries of Finance can be a significant constraint⁴.

Pew recommends 1) Investing in enhanced technical capacity for the Debt Management offices within Ministries of Finance, to facilitate the adoption and use of the full range of climate finance solutions, including debt conversions, SLBs, and results based instruments; 2) Developing KPIs that meet international standards, as provided by the International Capital Markets Authority (ICMA); 3) Developing Monitoring, Reporting and Verification (MRV) systems for Paris Agreement implementation.

What other experiences, proposals or approaches could help inform and accelerate efforts to mobilize USD 1.3 trillion in financing, including through grants, non-debt creating instruments, new sources of finance, and strategies to create fiscal space?

Outcome based financing instruments such as Outcome Bonds are another interesting option for countries. These instruments introduce incentive structures that release new revenue streams and encourage delivery on countries' climate goals. Payments to outcome buyers are made upon independent verification of pre-agreed climate outcomes such as verified emission reductions, enhanced forest carbon stocks, or measurable adaptation benefits. Outcome-based models address critical gaps in climate finance effectiveness by promoting innovation in delivery approaches, building robust measurement systems and creating additional revenue streams that can flow directly to frontline communities and catalyze private sector investment⁵.

Collectively, these measures illustrate how large, financially attractive nature-based sovereign and non-sovereign finance solutions can contribute to efforts to reach USD 1.3 trillion in annual climate finance. The Baku to Belem Roadmap to 1.3T should outline ways developing countries can take advantage of these climate finance opportunities to both improve their fiscal health and provide measurable results for both people and nature.

⁴ Innovative Financing Instrument Offers Lasting Solution to Climate ...

<https://www.naturefinance.net/innovative-financing-instrument-offers-lasting-solution-to-climate-and-debt-crises/>

⁵ NCQG Deep Dive: How We Reach \$300 Billion and \$1.3 Trillion <https://www.wri.org/insights/ncqg-climate-finance-goals-explained>