

Ms. Sophie De Coninck
Director, Means of Implementation Division
UNFCCC Secretariat

Subject: Baku to Belém Roadmap to 1.3T

Dear Ms. De Coninck,

We thank you for this opportunity to contribute to the Baku to Belém Roadmap.

Climate-vulnerable countries must mobilize capital both to climate-proof their existing assets and to build new, resilient capital stock (Gallagher 2025). Yet, climate adaptation is a public good that cannot be left to markets alone. It will necessarily rely on domestic revenues, public debt issuance, concessional finance, and multilateral support through grants.

Sub-Saharan Africa exemplifies the challenge: high vulnerability and low preparedness translate into urgent adaptation needs (Panizza 2025). However, climate exposure itself raises sovereign risk, leading to higher borrowing costs and reduced fiscal space (Panizza 2025). In this way, the current financial system constrains rather than enables climate investment.

A central weakness is that IMF and World Bank Debt Sustainability Analyses (DSAs) do not adequately account for the long-term growth and stability benefits of climate adaptation (Gallagher 2025). This creates systematic underinvestment, despite strong evidence that adaptation yields high benefit-cost ratios (Panizza 2025). Moreover, current DSA frameworks assume away residual climate damages and rely on rigid debt-to-GDP thresholds, leaving countries trapped between debt distress and climate vulnerability.

Although blanket debt relief may not be suitable for climate adaptation financing, debt restructuring should address the fiscal impacts of climate change and incorporate climate-linked conditionality for countries with unsustainable debt levels (Panizza 2025).

To align the international financial architecture with climate financing goals, two priorities stand out:

1. **Reframe debt sustainability to treat climate investment as productive and future-oriented.** DSAs and related frameworks should systematically incorporate climate vulnerability, residual damages, and the welfare-enhancing impacts of adaptation, moving beyond rigid solvency thresholds (Panizza 2025).
2. **Reform MDBs to deliver long-run, countercyclical, and affordable finance.** MDBs must expand access to long-term, low-cost financing for sustainable development, calibrated such that the cost of capital remains below projected growth rates. This requires capital increases, balance sheet optimization, and stronger collaboration with regional and national development banks (Gallagher 2025).

Without such structural reforms, private capital will remain procyclical and destabilizing, MDB finance will remain insufficient, and climate-vulnerable countries will continue to face a false choice between solvency and survival.

List of References

Gallagher KP. (2025). The international financial architecture and sustainable prosperity. WIDER Working Paper 2025/14. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/2025/571-4>.

Panizza U. (2025). Debt sustainability and climate financing. WIDER Background Note /4. Helsinki: UNU-WIDER. <https://doi.org/10.35188/UNU-WIDER/EDIJ1962>.

UNU-WIDER Statement on the Reform of the International Financial Architecture
(<https://www.wider.unu.edu/about/unu-wider-statement-reform-international-financial-architecture>)

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Kunal Sen', written over a circular stamp or seal.

Kunal Sen, Director of UNU-WIDER