Boston University Global Development Policy Center
Global Development Policy Center
53 Bay State Road
Boston, Massachusetts 02215
bu.edu/gdp | gdp@bu.edu | @GDP_Center

BOSTON UNIVERSITY

Submission on the Baku to Belém Roadmap to 1.3T

The Boston University Global Development Policy (GDP) Center is a policy-oriented research center working to advance financial stability, human well-being and environmental sustainability across the globe. We have conducted a wide range of research on the UNFCCC process, climate finance, and related international financial architecture topics. We welcome the opportunity to contribute our views on the Baku to Belém Roadmap to 1.3T.

(a) What are your overall expectations for the "Baku to Belém Roadmap to 1.3T"?

<u>Provide a credible path to $1.3 trillion</u>

The Baku to Belém Roadmap to 1.3T should provide a credible path to achieving the $1.3 trillion goal enumerated in Paragraph 7 of the New Collective Quantified Goal on Climate Finance. While the $1.3 trillion target is an agreed commitment, the NCQG text provided relatively little detail, underscoring the importance of a Baku to Belém Roadmap that creates mutual understanding and will ensure the achievement of the goal.

<u>Examine private and public sources of finance, recognizing that private finance cannot fill the gap between the $300 billion and $1.3 trillion</u>

The Baku to Belém Roadmap should be based on rigorous evidence on the scalability of different financing options—accordingly, the Roadmap must look at private *and* public sources of finance. While some have suggested an interpretation in which public finance is encompassed within the $300 billion target in Paragraph 8 and private finance is expected to make up the gap to $1.3 trillion, this interpretation is neither in line with the text nor realistic. Within the context of the $1.3 trillion goal and the Roadmap, Paragraph 7 references both "all public and private sources" of finance and Paragraph 28 references subjects related to public finance, like concessional finance and non-debt-creating instruments.

Further, existing evidence suggests that private finance will not reach $1 trillion by 2035, and *meeting the $1.3 trillion goal will require public finance well beyond what is required to meet the $300 billion goal*. First, according to the Climate Policy Initiative, all private climate finance to developing countries (excluding China) in 2022 amounted to just $15 billion while IHLEG has found that number to be $30 billion, meaning a 33 to 66-fold increase would be required to reach

$1 trillion, an extremely unlikely level of increase.[1] Second, despite significant public efforts to stimulate private finance, results have been disappointing. In 2022, bilateral climate finance had a private finance mobilization ratio of just 22 cents per dollar spent while for MDBs it was 38 cents.[2] MDBs' goal of mobilizing $65 billion in private finance for climate action in developing countries by 2030 assumes increasing that ratio to 54 cents per dollar.[3] More broadly, blended finance has been decreasing in dollar terms in recent years.[4] Third, in a high-interest rate environment, private investment is both less likely to flow and poses greater risk to developing countries' debt sustainability.

(b) Which topics and thematic issues should be explored to inform the Roadmap, within the scope of the mandate?

Three key topics for inclusion are multilateral and national development banks, the IMF, and debt.

<u>Multilateral and national development banks</u>

Multilateral development banks are a vital mechanism for scaling up climate finance. Due to their excellent credit ratings, MDBs provide finance on better terms than most developing countries could access on the market. Further, because of their ability to leverage funds on capital markets, MDBs can provide much larger amounts of financing than what shareholding countries put in. In combination, these factors make MDBs one of the most tractable and affordable options for a stepwise increase in climate finance.

Our center has conducted research on the financing capacity of the MDB system and its ability to meet the Paris Agreement and Sustainable Development Goals.[5] The research finds that the MDB system will need more capital if it is to provide adequate financing to meet global goals, but the amount varies significantly depending on several key variables:

---

[1] Climate Policy Initiative, "Global Landscape of Climate Finance." (2023) https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf; International High Level Expert Group on Climate Finance, "Raising ambition and accelerating delivery of climate finance." (2024) https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/11/Raising-ambition-and-accelerating-delivery-of-climate-finance_Third-IHLEG-report.pdf

[2] OECD, "Climate Finance Provided and Mobilised by Developed Countries in 2013-2022." (2024) https://www.oecd.org/en/publications/climate-finance-provided-and-mobilised-by-developed-countries-in-2013-2022_19150727-en.html

[3] Natalia Alayza and Gaia Larsen, "How to Reach $300 Billion — and the Full $1.3 Trillion — Under the New Climate Finance Goal," World Resources Institute. (2025) https://www.wri.org/insights/ncqg-climate-finance-goals-explained

[4] Convergence, "State of Blended Finance 2024," (2024) https://www.convergence.finance/resource/state-of-blended-finance-2024/view

[5] Boston University Global Development Policy Center, "Energizing MDB Financing Capacity: Identifying and Filling Gaps to Raise Ambition for the 2030 Agenda and Beyond." (2024) https://www.bu.edu/gdp/2024/10/25/energizing-mdb-financing-capacity-identifying-and-filling-gaps-to-raise-ambition-for-the-2030-agenda-and-beyond/

1. Interest rates: If interest rates remain "higher for longer" or if the current high-interest rate environment is temporary and interest rates return to a lower level. When interest rates are high, developing countries are less able to borrow from the market—and in particular, to do so without jeopardizing debt sustainability—and require more finance from MDBs, which can provide lower rates than the market. (However, MDB financing also becomes more expensive in a high-interest rate environment.)
2. Risk portfolio: Scaling up lending to certain countries and sectors will require MDBs to take on more risk. This financing will often be important for financing climate investments that would otherwise go unfinanced, but it does require greater MDB capital to protect against the risks.
3. CAF implementation: The more ambitiously MDBs implement capital adequacy framework (CAF) reforms to optimize their balance sheets, the less paid-in capital is needed. Concurrent implementation of CAF reforms and capital increases will also be cheaper than a sequenced approach in which capital increases only come after CAF reforms are completed.[6]
4. Hybrid capital: While hybrid capital is not without its downsides, the more MDBs utilize hybrid capital, the less they will need to rely on paid-in capital.

Under the current trajectory of CAF implementation, the MDB system will need at least $255 billion in additional paid-in capital to meet the Paris Agreement and SDGs.

SCENARIOS				
Market Interest Rate	**Risk Increase in MDB Lending Portfolio**	**Total Capital Needed for the MDB System (USD Billion) [1+2]**	**Yearly Subscription of Paid-in Capital in the MDB System (7 Years, USD Billion)**	**Yearly Subscription as a Share of Government Revenue (Global, 2023 Estimates)**
Lower Interest Rate	**0%**	255	36	0.11%
	10%	321	46	0.14%
Higher for Longer	**0%**	483	69	0.21%
	10%	572	82	0.25%

However, with more ambition on CAF implementation, the amount of paid-in capital would range from $60 billion to $304 billion. $60 billion amounts to just 0.03% of G20 governments' annual revenue, and capital increases are generally paid in installments over roughly seven years. Our report contains all the details on the assumptions and methodology underlying these figures.[7]

[6] *Id.*, p.8
[7] *Id.*

SCENARIOS						
Model	**Market Interest Rate**	**Risk Increase in MDB Lending Portfolio**	**Total Capital Needed for the MDB System (USD Billion) [1+2]**	**Yearly Subscription of Paid-in Capital in the MDB System (7 Years, USD Billion)**	**Yearly Subscription as a Share of Government Revenue (Global, 2023 Estimates)**	**Issuance of Hybrid Capital in the MDB System (USD Billion)**
Hybrid Capital Led	Lower Interest Rate	0%	60	9	0.03%	91
		10%	84	12	0.04%	
	Higher for Longer	0%	199	28	0.09%	91
		10%	251	36	0.11%	
Paid-in Led	Lower Interest Rate	0%	91	13	0.04%	20
		10%	127	18	0.05%	
	Higher for Longer	0%	247	35	0.11%	20
		10%	304	43	0.13%	

National development banks are also a key tool for providing high-quality climate finance. They are well integrated with national climate and development plans and are playing an increasingly important financing and coordinating role in country platforms. Given their complementarities with MDBs, which typically can access finance at cheaper rates but lack the local knowledge of MDBs, collaboration between MDBs and national development banks should be expanded.[8] Many national development banks, like BNDES, are already playing an important role in achieving the Paris Agreement and they should receive support to do more.

<u>The IMF</u>

Given the Roadmap's holistic focus on the factors needed to scale up climate finance from all sources, the Roadmap should address the IMF and encourage the institution to align its surveillance, lending, and global leadership with the Paris Agreement in a development-centered and investment-oriented manner.[9] The IMF is the leading multilateral institution shaping the macroeconomic context in which developing countries operate. Not only does it engage in fiscal decisions that determine how much public finance countries dedicate to climate, it is influential in the monetary policy decisions that impact how private finance flows across borders.

The BU GDP Center is a member of the Task Force on Climate, Development, and the IMF, which published the report: "IMF 2030: A Transformative Action Agenda for Achieving Climate and Development Goals."[10] In this detailed action agenda, key priorities are: shifting its focus away from fiscal consolidation to resource mobilization, recognizing the large-scale investment push needed to meet the Paris Agreement; refining debt sustainability analyses (DSAs) to integrate climate change and identify pathways to increase investment while maintaining fiscal

---

[8] *Id.*

[9] Task Force on Climate, Development, and the IMF, "IMF 2030: A Transformative Action Agenda for Achieving Climate and Development Goals." (2024) https://www.bu.edu/gdp/2024/10/09/imf-2030-a-transformative-action-agenda-for-achieving-climate-and-development-goals/

[10] *Id.*

sustainability[11]; and replenish and expand access to the Catastrophe Containment and Relief Trust, a key debt relief instrument for countries facing climate shocks.[12] As finance to address prospective balance of payment crises is essential for climate vulnerable economies, the IMF should enable free-standing access to the Resilience and Sustainability Trust and remove the requirement to have a concurrent IMF program. More generally, the IMF should commit to fully align itself with the goals of the Paris Agreement, including the design of its program conditions to ensure that it plays a supportive role in the achievement of the Agreement's goals.

Debt

High levels of debt servicing and debt distress are stifling finance for climate action. Debt relates to the Roadmap in three primary ways. First, high levels of principal and interest payments crowd out public climate investments. Second, debt challenges have negative knock-on effects on private financing, especially because costly payments on external debt deplete countries' access to foreign currency. Third, while debt financing of climate investments can be cheaper in the long run than the consequences of inaction, climate finance could itself exacerbate debt distress if finance is not delivered in a sufficiently affordable manner.

While debt vulnerabilities should be lessened by scaling up affordable finance and providing measures like credit enhancement for countries facing liquidity challenges, a significant number of countries will need debt relief. Research that our center contributed to found that 47 emerging market and developing economies with a total population of over 1.11 billion people will face insolvency problems in the next five years if they seek to ramp up investment to meet climate and development goals.[13] Debt relief should be available on a comprehensive basis and be linked to climate and development investments.

(c) What country experiences, best practices and lessons learned can be shared related to barriers and enabling environments; innovative sources of finance; grants, concessional and non-debt creating instruments, and measures to create fiscal space?

Multilateral Development Banks

---

[11] The IMF's Debt Sustainability Framework for Low-Income Countries is currently under review, and the review is expected to continue into 2026.

[12] Selling a small share of the IMF's gold could generate billions of dollars for the CCRT. Marina Zucker-Marques and Rishikesh Ram Bhandary, "A Golden Opportunity: Selling a Small Share of the IMF's Gold Reserves to Replenish the Catastrophe Containment and Relief Trust," Boston University Global Development Policy Center. (2024) https://www.bu.edu/gdp/2024/11/13/a-golden-opportunity-selling-small-share-of-imf-gold-reserves-replenish-catastrophe-containment-relief-trust/

[13] Marina Zucker-Marques, Kevin Gallagher, and Ulrich Volz, "Def Defaulting on Development and Climate – Debt Sustainability and the Race for the 2030 Agenda and Paris Agreement," Debt Relief for a Green and Inclusive Recovery Project. (2024) https://drgr.org/research/report-defaulting-on-development-and-climate-debt-sustainability-and-the-race-for-the-2030-agenda-and-paris-agreement/

While developed countries did not meet the $100 billion climate finance commitment by 2020 and climate finance has lagged behind needs[14], MDBs have demonstrated an ability to scale up climate finance. Under the OECD's methodology, climate finance from MDBs more than tripled from 2013-2022, and MDBs accounted for more than half the growth in climate finance provided and mobilized by developed countries since 2013.[15] Given their proven ability to scale up climate finance, the Roadmap should commit parties to providing MDBs with the resources needed to maximize their contribution. However, MDBs should not displace sources of grant-based or highly concessional finance, and MDBs must improve the transparency of their climate finance reporting.[16]

Special Drawing Rights

In a context in which public resources have been slow to materialize for international climate finance, Special Drawing Rights—the IMF's reserve asset—are an important tool.[17] SDRs cost nothing to create and countries that use them must pay only a modest interest rate. They can be freely exchanged for a basket of currency, boosting financial stability for developing countries that experience the inequalities of the international reserve system.[18] The issuance of $650 billion in SDRs in 2021 helped reduce debt vulnerabilities and cover public expenses—freeing up funds for climate action—and led to the capitalization of the Resilience and Sustainability Trust.[19] The IMF's ex-post assessment found that the SDR issuance had a positive effect and did not contribute to inflation.[20] Future issuances of SDRs and better rechanneling of existing SDRs

[14] International High Level Expert Group on Climate Finance, "Raising ambition and accelerating delivery of climate finance." (2024) https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2024/11/Raising-ambition-and-accelerating-delivery-of-climate-finance_Third-IHLEG-report.pdf

[15] Tim Hirschel-Burns, "Negotiating in the Dark? How to Account for the Multilateral Development Banks in the New Collective Quantified Goal," Boston University Global Development Policy Center. (2024) https://www.bu.edu/gdp/2024/09/04/negotiating-in-the-dark-how-to-account-for-the-multilateral-development-banks-in-the-new-collective-quantified-goal/

[16] Oxfam, "Up to $41 billion in World Bank climate finance not being properly tracked, Oxfam finds," https://www.oxfam.org/en/press-releases/41-billion-world-bank-climate-finance-not-being-properly-tracked-oxfam-finds

[17] Kevin Gallagher and Abebe Shimeles, "Africa's Chronic Liquidity Challenges and the Role of Special Drawing Right Allocations." (2024) https://www.bu.edu/gdp/2024/05/28/africas-chronic-liquidity-challenges-and-the-role-of-special-drawing-right-allocations/

[18] Laurissa Muhlich, Barbara Fritz, and William Kring, "Inequities in Access to Crisis Finance for Low- and Middle-Income Countries Persist – Insights from the Updated Global Financial Safety Net Tracker," Boston University Global Development Policy Center. (2023) https://www.bu.edu/gdp/2023/12/11/inequities-in-access-to-crisis-finance-for-low-and-middle-income-countries-persist-insights-from-the-updated-global-financial-safety-net-tracker/

[19] Kevin Cashman, Lara Merling, and Andres Arauz, "Special Drawing Rights: The Right Tool to Use to Respond to the Pandemic and Other Challenges," Center for Economic and Policy Research. (2022) https://cepr.net/publications/special-drawing-rights-the-right-tool-to-use-to-respond-to-the-pandemic-and-other-challenges/

[20] International Monetary Fund, "2021 Special Drawing Rights Allocation—Ex-Post Assessment Report. (2023) https://www.imf.org/en/Publications/Policy-Papers/Issues/2023/08/28/2021-Special-Drawing-Rights-Allocation-Ex-Post-Assessment-Report-538583

would help achieve the $1.3 trillion goal.[21] (Because SDRs are distributed in line with the IMF's unbalanced quota formula, most go to developed countries that do not need or use them. While SDRs can be rechanneled to support developing countries through mechanisms like IMF trust funds or as hybrid capital for MDB, only a minority of unused SDRs have been rechanneled.[22])

(d) Which multilateral initiatives do you see as most relevant to take into account in the Roadmap and why?

<u>G20 Roadmap Towards Better, Bigger and More Effective MDBs</u>

The G20 Roadmap Towards Better, Bigger and More Effective MDBs outlines a path for important MDB reforms and tracking of MDBs' progress on these reforms.[23] It contains recommendations including supporting country-owned platforms, continuing progress on CAF reforms, and carrying out resource needs reviews across the MDB system to determine whether MDBs have the financing capacity to fulfill MDBs' strategic goals and address regional and global challenges. The Baku to Belém Roadmap should build on the efforts of the G20 MDB Roadmap and encourage ambitious MDB reforms, given the G20 Roadmap's commitment to addressing climate change and the UNFCCC's mandate to address the global challenge of climate change. Apart from the G20 Roadmap itself, multilateral development banks and their concessional arms also have existing processes for capitalization. The World Bank's shareholding review provides an opportunity to revisit the capital needs of the World Bank to better support its client governments. Likewise, the African Development Fund is undergoing its replenishment process and an ambitious outcome will be crucial, especially to scale up concessional finance for sub-Saharan economies.

<u>G20 Common Framework</u>

The G20 Common Framework remains the leading initiative to address unsustainable debts. Despite small improvements, the Common Framework continues to deliver debt relief that is too small, after negotiations that take too long, meaning that countries that need debt relief to invest in climate action are deterred from coming forward.[24] The Baku to Belém Roadmap should encourage the Common Framework to account for climate change and guarantee debt relief commensurate with climate investment needs. The Common Framework should implement a debt servicing standstill during negotiations, ensure fair comparability of treatment in which

---

[21] Kevin Gallagher and Abebe Shimeles, "Africa's Chronic Liquidity Challenges and the Role of Special Drawing Right Allocations." (2024) https://www.bu.edu/gdp/2024/05/28/africas-chronic-liquidity-challenges-and-the-role-of-special-drawing-right-allocations/

[22] ONE Campaign, "Special Drawing Rights." https://data.one.org/analysis/sdr

[23] G20, "G20 Roadmap Towards Better, Bigger and More Effective MDBs." (2024) https://coebank.org/documents/1577/G20_Roadmap_towards_better_bigger_and_more_effective_MDBs.pdf

[24] Marina Zucker-Marques, Kevin Gallagher, and Ulrich Volz, "Def Defaulting on Development and Climate – Debt Sustainability and the Race for the 2030 Agenda and Paris Agreement," Debt Relief for a Green and Inclusive Recovery Project. (2024) https://drgr.org/research/report-defaulting-on-development-and-climate-debt-sustainability-and-the-race-for-the-2030-agenda-and-paris-agreement/

concessional creditors take smaller haircuts than creditors that charged high interest rates, and expand eligibility to middle-income countries.