University of Cambridge Institute for Sustainability Leadership (CISL) Submission on the Baku to Belém Roadmap to 1.3T

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CISL is an impact-led institute within the University of Cambridge that activates leadership globally to transform economies for people, nature and climate. Through its global network and hubs in Cambridge, Cape Town and Brussels, CISL works with leaders and innovators across business, finance and government to accelerate action for a sustainable future. Trusted since 1988 for its rigour and pioneering commitment to learning and collaboration, the Institute creates safe spaces to challenge and support those with the power to act.

The Centre for Sustainable Finance: Our mission is for private financial institutions to accelerate the transition to a global economy that is sustainable and resilient. As part of CISL, we work with a range of stakeholders to achieve this, including academics, policy-makers, NGOs and private financial institutions. We bring together a unique combination of academic rigour and deep industry collaboration to produce research publications which help financial institutions to play a leading role in building a more sustainable economy. Our primary route to engagement with private financial institutions is through our three membership groups – the Banking Environment initiative for banks, ClimateWise for insurers and the Investment Leaders Group for investors.

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

Our expectations for the Baku to Belém Roadmap to 1.3T are that it will deliver a clear, actionable framework to scale up climate finance to developing countries. To be effective, we recommend that the Roadmap:

- **Define clear pathways for finance mobilization**
  The Roadmap should outline structured mechanisms for mobilizing both public and private capital, ensuring that finance flows efficiently to developing countries. This includes setting measurable targets, aligning investments with national adaptation plans and nationally determined contributions (NDCs), and ensuring that concessional finance plays a catalytic role in unlocking further private sector participation.

- **Leverage innovative financial structures**
  Financial institutions remain hesitant to invest in climate finance due to perceived risks in emerging markets and developing economies (EMDEs). The Roadmap should highlight innovative financial instruments that can help de-risk climate investments and attract private capital at scale.

- **Enhance the effectiveness of catalytic capital**
  The current pace and scale of blended finance deployment are insufficient to meet the urgent climate financing needs of developing countries. The Roadmap should outline strategies to optimize the use of catalytic capital—such as concessional loans, guarantees, and equity

investments—to crowd in private sector financing. This includes setting clearer guidelines on risk-sharing between public and private entities to maximize capital mobilization.

- **Strengthen risk management and guarantees**
  Climate finance mechanisms must be resilient to contemporary crises, including economic shocks and climate-related disasters. The Roadmap should encourage the development of flexible financial instruments that can adapt to changing conditions. Additionally, expanding and strengthening currency risk hedging capabilities will be critical to enabling more local currency lending, reducing foreign exchange risks for borrowers in developing countries.

- **Improve data transparency**
  A lack of transparency in financial flows, risk assessments, and credit rating methodologies can act as a barrier to investment. The Roadmap should encourage greater collaboration between multilateral development banks (MDBs), credit rating agencies (CRAs), and shareholders to enhance the availability and clarity of financial data, such as loss histories. This will help investors make informed decisions and reduce the cost of capital for developing countries.

- **Promote collaborative platforms**
  Accessing climate finance remains complex and fragmented for many developing nations. The Roadmap should foster new partnerships and coordination mechanisms among public and private stakeholders to streamline finance flows, improve technical assistance, and build local financial capacity. This includes establishing platforms that facilitate knowledge-sharing, matchmaking between investors and projects, and the standardization of financing application processes.

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

The following key topics and thematic issues should be explored within the scope of the mandate:

1. **Managing Risks in EMDEs**

   - **Misconceptions around perceived risks in EMDEs:** By leveraging data-driven insights and case studies to reshape investor confidence, the Roadmap can help provide clear differentiation between real and perceived risks in EMDEs and ensure that investors have access to accurate information about market conditions, regulatory frameworks, and creditworthiness.

   - **Innovative financing structures:** Leveraging flexible and innovative models such as risk-sharing mechanisms, hybrid capital instruments, revenue guarantees, and performance-based instruments, the Roadmap should explore innovative tools to mitigate investment risks and attract private capital into climate-related projects. These financial tools should be designed to lower the barrier to entry for investors and provide sufficient protection against uncertainties.

The Centre for Sustainable Finance at CISL is currently leading research on addressing misconceptions around perceived risks in EMDEs. We would be very happy to collaborate and share our findings with the Secretariat.

2. Blended Finance as a Tool

- **Reviewing existing mechanisms for public-private partnerships (PPPs):** This includes evaluating case studies of successful PPPs, addressing regulatory barriers, and developing policies that encourage long-term collaboration between governments, development banks, and private investors.

- **Developing standardized financial structures that can be widely adopted:** To streamline financing processes, reduce transaction costs, and enhance investor confidence, the Roadmap should help establish common frameworks for blended finance transactions to help create replicable models that increase efficiency and accessibility for a broader range of stakeholders.

- **Enhancing the catalytic capacity of public finance:** By optimizing the strategic use of concessional capital, guarantees, and grant-based instruments to de-risk projects and crowd in private sector investment, the Roadmap can foster greater coordination among multilateral development banks (MDBs), institutional investors, and philanthropic organizations to ensure that public funds are used in the most effective and scalable way.

3. Collaboration with Local Financial Institutions

- **Currency risk insurance solutions to support lending and investments in local currency:** Given that many climate projects in developing countries require long-term financing, innovative hedging mechanisms should be explored to protect against currency fluctuations and enhance financial stability. This can help reduce foreign exchange volatility and improving financial sustainability for borrowers.

- **Engaging with local financial institutions to build in-country capacity:** This includes providing technical assistance to local banks, supporting regulatory reforms that promote sustainable finance, and fostering collaboration between international and domestic financial actors to increase the availability of climate-focused financial products. By incorporating these themes within the Roadmap, it can help strengthen financial ecosystems, and facilitate cross-border financial flows, ensuring that climate finance reaches communities and businesses at scale.

(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?

CISL has published research on best practices, lessons learned and recommendations to support scaling up climate finance in EMDEs in our paper *'Everything, Everywhere, All at Once'.* A summary of the recommendations can be found below:

Factor	Recommendations	Timeframe	Key players	Focus
Global Macro Environment	• Support the Bridgetown Initiative by leveraging the IDA for concessional finance, targeting US$ 279 billion in funding, establishing a US$ 500 billion Global Climate Mitigation Trust, modernising MDB allocation, introducing innovative financial and insurance instruments for climate change, enhancing risk appetite in SIDS, and bolstering supply chain resilience.	Short/ medium	All financial institutions, governments	Climate
	• Implement impact metrics that emphasise MDBs' comparative advantages, promoting a culture that prioritises evaluating private sector solutions first, to ensure optimal utilisation of public-sector resources in line with the cascade principle.	Short	MDBs	Climate, nature
	• Advocate for collaborations with Eurosystem NCBs to channel SDRs towards green bonds, interest rate buy-downs and carbon credits; support a dedicated SDR allocation for biodiversity within the IMF's operational framework.	Short	Eurosystem, NCBs, IMF	Climate, nature
	• Recommend issuing hybrid capital instruments for MDBs, leveraging models such as the IFFEd's donor portfolio guarantee fund and partnerships with entities such as MIGA while routinely benchmarking capital adequacy to enhance financial stability and expand lending capabilities.	Medium	MDBs, MIGA	

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Regulation & Public Support	• By 2025, revitalise the RST by integrating biodiversity-sensitive criteria, leveraging the RSF to attract private finance, and exploring undrawn resources and new SDR pledges with an emphasis on addressing biodiversity loss and enhancing ecosystem functionality.	Short	IMF, DFIs, member countries	Nature
	• In line with the commitment to GBF, governments should adopt NCA practices, offer biodiversity data as a public good, and incorporate private-sector roles in their NBSAPs to enhance biodiversity criteria in financial sector decisions.	Short	Regulatory bodies, governments	Climate, nature
	• Formulate a global net-zero transition plan for finance, emphasising private-sector involvement and urging private financial firms to collaborate with policymakers to streamline regulations, fostering climate and nature investments.	Short	Private financial firms, policymakers	Climate
	• Initiate a new phase of debt relief by integrating mechanisms such as DNS and DCS swaps through collaboration within financial institutions.	Long	Governments, DFIs, private financial firms	Climate, nature
	• Encourage central banks to leverage their role in the NGFS by incorporating nature and biodiversity loss considerations into policy frameworks spanning from micro-prudential to macroprudential assessments.	Short	Central banks, NGFS	Climate, nature
	• Advise the Development Assistance Committee of the OECD to intensify engagement with members, aiming for agreement on the eligibility of private sector instruments in ODA, the handling of loans to the private sector, and the approach to credit guarantees, building on the 2016 resolution to foster a conducive setting for private sector partnerships.	Short	OECD, DAC, private financial firms	Climate, nature
	• Encourage MDBs to adopt flexible instruments tailored to respond to dynamic crises, urging a shift from the World Bank's current funding model to a more resilient and adaptable structure capable of managing recurrent challenges.	Medium	MDBs	Climate, nature

Factor	Recommendations	Timeframe	Key players	Focus
Market Scaffolding	• Advocate for the introduction of new financial mechanisms, including taxes on financial transactions and fossil fuels, as well as levies on shipping and aviation sectors with the potential to generate an annual revenue of US$ 1.5 trillion to US$ 2 trillion.	Medium	Private financial firms, DFIs	Climate
	• Urge the IMF and World Bank to allocate US$ 500 billion annually towards the refinancing of high-cost debts for developing countries.	Short	MDBs, DFIs, governments	Climate
	• Encourage MDBs to adopt flexible instruments tailored to respond to dynamic crises, urging a shift from the World Bank's current funding model to a more resilient and adaptable structure capable of managing recurrent challenges.	Medium	MDBs	Climate, nature
	• Encourage the development and adoption of multi-year underwriting policies that align with the long-term nature of climate and environmental risks. This could include the provision of incentives for insurance companies that adopt such policies, thus promoting a gradual shift towards longer-term underwriting.	Short/ medium	Regulatory bodies, insurance firms	Climate, nature
Investment Climate/ Business Environment	• Call upon the IMF to implement its Green Public Financial Management framework for immediate climate priority integration and embed nature finance considerations in it.	Short	IMF	Climate, nature
Upstream Market Creation	• Governments and financial institutions should collaborate to develop an open architecture model for private markets, akin to the public market infrastructure, while concurrently bolstering local banking sectors and capital markets.	Short	Financial institutions, governments	Climate, nature
	• Establish a collaborative platform where PDBs, MDBs, governments and private firms share expertise and resources, focusing on sustainable investments and addressing market gaps, inspired by models such as the World Bank's Private Sector Investment Lab.	Short	MDBs, governments, private financial firms	Climate, nature

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Midstream Project Creation	• Implement advanced environmental risk management tools in MDBs and integrate nature-impact insights into country risk analyses.	Short	MDBs, governments	Nature
Downstream Financial Linkages	• Promote the transition to originate-and-share or originate-and-transfer models to diversify risks, ensuring financial sustainability of climate projects, and leverage scalable pooled debt vehicles.	Medium	Private financial firms, governments	Climate, nature
	• Encourage private financial firms to offer currency and political risk hedging solutions for climate and nature projects in low- and middle-income countries, making hard currency loans more sustainable, as demonstrated by TCX's de-risking efforts in emerging economies.	Short	DFIs, private financial firms	Climate, nature
	• Define clear risk/return criteria in nature-climate financing to align with commercial investors' mandates, ensuring successful private-sector engagement and project funding.	Short	MDBs, donor governments	Climate, nature
	• Encourage private financial firms to create their own, and help their clients develop and submit, transition plans.	Short	MDBs, G20, OECD	Climate, nature
	• Promote the extended use of MDB and donor guarantees to mitigate risks in EMDEs, attracting more private investors, while policymakers assess and address potential regulatory barriers hindering financial institutions from leveraging these guarantees.	Medium	MDBs, policymakers	Climate, nature
	• Advocate for expanded data transparency in the GEMs Risk Database to foster informed risk-sharing. Granting wider access to its comprehensive credit performance data can better inform risk assessments, enabling private investors to confidently partner with MDBs and support SDG-aligned initiatives.	Medium	MDBs, private investors	Climate, nature

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

See initiatives highlighted above