Submission on the Baku to Belém Roadmap to 1.3T
March 21, 2025

Environmental Defense Fund (EDF) welcomes the opportunity to provide views on the *Baku to Belém Roadmap to 1.3T*. Scaling international climate finance to developing countries is essential to enabling transformative climate action, ensuring a just and equitable transition, and supporting the world's most vulnerable populations. EDF believes that the New Collective Quantified Goal on Climate Finance (NCQG) represents an important step towards unlocking ambitious action, but meeting its full potential will require overcoming significant gaps in both *quantity* and *quality* within the existing climate finance architecture.

To effectively support the delivery of the NCQG – and remain on track to meet the Paris Agreement goals for a low-carbon and climate-resilient world - **the Baku to Belém Roadmap must outline a realistic path forward for Parties, financial institutions, the private sector, and other stakeholders to make meaningful progress and collaborate on solutions in the near-term, with a look towards NDC implementation.**

Overall Expectations

The NCQG calls for the scaling up of finance from public and private sources to reach $1.3 trillion for developing countries by 2035. The Baku to Belem Roadmap must make inroads to translate this aspirational target into reality by identifying potential pathways to fill the climate finance gap, including through leveraging public finance to mobilize new private sources. Additionally, the roadmap must incorporate solutions to address the quality of finance and underlying barriers that inhibit climate action such as the high cost of capital and unsustainable debt. Current climate finance flows are often inaccessible, ineffective, or overly burdensome, and addressing these obstacles will be key to maximizing the potential of scaled up resources.

Key Topics and Thematic Issues

EDF recommends the roadmap be informed by the following topics and thematic issues:

- **Addressing the high cost of capital in energy markets:** The cost of capital for renewable energy projects in developing countries is often far higher than in developed countries. These elevated costs are driven by perceived and actual risks to investment, and result in climate action being significantly more expensive to finance. This is a fundamental barrier to scaling private investment in developing countries and delivering on the NCQG. The roadmap should identify how governments, multilateral institutions, financial institutions, and private investors can collaborate to reduce risks and lower the cost of capital, taking into account different contexts across countries and regions.

- **Maximizing the potential and coordination of multilateral climate funds:** The NCQG called on countries to channel significantly greater public funding through the multilateral climate funds, including the Green Climate Fund (GCF), and Global Environment Facility (GEF), and the Adaptation Fund (AF). To unlock the full potential of these funds for delivering impactful climate action in developing countries, the roadmap should identify how the funds can scale accessible and concessional finance, foster strong enabling environments, improve private finance mobilization, and improve complementarity across initiatives.

- **Leveraging innovative sources of finance:** Realistically reaching the $1.3T target will require drawing on new and innovative sources of finance. The roadmap should identify potential

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instruments and sources which can help fill the climate finance gap, such as international carbon markets, debt-for-nature and climate swaps, solidarity levies, and innovative blended finance structures, and suggest pathways to better leverage these sources over the coming decade.

Country Experiences, Best Practices, and Lessons Learned
Best practices and experiences to draw on and inform the roadmap include:

- **Catalyzing private sector participation through multilateral support:** Multilateral climate institutions are increasingly working to reduce risk and catalyze private investment in climate action while addressing the unique challenges and opportunities in different regions. Examples include the Green Climate Fund's Private Sector Facility (PSF), with promising examples such as CRAFT - Catalytic Capital for First Private Investment Fund for Adaptation Technologies in Developing Countries and the Acumen Resilient Agriculture Fund (ARAF). Similarly, the Global Environment Facility has launched its Non-Grant Instrument Program, which uses equity, guarantees, and concessional loans to attract private sector investment in areas such as land degradation, biodiversity and climate change. The Climate Investment Funds, through its Private Sector Set-Asides, also provides concessional financing to encourage private sector involvement in clean technology, forest conservation and climate resilience projects. These initiatives demonstrate a growing trend among multilateral institutions to create flexible, context-specific mechanisms that bridge the gap between global climate finance and local private sector engagement in developing countries.

- **Improving fiscal space through climate resilient debt clauses:** The World Bank's Climate Resilient Debt Clauses were adopted to allow vulnerable low-income countries to defer their repayments for up to two years if they are hit by a severe hurricane, flood or other natural disaster. While these measures don't eliminate debt, they allow for vulnerable states to focus on disaster response and ensure that existing loans—including for climate finance projects—do not create extra burdens during particularly challenging moments. These clauses were expanded in 2023 to cover all eligible countries.

- **Increasing concessional resources in donor countries:** While the use of market rate loans for climate finance remains high among many donor nations, some developed countries are taking steps to increase the use of grants and other concessional instruments within their public climate finance commitments. For example, in 2021, Canada committed to increase the proportion of grants in its climate finance mix from 30% to 40%, and to deliver the other 60% through Unconditionally Repayable Contributions—a form of concessional financing. Delivering finance through a greater mix of grant and concessional tools can help limit additional debt burdens, and mitigate the potential for net outflow of funds from developing countries.

Relevant Multilateral Initiatives
EDF recommends that the roadmap take into account:

- **G20 Cost of Capital Commission:** Through its G20 Presidency, South Africa has proposed the creation of a Cost of Capital Commission, which will review the elevated cost of capital in developing countries and outline potential solutions. These efforts could help inform the roadmap's pathway to addressing cost of capital and other barriers to finance.

- **4th International Conference on Financing for Development (FFD4):** In June, the UN will convene FFD4 in Seville, Spain, seeking to reform the international financial architecture and scale financing for the Sustainable Development Goals (SDGs). Commitments to action will include strengthening domestic resource mobilization, mobilizing private investment for sustainable development and climate, tackling debt distress, and making international institutions more fit for purpose. Given the deep synergies between SDGs and climate action, alongside the increasing scarcity of public finance, the outcomes of FFD4 will provide valuable momentum for the international community and can help inform the roadmap's pathways to scaling climate finance.

- **Multilateral Climate Funds Action Plan on Complementarity and Coherence:** The multilateral climate funds made a joint declaration at COP28 pledging to harmonize their work and streamline access. Subsequently, they have put forward an action plan to work as a closer system in the coming years, including harmonizing accreditation and operational processes, coordinating capacity building efforts, and jointly developing knowledge products. Supporting the funds in implementing their action plan will be key to maximizing their potential contributions towards the NCQG.

- **Multilateral Development Bank reform efforts**: In 2023, the World Bank and IMF adopted a reform agenda to become better fit-for-purpose for tackling the climate crisis. They have made significant inroads - with the World Bank expanding delivery of concessional resources, committing to establish country led platforms, and overall greatly increasing its climate finance lending - but more work is needed across the MDB system. The continuation of the reform process will be especially vital for increasing the MDB's private capital mobilization ratio and catalyzing greater private finance towards the NCQG.

- **Bridgetown Initiative:** The Bridgetown Initiative, launched in 2022, proposes to reform the climate and development finance system, improve economic resilience in the face of climate shocks, and scale donor country and private sector financing to support developing countries. The roadmap should consider drawing from the system-wide solutions proposed through the initiative.

- **UN Framework Convention on International Tax Cooperation (UNFCITC):** The UN has started formal negotiations on the UNFCITC, which aims to reshape global tax governance and improve efforts to tackle issues like tax disputes and evasion. The convention has the potential to support countries in improving their domestic resource mobilization efforts, which is especially critical for many developing countries where resources are stretched thin by competing priorities and unsustainable debt. Greater certainty in domestic resources can help mitigate debt distress and improve fiscal space, allowing countries to more effectively pursue unconditional targets within their NDCs. The roadmap should consider how this complementary process can align with efforts to scale international climate finance.

The Baku to Belém Roadmap has the potential to elevate global efforts to scale climate finance and meet the NCQG. Incorporating key topics including the high cost of capital and climate fund complementarity, alongside drawing on best practices and existing multilateral efforts to address underlying barriers and mobilize new resources, will help ensure that the roadmap can successfully outline pathways for advancing both the quantity and quality of finance.