IISD Submission on the Baku to Belém Roadmap to 1.3T

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Mandate

This submission is made in response to the invitation from the Presidencies of the sixth and seventh sessions of the Conference of the Parties serving as the meeting of the Parties to the Paris Agreement, on the Baku to Belém Roadmap to 1.3T.

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Overall Expectations for the Baku to Belém Roadmap to 1.3T

1. **The process results in an outcome document that contains a full accounting of how the 1.3T can be achieved, and an action agenda for meeting that goal.** It is critical that the Baku to Belém Roadmap results in actionable, concrete next steps for Parties and non-Party stakeholders.
2. **Sufficient finance is mobilized to close the adaptation finance gap, especially in the most vulnerable countries.** It is crucial to ensure that developing countries, especially those highly vulnerable to climate change impacts, have access to sufficient and adequate finance for adaptation and resilience building, through mechanisms that do not exacerbate the debt burdens of vulnerable nations.
3. **The central role of the national adaptation plan (NAP) process in mobilizing adaptation finance is recognized.** The NAP process should be at the heart of initiatives for mobilizing adaptation finance. The NAP process is a strategic, country-driven approach for identifying and addressing medium- and long-term adaptation priorities while mainstreaming adaptation into development planning and budgeting. Leveraging the NAP process can increase the efficiency adaptation finance mobilization. It also builds an enabling environment for investing in adaptation. By integrating gender and social considerations, NAP processes can help to ensure that adaptation finance is targeted where it's needed most and yields equitable benefits.
4. **Appropriate financial instruments are utilized to achieve the 1.3T target.** It is crucial to use financial instruments tailored to the specific national circumstances, needs, and priorities of developing countries, especially in least developed countries (LDCs), which often face significant challenges in creating conditions for the successful implementation of innovative financial instruments for climate change adaptation.

Topics and Thematic Issues to Be Explored

- finance for adaptation in conflict-affected regions/countries,
- climate change adaptation investment planning to promote a structured approach for developing countries to mobilize adaptation finance,
- identify key enabling factors and the roles of funders and other key actors in promoting the use of innovative financial instruments for adaptation in developing countries,
- framework for developing rapid assessments of developing countries' capacities to increase domestic resource mobilization for adaptation,
- phasing out international public finance from developed country Parties to fossil fuels, and scaling it up for clean energy, including learning from the Clean Energy Transition Partnership (CETP) in this regard,
- fossil fuel subsidy reform in developed country Parties to free up fiscal space that can then be dedicated to climate finance among other development priorities,
- reforming state-owned enterprise investment for fossil fuels to free up fiscal space,
- fossil fuel levies as key economic instruments that can contribute to international climate finance, and
- carbon pricing and internationally coordinated taxation as a potential contributor to climate finance.

Country Experiences, Best Practices, and Lessons Learned

A tailored approach is needed to support vulnerable developing countries in mobilizing adaptation finance. Countries must look across a diversity of domestic, international, public, and private options, as relying solely on public international funding will be insufficient to ensure the implementation of their adaptation priorities. Yet, it is important to recognize that some developing countries may not be in a position now to increase domestic resources for adaptation finance or to attract private sector investments. A phased approach may therefore be necessary, especially in LDCs. This approach should initially focus on building foundational elements, such as legal and regulatory systems, and ensuring their strict enforcement, developing robust governance systems, and establishing transparent and robust reporting frameworks. Developing countries where these conditions are already in place should explore opportunities to increase domestic resources and mobilize private sector investments for adaptation.

A careful selection of financial instruments and mechanisms for mobilizing adaptation finance is key. Attention should be paid when choosing financial instruments and mechanisms to mobilize adaptation finance, especially in LDCs. Some instruments, such as debt-for-climate swaps, may be more attractive to LDCs. For example, the Climate Vulnerable Forum and Vulnerable Twenty Group, which includes 25 LDCs, has called for debt-for-nature swaps to address both debt and climate change issues. Examples of these initiatives include countries like Ecuador, which leveraged the largest debt-for-nature swap as of December 2024. Similarly, Gabon executed a USD 500 million debt-for-nature swap, the first in mainland Africa, building on the successes of Belize, Seychelles, Barbados, and Ecuador (Fedosova & Turner, 2023). High levels of debt and institutional weaknesses can make it difficult for LDCs to issue catastrophe bonds, green bonds, and sustainability-linked bonds. Additionally, the absence of appropriate regulatory frameworks and market infrastructure hinders the implementation of biodiversity credits. Innovative instruments and processes could be explored by developing countries that have the necessary conditions in place. The NAP Global Network (NAP GN) has developed an Inventory of Innovative Financial Instruments for Climate Change Adaptation which provides information on various innovative financial instruments that have been or could be used to finance the implementation of climate change adaptation measures, including the national priorities outlined in NAPs.

Climate change adaptation investment planning is a structured approach for accessing different sources of finance and closing the adaptation gap. It includes selecting a set of priority adaptation investments to be implemented first and identifying various potential sources of adaptation finance, including domestic (where possible), international, public, and private finance sources. The NAP GN has published a briefing note on frequently asked questions about climate change investment planning.

Costing priority adaptation options is a crucial step in mobilizing adaptation finance. It enables efficient resource allocation, informed decision making, and strategic financial and development planning. Accurate cost estimates help appraise adaptation options, ensure transparency, and build trust among key actors. The NAP GN has developed the NAP Costing Tool, an Excel-based resource designed to help countries estimate the costs of their priority adaptation options. Some countries, such as Fiji, Pakistan, and Albania, are using the tool to conduct detailed costing exercises.

Phasing out fossil fuel subsidies can create fiscal space, which can then be used to increase support to renewable energy, energy efficiency, and just energy transition, among other climate and development priorities**.** Fossil fuel subsidy reform creates fiscal space to pursue other social and development priorities. Reallocating savings from fossil fuel subsidy reform to alternative sources of energy and energy efficiency can be very effective in advancing a gradual transition away from fossil fuels. This kind of “subsidy swap” has been successfully implemented in Denmark, Zambia, and Morocco (Bridle et al., 2019). It has also been a pillar of the energy transition in India, where support for renewable energy and electric vehicles more than tripled between 2017 and 2020, and subsidies for electric vehicles grew by more than 11 times (Garg et al., 2020). In other countries, such as Indonesia, the fiscal space freed up by subsidy reform has been used for increased spending in improved and expanded social protection, such as housing for low-income groups, health insurance, and clean water access (Urazova et al., 2023). Sharing experience between countries is a key tool to show how subsidy swaps can be implemented.

Reform of international public finance for fossil fuels by developed country Parties can create fiscal space, which can then be used to increase support to renewable energy, energy efficiency, and just energy transition. The 40 CETP countries and public finance institutions have committed to end their international public finance for fossil fuels within a year of signing onto the partnership, and instead “prioritize fully” their international public finance for clean energy. The majority of signatories have fulfilled the first part of this commitment, leading to a USD 15 billion (two-thirds) drop in signatories’ international public finance for fossil fuels. Their clean energy financing has seen a USD 3 billion annual increase; however, IISD recommends that signatories’ total clean energy international public finance for EMDEs should reach USD 35-44 billion annually.

State-owned enterprise capital expenditure can be a critical source of finance for the clean energy transition. By setting ambitious renewable energy targets, state-owned power companies can mobilize finance for clean energy. For instance, NTPC Limited, the Indian state-owned power generation company, has laid out plans to increase its renewable energy capacity to 12 GW by the end of 2025, and 60 GW by 2032, representing a dramatic shift in its energy mix (NTPC Limited, 2021). Support from national governments is needed to realize this shift in financing.

Fossil fuel levies can raise revenues and discourage extraction at the same time, making them attractive investments for a managed transition away from fossil fuels. Levies on fossil fuel production serve two purposes: raising revenues and discouraging extraction—and they are already used by several producing countries under different forms (e.g., windfall profits taxes, special royalties arrangements). Indeed, on average, producing countries collect between 65% to 85% of the profits of oil and gas companies (International Monetary Fund, 2012). However, earmarking of those revenues for climate action is still not a common practice. These levies, if enacted, expanded or strengthened, could become important revenue sources for fossil fuel producers to finance their domestic transition and speed up climate action. Moreover, if part of the funds is collected or transferred internationally, these levies could become important sources of international climate finance.

Multilateral Initiatives Relevant to Consider

The **NAP GN**, hosted by IISD, supports developing countries, including LDCs and Small Island Developing States (SIDS), in enhancing their approach to mobilizing and accessing adaptation finance to accelerate the transition from planning to implementing countries' adaptation priorities. The NAP GN provides technical assistance to developing countries in developing climate change adaptation investment plans, engaging the private sector in adaptation finance, implementing innovative financial instruments for climate change adaptation, unlocking adaptation finance at the subnational level, integrating climate change considerations into national and sectoral budgets, and costing adaptation investments, among others. It also promotes peer learning activities and develops knowledge products on adaptation finance to share best practices and lessons learned. IISD and the NAP GN have generated more than 50 knowledge products on adaptation finance, including on the development of adaptation financing strategies, different sources of adaptation finance, innovative financial instruments for climate change adaptation, enabling factors for mobilizing financial resources for adaptation, and the integration of gender equality and social inclusion issues in adaptation finance strategies.

The **Asian Development Bank Climate Adaptation Investment Planning Program** promotes a structured approach to mobilizing adaptation finance in Asian countries, contributing to the acceleration of the implementation of these countries' adaptation priorities.

The **Coalition on Phasing Out Fossil Fuel Incentives Including Subsidies (COFFIS)** is highly relevant to consider in the Roadmap. This is a coalition of 16 countries working to remove fossil fuel subsidies both collectively and through domestic action. They are planning to present national fossil fuel subsidy phase-out plans by COP 30. The Roadmap needs to incorporate best practices from this group and build on its ambition. The COFFIS members are Antigua and Barbuda, Austria, Belgium, Canada, Colombia, Costa Rica, Denmark, Finland, France, Ireland, Luxembourg, the Netherlands, New Zealand, Spain, Switzerland, and the United Kingdom.

The **CETP** is also relevant to consider in the Roadmap. This group of 40 countries is committed to end international public support for the fossil fuel energy sector and instead scale up international public support for clean energy. CETP members have important experiences to share regarding how to scale up public support for clean energy to developing countries.

Regarding international fossil fuel levies and taxation schemes, several proposals have been developed by scholars and climate advocates. These could serve as important inputs for the discussions on this topic in the context of the Roadmap. The most prominent proposals include the **Climate Damages Tax** (Sharma & Hillman, 2024), the **Multilateral Carbon Tax Treaty (MCTT)** (Falcão 2019; 2024), and the **Wellhead Carbon Tax** (Peszko et al., 2020).

The **Global Solidarity Task Force** and its outcomes are a relevant initiative to consider to the Roadmap. This task force is co-chaired by Barbados, France, and Kenya and supported by a Coalition for Solidarity Levies, members of which include Antigua and Barbuda, Colombia, Denmark, Djibouti, Fiji, Marshall Islands, Senegal, Sierra Leone, Somalia, Spain, and Zambia. Key partner organizations to the task force include the International Monetary Fund, World Bank, United Nations, UN Conference on Trade and Development, Organisation for Economic Co-operation and Development, G20, G24, European Commission, African Union, and Coalition of Finance Ministers.

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