Submission by CONCITO on the "Baku to Belém Roadmap to 1.3T"

CONCITO welcomes the opportunity to submit our views on the questions related to the "Baku to Belém Roadmap to 1.3T"

Overall expectations for the Baku to Belém Roadmap to 1.3T

- The Baku to Belém Roadmap to 1.3T ("the Roadmap") offers an opportunity to move beyond the often fraught discussions on climate finance toward a common focus on solving real-world investment and financing challenges confronting emerging and developing countries (EMDCs). Implementation of the Roadmap will require deepened international cooperation and trust and has the potential to reinforce belief in the value of international cooperation, partnerships, and institutions.
- The Roadmap target of 1.3 trillion is anchored in the investment and financing needs associated with climate and development as identified, i.a., by the Independent High-Level Expert Group on Climate Finance (IHLEG). The Roadmap process should build on a shared understanding among a large number of countries around key aspects of this challenge:
    - That climate and nature protection is critical to security and prosperity, and urgent collective action must take priority over geopolitical divides. Development and poverty reduction would be undermined by further delays in climate change mitigation and adaptation.
    - That a rapid scale-up in investments in climate, development, and nature is the only "growth story of the 21st century" – other growth pathways are unsustainable and ultimately self-defeating.
    - That climate and development-related investments in energy transition, nature and agriculture, as well as in adaptation and resilience, will have to multiply. These massively scaled-up investments in human, institutional, physical, and natural capital have the potential to generate multiple benefits from local to global levels.
    - That the Roadmap should build on the agreed objective to pursue 1.5C and incorporate full implementation of the Global Stocktake.
- The Roadmap should reflect the fact that getting to 1.3T will require a multidimensional - or "systems" - approach to action on a range of thematic issues. Catalytic action at the national and international level is required to generate investment opportunities and connect them with finance from international, domestic, public, and private sources. As highlighted by IHLEG, to achieve the necessary investments, the 1.3T in international flows must be complemented by an even bigger domestic financing mobilization, with significant differences across countries at various stages of development and varying capabilities.
- Action proposed by the Roadmap must be firmly anchored at the country level, and international frameworks for cooperation must be fit for purpose and offer support of sufficient quality and scale.
- The Roadmap should identify a range of solutions under different themes, which may be translated into an actionable to-do list for governments and institutions.

- The vast majority of decisions about implementation of the Roadmap will be taken outside of the UNFCCC process, and it is important that the Roadmap process identifies and engages with actors that decide on and implement these actions, including governments, international financial institutions and other international organizations, as well as private sector actors.
- The roadmap should make use of the opportunity to put a spotlight on the quality, coherence, and effectiveness of international cooperation and support, which suffers from significant fragmentation and siloed approaches by a proliferation of institutions and initiatives. Governments are the main responsible for this fragmentation, and the Roadmap offers an opportunity to review, harmonize, and consolidate the international ecosystem of support, building, e.g., on the work in G20 on MDB reform and vertical environmental and climate funds. Governments should use all levers at their disposal in a coordinated effort to improve the functioning of the international system acting as:
    - Providers of bilateral cooperation and support
    - Shareholders in MDBs
    - Owners of DFIs and NDBs
    - Members of international organizations
    - Board members in funds, facilities, and initiatives that channel concessional finance
    - Parties to international agreements, including on financial regulation

- By setting a headline target of 1.3T, which – while not being cast in stone – reflects an analytical assessment of the real investment and financing challenge, the Roadmap establishes a benchmark for the discussions among countries, international financial institutions, private sector and philanthropy about the contribution of different instruments and sources of finance, both with regard to quality and quantity. This benchmark should encourage governments and other actors to approach the Roadmap process with a willingness to show flexibility regarding their established positions and "red lines" in order to achieve a set of solutions that add up to the 1.3T, which will depend critically on the sourcing of additional concessional and non-debt finance.
- The Roadmap development is a process, and all of its operational elements cannot be expected to be fully developed by COP30. It is important to identify a way forward for the process which reflects that solutions will be implemented outside of the formal UNFCCC process while providing for transparency and inclusiveness.

Topics and thematic issues that should be explored to inform the Roadmap

Getting to the 1.3T will require addressing thematic issues that are essential to generating the supply of real economy investment opportunities and matching them with the corresponding supply of finance. The topics and themes proposed here reflect the systems approach needed to get to the scale required.

Five thematic issues will be key to address in the Roadmap:

1. Clarity on the investment and financing challenge.
2. Country Platforms and improved delivery, scale, and quality of international support.
3. The importance of country-level catalytic action.
4. Scaling up and improving the quality of concessional finance
5. International factors influencing investment and finance flows.

1. Clarity on the investment and financing challenge.

The 1.3T figure is not taken out of thin air. It reflects the assessment by the IHLEG of the investment and financing needs. While the IHLEG number is not cast in stone, it will be helpful if the Roadmap explicitly anchors the 1.3T in the context of:

- The overall climate-related investment and financing needs (3.2T by 2035 according to IHLEG) and the even wider needs for all SDGs.
- The 300 Bn provided and mobilized under the NCQG. The 300 Bn must not only be reached but must be allocated in a way that catalyzes both the 1.3T international and the domestic finance needed.

The Roadmap should provide granularity on both investment and financing needs in terms of:

- Country income level (e.g. LDC/Africa vs. middle income).
- Sectors and types of investments: Energy, Food/Agriculture, Nature, Adaptation.
- Sources and types of finance: Domestic/international; Public/private; Concessional/MDB/non-concessional.
- Beyond the *scale*, it should also address the different types and uses of finance, including how concessional and other provided finance mobilizes and catalyzes the bigger amounts, i.e. the *quality* of finance.

2. Country Platforms and improved delivery, scale, and quality of international support.

Country platforms have been identified by G20 and others as an important instrument for scaling up climate and development investment and finance, enabling countries to realise objectives related to climate, growth, and sustainable, including by setting targets arising from country strategies and plans, creating enabling conditions, and catalyzing investment and finance flows.

While early country platforms have focused heavily on energy transitions, their scope must broaden to support e.g., industrial transformation, resilience, and nature-based solutions. Sectors such as agriculture, water, and infrastructure resilience offer significant opportunities to integrate mitigation and adaptation measures while driving economic growth.

Country platforms should evolve to become a cornerstone of international cooperation to catalyze finance for climate action. Country platforms can serve several critical functions, including:

- Facilitating coherent **domestic action** by creating effective in-country structures;
- Providing an **interface for cooperation** between governments, the private sector and the international ecosystem of partners; and
- Acting as a driver for **more coherent and better quality international cooperation and support**.

Two dimensions deserve special attention in efforts to mainstream country platforms and make them effective tools in realizing the Roadmap's objective:

A) Enhanced delivery of support

To enhance the effectiveness of country platforms, international partners should address the fragmentation and siloed approaches frequently present in current processes at the country level, adapting their operating modalities to enable all international actors to act "as a system" in delivering support at the country level. This applies to MDBs as well as other public financial institutions and funds, international organizations, and bilateral partners.

B) Improving the scale and quality of the "toolbox" of international support.

Effective country platforms require that the "toolbox" of support instruments is fully equipped, accessible, and efficiently deployed. A number of critical elements of the toolbox can be as key to investment and finance mobilization. They are being addressed in various fora and should be reflected in the Roadmap:

- Technical assistance and capacity development support.
- Risk mitigation instruments.
- Channels and vehicles for scaled-up flows of investment capital - including MDBs, DFIs, private FIs, and capital markets.
- Concessional finance to co-fund capacity support and risk mitigation & address affordability and social issues of the transition.
- Provision of liquidity and solutions for managing debt distress.

3. The importance of country-level catalytic action

It is increasingly obvious that climate action and growth/sustainable development are inextricably linked and interwoven, and neither can be resolved in isolation. As shown by IHLEG and others, investment and savings in EMDCs must increase by several percentage points of GDP.

Realizing the level of investment and finance flows required to simultaneously address development and climate challenges requires thriving economies with robust economic growth. This is a prerequisite for mobilizing the resources to finance investments from both domestic and international sources.

The mutually supportive character of mitigation and adaptation investments has become clearer, because mobilizing the financing for investment for climate mitigation will only be possible if economies are resilient and adaptive and able to withstand recurring shocks from climate change.

At the country level, a whole-of-economy and whole-of-government approach is needed to generate a supply of investment opportunities as well as the finance to realize them. Setting ambitious targets and translating them into investment and financing plans are a foundation. To make them a reality, action is needed in real economy sectors (e.g., energy, industry, buildings, transport), the financial sector as well as macroeconomic and cross-cutting dimensions such as trade, industrial policy, and taxation.

Creating a conducive investment climate requires the deployment of coordinated measures such as enabling policy and regulation, investment planning, and targeted use of risk-sharing instruments. When applied together, these measures contribute to turning investment needs into pipelines of investment opportunities and connecting them with finance.

Macroeconomic and crosscutting factors are key, not least because macro and country risks directly affect the access to and cost of capital and because only stable economies with robust economic growth are able to generate the domestic savings to finance investments and to attract international investment and finance in EMDCs.

Given the scale of the effort and both macroeconomic, fiscal, and financial implications, it is imperative that ministries of finance with their mandates in these areas are deeply engaged in country action on investment and finance mobilization.

4. Scaling up and improving the quality of concessional finance

Concessional finance is required for a range of purposes. It plays an important part in catalyzing much larger streams of, in particular, private finance from both international and domestic sources:

- Technical assistance and capacity development
- Risk mitigation instruments
- Capitalizing climate finance vehicles and channels.
- Addressing green-brown cost gaps related to investment cost or the cost of capital
- Early retirement of polluting assets
- Demonstration and proof of concept for new business models and technology solutions.
- Addressing affordability gaps for mitigation and resilience/adaptation in low-income and vulnerable countries.
- Addressing social issues and just transition.

The IHLEG identifies a need for concessional and non-debt financing at $200–300 Bn annually by 2030, a number that will be higher in 2035 and increase even further with continued delayed climate action. Grant and other concessional financing should double by 2030 and triple by 2035, and quality and effectiveness in deployment will be essential. The current trend is toward significant decreases in ODA, undermining the likelihood that these levels of concessional finance can be achieved.

It is imperative that this trend is halted and reversed and that alternative sources such as those developed by the Global Solidarity Levies Task Force are mobilized. A credible Roadmap requires countries to step up and accept that a wide range of sources will have to be utilized, also including philanthropic funding.

5. International factors influencing investment and finance flows

A fourth thematic issue has to do with a range of internationally determined factors that influence the scale and composition of investment and finance flows to EMDCs. From the perspective of an EMDC, these are “international framework conditions” beyond the direct control of a country seeking to mobilize investment. They are determined by decisions made unilaterally by other countries, through bilateral agreement, or in pluri- and multilateral settings.

Examples of bi- and unilaterally defined issues include:

- Corporate and financial sector due diligence, disclosure, taxonomies, and other regulations affecting investments and value chains.
- Bilateral trade and investment agreements + unilateral trade-related measures, incl. CBAM

- Industrial and investment policies in other countries
- Financial regulation in investor countries.
- Technology innovations and cost developments

Examples of issues determined in plurilateral and multilateral settings include:

- Pluri- and multilateral trade and investment agreements
- Credit rating frameworks and practices
- International financial regulation.
- International agreements on taxation.
- Innovative sources/taxation/levies.
- Frameworks for debt sustainability analysis + preventing and managing debt distress
- International value chain reorientation or disruptions
- International business cycles and shifts in inflation, interest rates
- International sector and technology initiatives
- International carbon market design

Country experiences, best practices, and lessons learned related to barriers and enabling environments; innovative sources of finance; grants, concessional and non-debt creating instruments, and measures to create fiscal space.

There are many sources of best practices, lessons learned, and innovations that can feed action-oriented solutions into the Roadmap.

Different sources and processes address different thematic issues of relevance to the Roadmap. The following are some of the most recent and prominent:

- **G20**, including the following from the Brazilian G20 Presidency:
    - Roadmap towards better, bigger, and more effective MDBs;
    - Input paper on country climate and development investment platforms prepared for the Task Force for the Global Mobilisation against Climate Change (TF-CLIMA);
    - Review of the Vertical Climate and Environmental Funds;
    - IEA Roadmap to Increase Investment in Clean Energy in Developing Countries.
- Reports on climate finance by the **Independent High-Level Expert Group on Climate Finance (IHLEG)**
- The coalition to implement the **Paris Pact for People and the Planet (4P).**

- **The Bridgetown Initiative**
- Guidance by the **Coalition of Finance Ministers for Climate Action** on Strengthening the Role of Ministries of Finance in Driving Climate Action
- Outcomes from the 4th International Conference on **Financing for Development**
- Reporting from the **Expert review on Debt, Nature & Climate**
- Proposals by the **Global Solidarity Levies Task Force**
- Recommendations by **Task Force on Climate, Development and the IMF**
- Various proposals and analyses by **think tanks and international organizations**
- Policy recommendations by private sector associations such as the **Glasgow Financial Alliance for Net Zero (GFANZ)** and the **Institutional Investors Group on Climate Change (IIGCC).**

Multilateral initiatives most relevant to take into account in the Roadmap.

It follows from the systemic, multidimensional approach that we advocate for, and which is also emphasized by IHLEG and others, that achieving the 1.3T in international finance flows will require simultaneous action in several different areas (see Figure 1 for an illustration).

Among the important initiatives of systemic importance in getting to the scale required, we highlight the following three:

A. A bigger and more resilient MDB system
B. Risk mitigation instruments for private finance mobilization.
C. A major boost of technical assistance and capacity development.

A. A bigger and more resilient MDB system

IHLEG has estimated the need for a tripling of climate-related finance from the MDBs. If simultaneous increases in private finance flows fail to materialize, the necessary increase in MDB finance (which is to a large extent private capital channeled to public MDBs through capital markets) may be even bigger.

In the current international context, the MDB system – and the wider international financial architecture – must not only become *bigger*, *better* and more *effective* in line with e.g. the G20 Roadmap and recommendations by the G20 Independent Expert Group, but it should also be made more *resilient* to pressure including from governments that may not be in favor of climate action.

Achieving the "bigger" part of the MDB evolution in line with the 1.3T will require a scaling up of MDB finance beyond what any of the MDBs are currently envisaging. The Roadmap process should build on the G20 MDB roadmap and should add to this an assessment of the following:

How much additional sustainable MDB lending can be generated from MDBs individually and collectively toward 2030 and 2035 from different combinations of the main tools:

- Shareholder portfolio guarantees/activating callable.
- Hybrid capital.

- Reinsurance, portfolio insurance.
- General capital increase.

An additional question to be answered should be: What are the barriers that limit individual MDBs in leveraging the maximum potential of each of these tools, and what decisions would be required to overcome these barriers?

In terms of increasing the resilience of the system, countries in favor of significantly scaling up MDB finance for climate and development may need to explore whether new models could be developed that build on the proven MDB financing model of raising funding in capital markets and at the same time has a clear mandate to finance climate and development as well as a high degree of resilience toward obstruction by one or more individual shareholders.

B. Risk mitigation instruments for private finance mobilization.

Private finance will have to be scaled up by a factor of 15 or more according to IHLEG. While this will require a wide range of efforts to enable, catalyze and mobilize private investment and finance, it is clear that risk mitigation instruments will be required in parallel with development of investment-enabling framework conditions, pipeline development and other interventions.

The Roadmap could aim to develop a "catalogue" of risk mitigation instruments, among which guarantees would play a central role, for inclusion in the Roadmap. This catalogue would identify a structured set of risk mitigation instruments addressing risks across categories of risk such as sovereign/political/currency, technology, market, credit/offtaker risk. Instruments would be applicable at different levels (e.g. project and portfolio) and stages (development/construction/operation). The Roadmap should also aim to identify opportunities for standardization and scaling of the deployment of the instruments.

C. A major boost in the provision of technical assistance and capacity development.

While there is general recognition of the importance of investment-enabling framework conditions, there is still only an emerging realization of the associated need for scaled up investments in human and institutional capacity to enable countries to embark on a climate-aligned growth and development trajectory. As mentioned in the discussion of country platforms, support in the form of technical assistance and capacity development must be available at the required scale and quality.

What is new in this context is not just the scale required, but also the need to include to cover all of the three major dimensions of country action: The economic sectors, the financial sector, and macroeconomic and fiscal management. The latter is essential to generate fiscal space, manage debt and ensure sound overall economic management, which is fundamental to reducing cost of capital. There should therefore be an increased focus on engagement with, cooperation between and support for finance ministries, which are fortunately increasingly involved in climate related issues through the Coalition of Finance Ministers for Climate Action.

The Roadmap should explicitly highlight the need for a massive scaleup of international technical assistance and capacity development support. This can have a big catalytic impact from a relatively modest resource input when delivered effectively through country platforms. For this scaleup to happen, providers of concessional finance will need to deliver on scale as well as on quality and effectiveness. Improving quality includes being less fixated on being able to attribute increased investment levels to their funding contributions. Investments in capacity development and investment-enabling conditions can have a huge catalytic impact but will often not be easily attributable to individual donors.

Figure 1: Thematic issues of relevance to the Roadmap to 1.3T