

Climate and Nature Based Solutions Financing in Maldives



Suba Sivakumaran, Chief, Financing for Development Section, Macroeconomic Policy and Financing for Development Division

14 June 2023,

Agenda

1. What is the gap?
2. What does ESCAP do in climate and nature-based finance?
3. Integrated National Financing Approaches and Nature Based Finance
4. Climate Change and Climate Finance
5. Ecosystem Services
6. Nature Based Solutions
7. Proposal of our plan
8. Your feedback – Structured Questions for Stakeholder Discussion



Mind the (financing) gap: substantial and rising estimates of financing requirements to meet countries climate ambitions

Report of the G20 Independent Expert Group (July 2023)

Annual incremental investment of **\$3 trillion** needed for climate action [**\$1.8 tr**] and SDGs [**\$1.2 tr**] in developing countries (ex-China) **by 2030**

\$2 trillion additional domestic resource mobilization (DRM) and local finance

\$1 trillion in additional external financing commitments needed annually

\$500 billion of official development financing

\$500 billion of private capital for sustainable development

Source: ESCAP based on G20 Independent Expert Group Report, July 2023

Global transformation to a low-carbon economy is expected to require investment of at least USD 4-6 trillion per year. For developing countries USD5.8-5.9 trillion is estimated as needed for the pre-2030 period to meet their Nationally Determined Contributions (NDCs).

Global Biodiversity Framework –Dec 2022

The goals set out in the Global Biodiversity Framework highlight the significant financing gaps which must be filled to adequately implement the Kunming-Montreal GBF and the 2050 Vision for Biodiversity.

To achieve these biodiversity objectives, targets have been set aimed at mobilizing US\$200 bn per year by 2030 globally from all sources to implement national biodiversity strategies.

Additionally, a target of increasing financial flows from developed countries to developing countries to at least US\$ 20 bn per year by 2025 and to at least US\$ 30 bn per year by 2030, has also been set.

Currently, only 154 bn a year in total flows into nature-based solutions, and only a third of the \$484 bn investment needed by 2030. Of this, private finance currently only represents \$26 bn (17%) a year – according to UNEP (State of Finance for Nature, 2022)

The Paris Agreement (2015) and subsequent COPs as well as the Kunming Montreal Global Biodiversity Framework (2022) lay the foundation for nature based solutions financing (including biodiversity financing) and climate finance

TARGET 19 of the Kunming Montreal GBF

- TARGET 19 Substantially and progressively increase the level of financial resources from all sources, in an effective, timely and easily accessible manner, including domestic, international, public and private resources, in accordance with Article 20 of the Convention, to implement national biodiversity strategies and action plans, mobilizing at least \$200 billion per year by 2030, including by:
 - (a) Increasing total biodiversity related international financial resources from developed countries, including official development assistance, and from countries that voluntarily assume obligations of developed country Parties, to developing countries, in particular the least developed countries and small island developing States, as well as countries with economies in transition, to at least \$20 billion per year by 2025, and to at least \$30 billion per year by 2030;
 - (b) Significantly increasing domestic resource mobilization, facilitated by the preparation and implementation of national biodiversity finance plans or similar instruments according to national needs, priorities and circumstances;
 - (c) Leveraging private finance, promoting blended finance, implementing strategies for raising new and additional resources, and encouraging the private sector to invest in biodiversity, including through impact funds and other instruments;
 - (d) Stimulating innovative schemes such as payment for ecosystem services, green bonds, biodiversity offsets and credits, and benefit-sharing mechanisms, with environmental and social safeguards; etc. .

At COP28, Maldives as a co-launcher of the 10 Point Plan on Financing Biodiversity, participated in a 10 Point Plan Ministerial Stock take

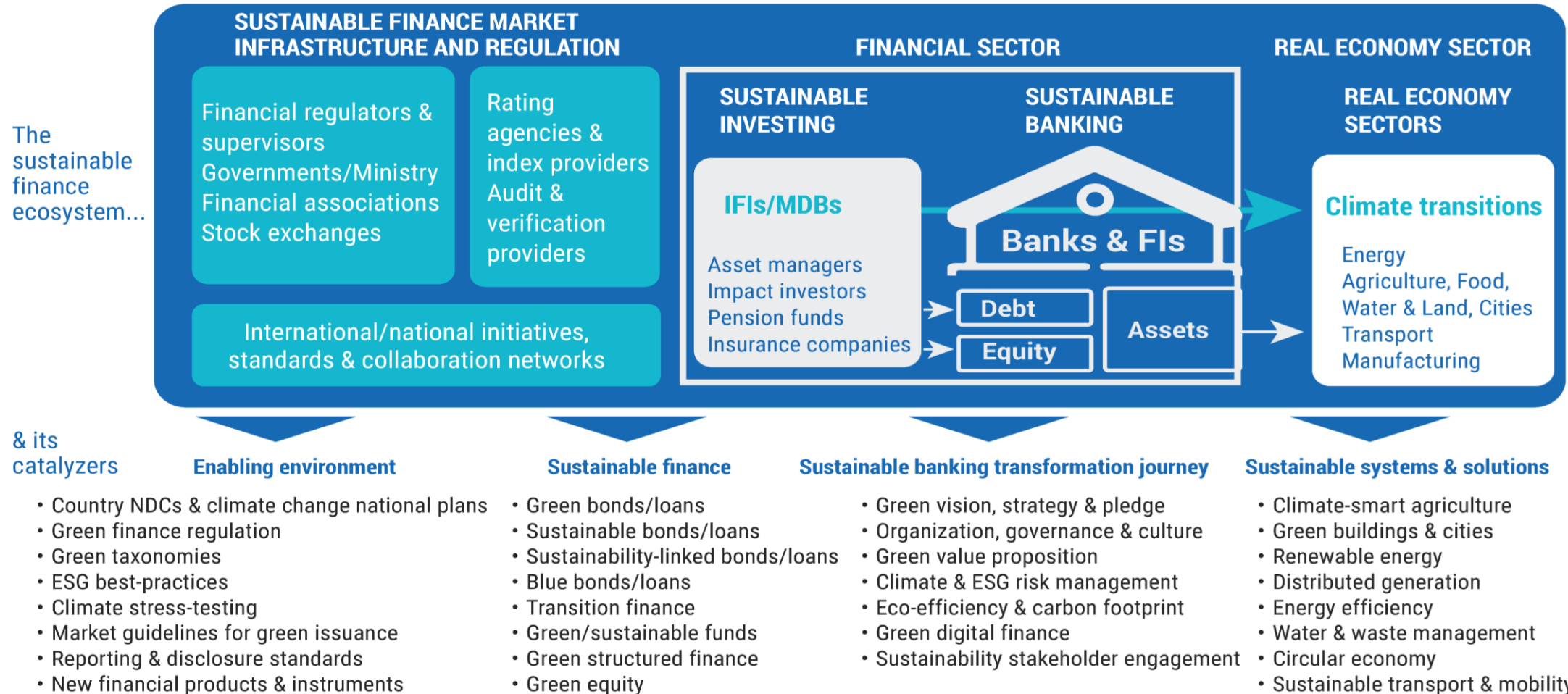
What are NBS?

Nature-based solutions are **“actions to protect, sustainably manage, and restore natural or modified ecosystems, that address societal challenges effectively and adaptively, simultaneously providing human well-being and biodiversity benefits”**.
(IUCN)



Developing a Sustainable Finance Ecosystem is crucial to mobilize financing for SDGs and climate action

The sustainable finance ecosystem



Source: ESCAP adapted from the International Finance Corporation

1. What does ESCAP do in climate and nature-based finance?

Demand-Based Technical Assistance to Member States:

Green Bond Frameworks

Debt for Nature Swaps

Green/Climate Project Pipelines for investment by grant, concessional, blended and commercial finance

Nature-Based Finance

Research – forthcoming research on energy transition, sustainable finance instruments, green and nature based project pipelines, and in nature-based solutions (biodiversity financing)

Intergovernmental consensus-building – facilitating resolutions, advocacy by member states into global processes, likeminded initiatives

- The DA15 project, to be implemented by ESCAP, will support four Member States in Asia and the Pacific (Bangladesh, Indonesia, Maldives and Samoa) in three areas: (a) understanding the role of nature-based solutions in addressing climate change (integrated mitigation and adaptation action); (b) increasing investment in nature-based solutions using innovative climate financing mechanisms; and (c) implementing climate-smart trade practices in support of such nature-based solutions.

- Nature-Based Finance

- Beginning our work in Samoa and Maldives
- Working together with the Environmental Division at ESCAP together with other divisions
- Focusing on technical assistance and bringing partners with expertise to the field
- Promoting sustainable forms

Foundational Elements of Sustainable (Climate and/or Nature) Finance

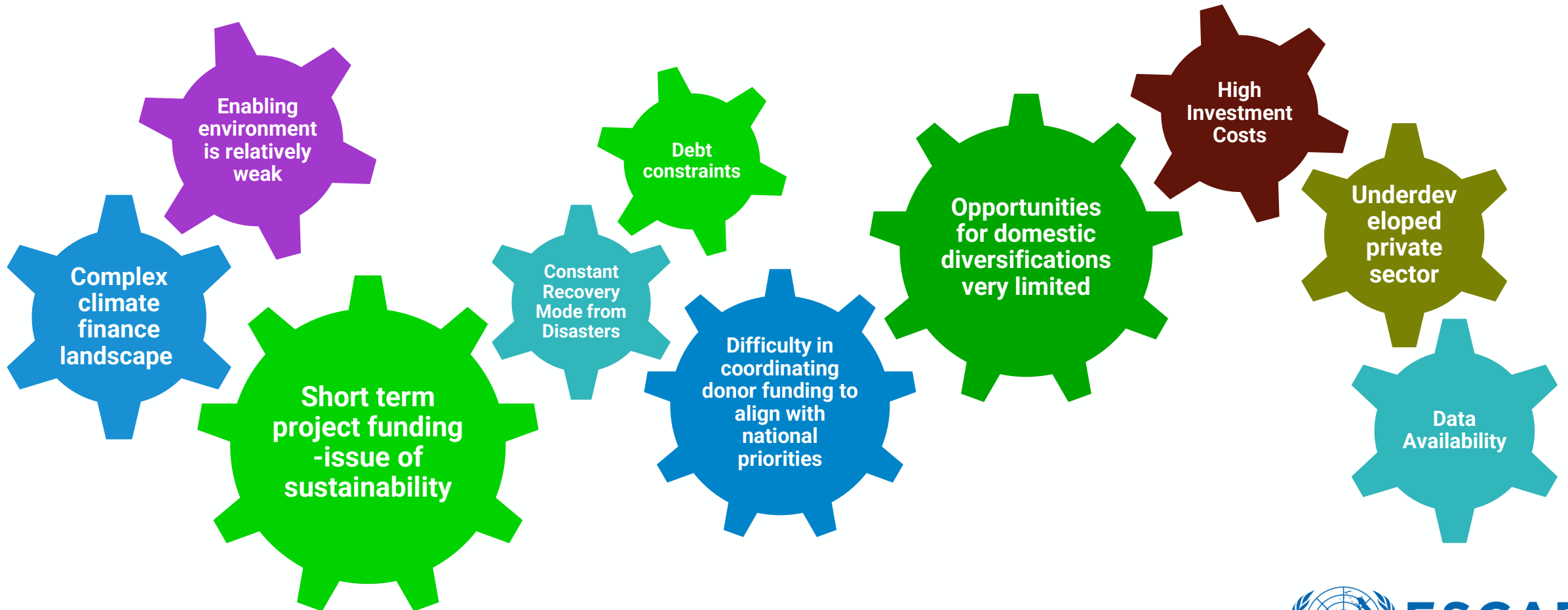
Mobilising finance for climate or nature includes

- Standards and taxonomies for nature or green finance
- Standards for risk management around environmental, social or governance factors
- Disclosure and reporting of relevant data
- Financial products and services appropriate to the context

Not a projectized approach – but mainstream

- Factors such as climate nature and the environment should be fully integrated into mainstream financial systems, processes and policy, across all sectors and asset classes and within broader financial and banking system – requires increasing coordination within government
- Both public (sovereign issuances) and private finance within sustainable finance markets need these pillars
- Concessional finance from development financial institutions also requires ESG risk management, disclosure, and standards adoption

Barriers to Climate and Nature Based Finance in Maldives



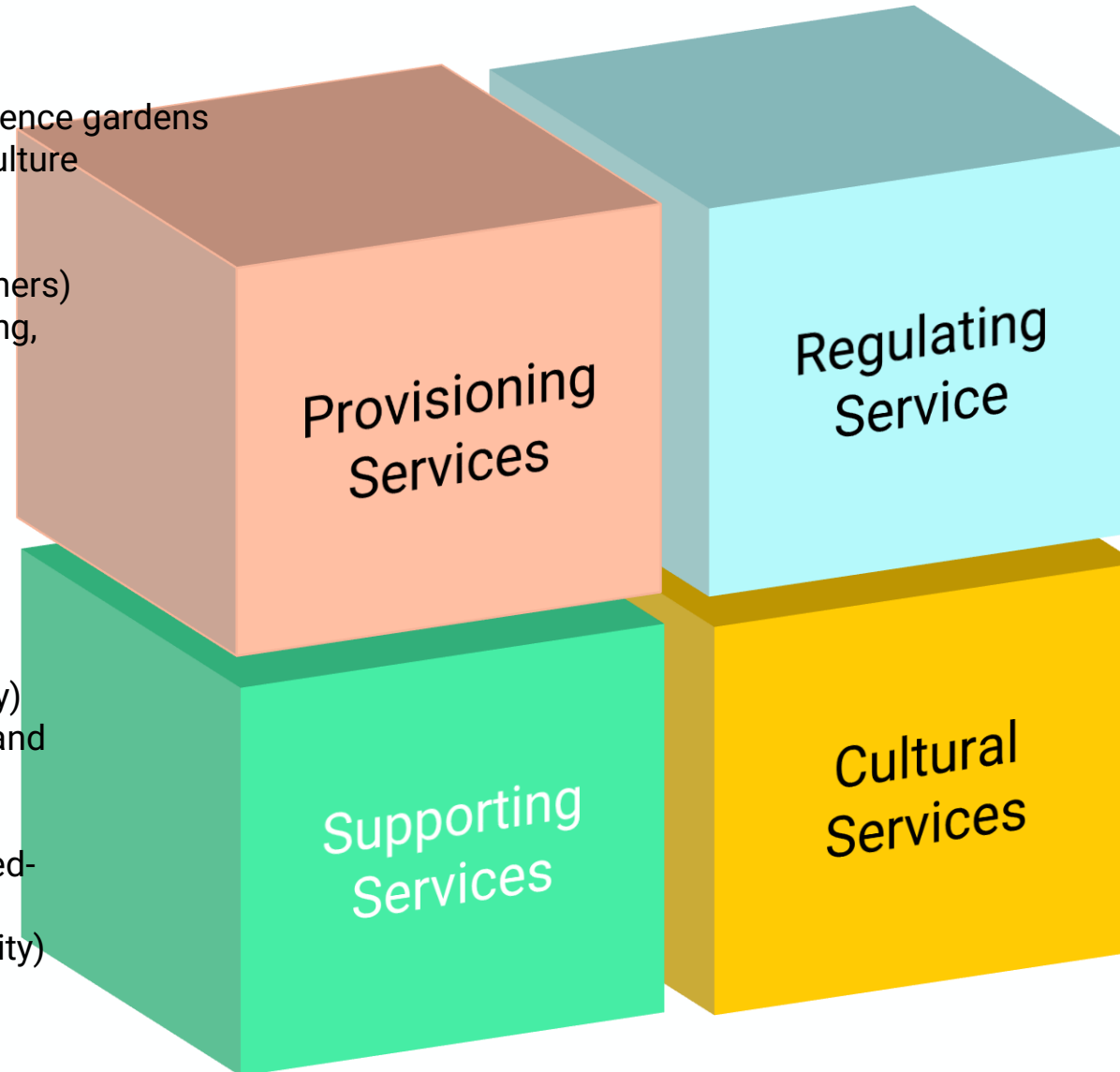
Nature-Based Finance and Payment for Ecosystem Services – How did we get here?

- Payment for Ecosystem Services
- Integration into International Agreements
- UNFCCC
- NCD's
- Paris Agreement Art 5 (REDD+) & Art 6
- Convention on Biodiversity
- Biodiversity offsets
- Carbon and nature provide twin opportunities
- Regulatory Markets
- Voluntary Markets



What are Ecosystem Services?

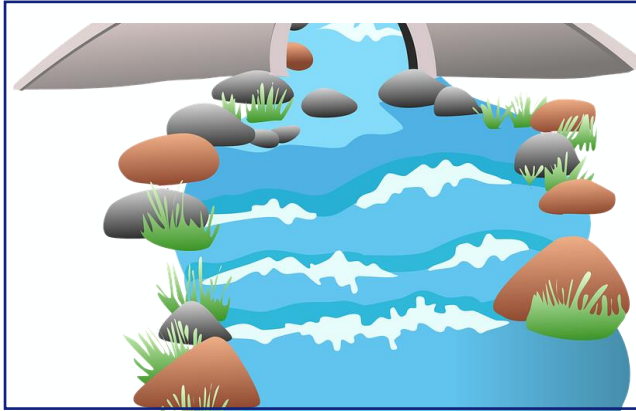
- Food (Urban, peri-urban subsistence gardens and animals; commercial agriculture and farming, fishing, coastal reef etc)
 - Biochemicals (medicine and others)
 - Raw Materials (firewood, building, sand and aggregate)
 - Fuel and energy.
 - Freshwater.
 - Ornamental resources (mats, baskets, etc)
 - Genetic Information.
-
- Soil (formation, retention, fertility)
 - Fixation of solar energy (above and below ground and in water)
 - Nutrient cycling.
 - Habitat provision (including breeding and nursery)
 - Species Maintenance (biodiversity)



- Pollination and Seed Dispersal
- Biological control (invasive species, disease)
- Climate Regulation (greenhouse gas storage and sequestration, UV protection, temperature regulation)
- Prevention of disturbances (wind, wave, food, drought, erosion of species and coastlines)
- Decomposition.
- Pollution (water, air, soil)

- Artistic and Spiritual Inspiration
- Aesthetic Value
- Creation of sense of place
- Cultural Diversity and History
- Education and knowledge
- Psychological well-being
- Tourism and recreation

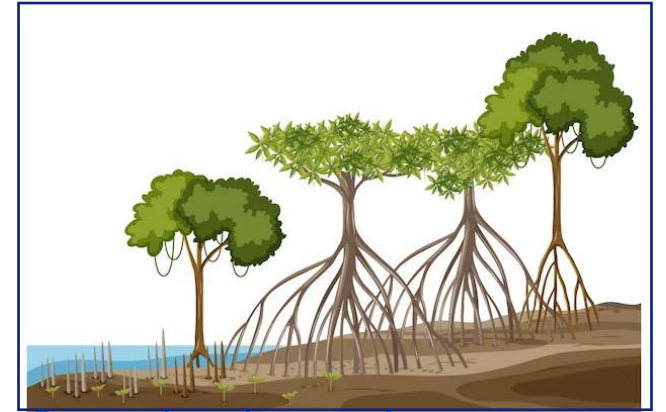
What are Ecosystem Services?



Ridge-to-reef river restoration projects



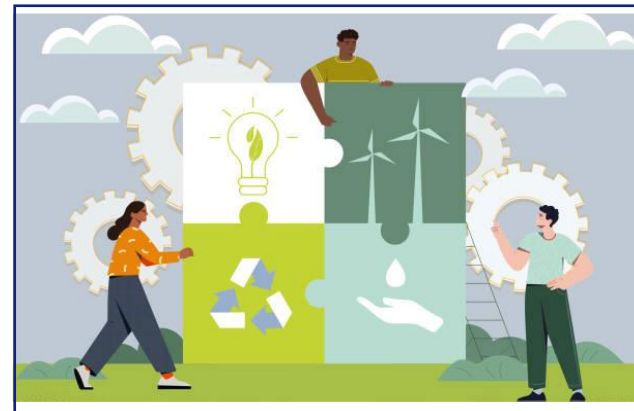
Reforestation and afforestation projects



Coastal and estuarine mangrove restoration



Combinations of natural and built infrastructure to improve watershed management



Natural Climate Solutions

Growing success of nature-based finance in the private sector but early days

“I envisage a day where you have astute traders who are tracking the performance of a fig wasp, and are really able to value and understand the nuances that an ecosystem can provide in terms of holistic quality and biodiversity gains’

- Investor, when asked what an ideal biodiversity financing (nature-based solutions financing) market would look like in five years time (Carbon Pulse)

- Early Days but increasing interest
- UNFCCC Paris Agreement Article 6 Nature based Carbon Solution pilot projects
- International Emissions Trading Association (IETA) Markets for Natural Climate Solutions Initiative
- Climate Asset Management a joint venture between HSBC Asset Management and Pollination raised \$650 million to invest in nature projects
- Revenue from selling carbon and biodiversity credits linked to the projects which companies and others could buy to offset their climate-damaging carbon emissions.
- Apple commits up to an additional \$200 million to for natural capital projects

Examples – Nature-Based Solutions link to carbon markets

- Climate Resilient by Nature (CRxN)
 - Australian Government initiative, in partnership with WWF-Australia
 - Advancing high-integrity, equitable nature-based solutions to climate change in the Indo-Pacific including Fiji, Kiribati, PNG, Tuvalu, Samoa and Vanuatu.



Australian Government

**Climate
Resilient
by Nature**



Examples – Payment for Ecosystem Services – Green Climate Fund in Samoa

- Pilot phase – where providers of ecosystem services (such as forest conservation) receive payments from the beneficiaries or end users of these services (GCF funding of \$63mn with GoS contribution for overall project. Output 2 is related to PES).
- Seeks to assess the feasibility of local landowners to conserve and protect forests to enhance ecosystem services such as water quality, flood risk regulation, climate regulation, habitat for wildlife and tourism and recreation while providing income-generating opportunities for the communities
- Includes cash-for-work payments to be coordinated
- Complex, multi-sectoral project managed by the Ministry of Finance (M.O.F) and implemented by agencies such as the M.N.R.E; the Ministry of Works, Transport and Infrastructure (M.W.T.I); and Land Transport Authority (L.T.A).
- Lessons learned such as on safeguards can be extremely useful for other nature-based solutions/finance to be accelerated

Possible barriers to nature based solutions

Possible Barriers to NBS

Suitability of Climate fund in SIDS

Cost of Funding

High Transaction Costs

Absorption Rate

Institutional Capacity

Environmental and Social Safeguards

Land tenure and Property

Benefit Sharing

Gender impacts



Requires Integrated Partnerships and integrated financing approaches

- **Donors, concessional capital and philanthropies** must continue to provide grant capital for project design and feasibility assessments, technical assistance, capacity building and impact measurement to help more projects reach investment readiness and unlock private finance.
- **Non-profit organisations and research institutions** are essential knowledge partners – they can provide targeted expertise in best practices and impact measurement, as well as provide a platform for case studies that have been tried and tested in the field.
- **Private investors** must continue to develop their internal capacities to assess NbS investments – with help from non-profit and research actors – and help position NbS as a new credible asset class.
- **Governments** must design effective policies at a local, national, and international level that help to incentivise the development of high-quality NbS and enable private investment in this emerging market.
- (Source: Common Success Factors for Bankable NBS – World Wildlife Fund/SouthPole)

Thank
you



DEBT SWAPS FOR NATURE AND CLIMATE

- **Debt-for-Nature Swaps (DfNS)**

A debt-for-nature swap is a type of financial transaction that allows a debtor country to reduce its external debt in exchange for implementing conservation measures. In a debt-for-nature swap, a conservation organization (often a non-governmental organization or NGO) purchases a portion of a country's debt from a creditor nation or institution at a discount, and then offers to restructure its debt in exchange for a commitment from the debtor country to invest in environmental conservation purposes. Oftentimes, bilateral agreement between states could also occur without the involvement of other parties.

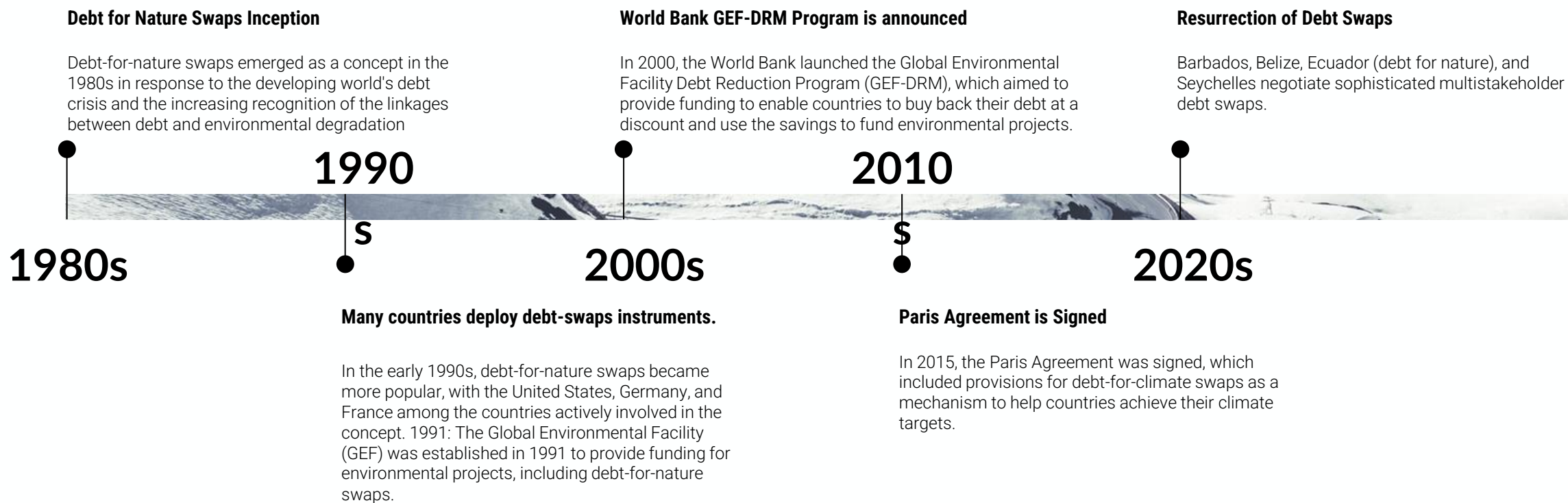
- **Debt-for-Climate Swaps (DfCS)**

A debt-for-climate swap is focuses on bilateral and public debt and is specifically focuses on climate change adaptation and mitigation activities. This proposed financial instrument is not a debt forgiveness mechanism, the country will continue paying its dues or portion of the agreed part but will do so by investing the agreed amount of financing towards climate mitigation and adaptation project within the debtor country, preferably in local currency. Thus, repurposing the debt towards national climate-oriented investments.



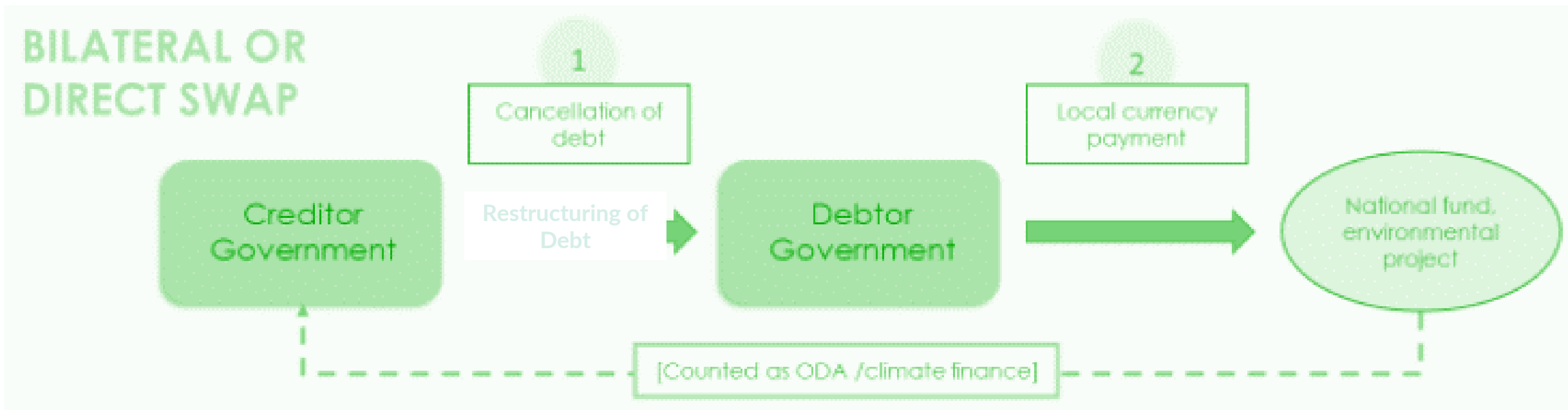
- *While specific designs vary, all debt swaps share the same underlying mechanism: the public debt of a developing country is repurposed in exchange for similar investments in climate-related projects within the debtor country and supports the creditor's climate finance commitments.*
- *Unlike debt for nature, debt for climate mechanism combines the obligations of the debtor country to pay their duties and obligations of the creditor country (relevant mainly for the Annex II countries of UNFCCC) to fulfill their obligations under the Paris Agreement.*

Brief History of Debt Swaps



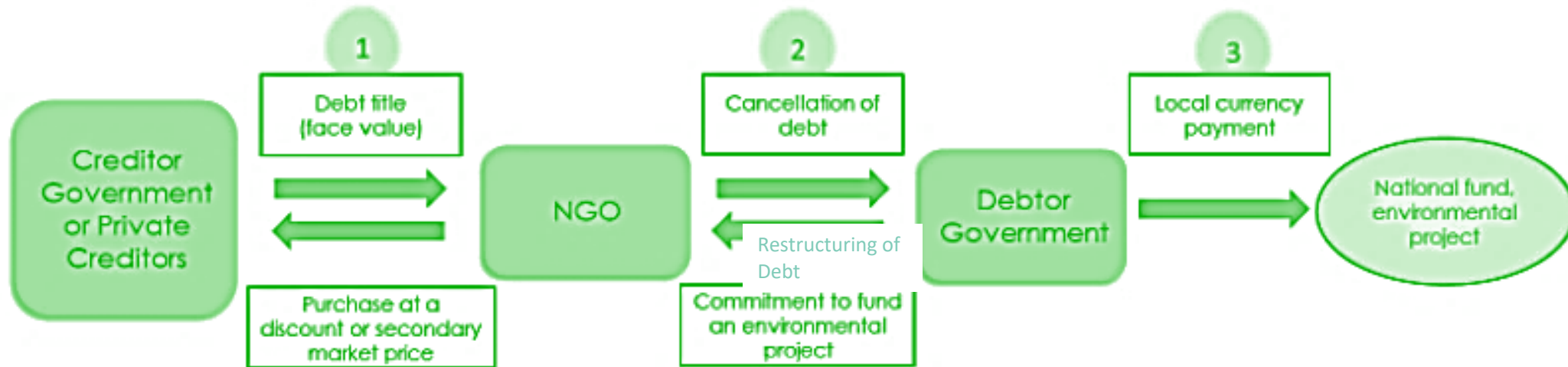
Bi-Lateral Swap

When the swap is bilateral, the creditor government agrees to restructure the debt owed by the debtor government in exchange for the debtor redirecting an agreed amount of owed funds, typically in local currency, for an agreed purpose, such as a renewable energy project or nature conservation project. This model has been used principally in official (government-to-government) debt swaps. Bilateral swaps can also be multilateral when they involve multiple creditor countries (Bove, 2021).



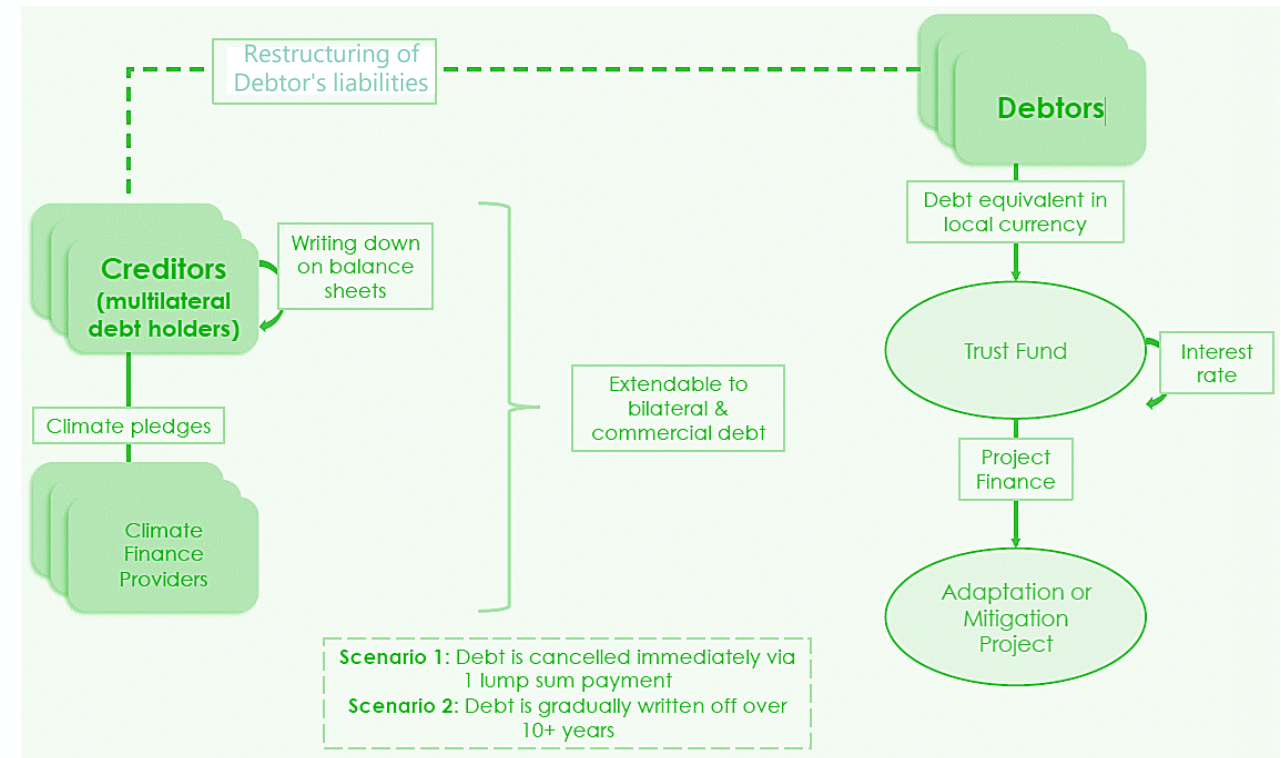
Third Party Swap

Third-party swaps involve the debtor, the creditor(s), and an environmental NGO or third party. In this scheme, typically an NGO or third-party purchases the outstanding debt of the debtor country to private creditors in the secondary market or acquires the outstanding debt of the debtor country from an official bilateral creditor, at a discount. The NGO or third party then passes the savings to the debtor by refinancing the debt at a lower face value under the condition that the debtor allocates an agreed part of the savings in debt service payments, in local currency, to pre-agreed conservation investments. In this second leg of the transaction, the NGO or third party can also lower the interest rate on the discounted debt, change its currency of denomination, or even cancel it. In addition to its role as an intermediary, the NGO or third party also plays an important role by contributing expertise and services to facilitate the country's investments toward conservation measures (Bove, 2021).



Commonwealth Framework for Debt Swaps

This proposal jointly developed by the Commonwealth Secretariat, the World Bank, and the Economic Commission for Latin America and the Caribbean (ECLAC). Here the multilateral institutions restructure small states' multilateral debt using their climate finance pledges in exchange for investments in mitigation or adaptation projects. This scheme is particularly suitable for small states that have difficulties accessing donors' climate finance commitments as they fail to comply with specific conditionalities or lack absorption capacity. The funds transferred from donors to multilateral institutions can be scheduled annually, as subscriptions, or as one upfront lumpsum payment. Small states then make annual payments into a trust fund in an amount close to the initial debt service but in local currency over 10-15 years, the interest earned by the trust fund can be used to provide additional finance to environmental projects.



Co-Benefits: A win-win solution for Debtor, Creditor and Climate Action

Benefits for the Debtor Country



Through debt relief and conversion, the overall debt burden on the debtor country is lowered and the strain on the national budget is reduced.



Since counterpart payments into environmental projects are generally made in local currency, debtor governments save scarce hard currency which they can then use to build foreign exchange reserves.



Debt swaps have the potential to improve the overall macroeconomic situation of an indebted and developing country by alleviating its public debt burden in the medium term and creating fiscal space in the short term.



Debt relief can strengthen economic stability, improve the credit rating of a debtor and attract new investments.

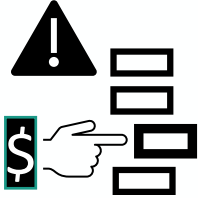


Environmental projects benefit from freed finance that would have otherwise gone towards the creditor's budget, often bringing economic and social benefits at a local level.



Finance to environmental projects are typically distributed via a trust fund which is set up according to the original repayment schedule. This long-term regular funding facilitates investments in climate finance.

Benefits for the Creditors



From a financial perspective, creditor countries' remaining debt claims increase in value through such swaps, and creditors can recover either full or at least a larger part of their debt. Debt swaps are particularly beneficial if parts of the debt have been already restructured but full repayment remains unlikely.



Creditors must mobilize a lower amount of additional funding to meet their international climate commitments and can register the instrument as the provision of ODA at the same time.



Debt-for-climate swaps offer additional finance for climate action and allow creditor countries to fulfill their commitments under the Paris Agreement, redirect those funds towards timely and efficient fulfillment of commitments undertaken in the NDCs, and offer the opportunity to relieve debtor country's debt burden.