

DEBT FOR CLIMATE SWAP - INNOVATIVE CLIMATE MECHANISM

ERIK GRIGORYAN

<http://environment.am>

HISTORIC BACKGROUND

- Debt for nature swaps (DFNS) are financial mechanisms that allow portions of a developing country's foreign debt to be cancelled in exchange for similar financial commitments to be spent with clear obligations and payments towards biodiversity conservation and environmental policy measures.
- They first appeared in the context of the debt crisis of the 1980s, which affected mainly Latin America.
- In addition to reducing external debts, they were also a response to worsening environmental conditions in developing countries associated with the over-exploitation of resources and deforestation.

SWAPS SCHEMES AND TYPES

Two main schemes:

Bilateral (Direct) swaps

Third-Party Swaps

Debt for Nature/Debt for Climate Swaps

DEBT FOR CLIMATE SWAPS

- A debt-for-climate innovative financial swap mechanism focuses on bilateral and public debt. This proposed financial instrument is not a debt forgiveness mechanism, as the country will continue paying its dues or agreed part, but it will do so by paying in and for the climate adaptation project.
- As part of its commitments under the Paris Agreement, today, creditor countries continue to allocate hundreds of millions of EUR to climate actions, and canceled debt could be registered as a creditor's allocation to developing countries' climate flows.
- The parties to the climate swap will ensure that the amount reallocated to the climate adaptation action is registered and noted by the UNFCCC Secretariat.
- While specific designs vary, all debt swaps share the same underlying mechanism: the public debt of a developing country is canceled in exchange for similar investments in climate-related projects within the debtor country and counts towards the creditor's climate finance commitments.

\$100 BILLION PER YEAR FUNDING COMMITMENT

- The international community has failed to make progress towards its postulated goal of mobilizing USD 100 billion annually by 2020 for climate-relevant projects, as agreed in the Copenhagen Accord of 2009
- Developed countries and donors report challenges in disbursing their funds due to a failure to identify fundable projects, especially related to adaptation.
- Developing countries report difficulties accessing available resources due to a lack of capacity and an inability to fulfill specific requirements established by donors, climate funds, and financing institutions.

BENEFITS OF DFCS

Essentially this instrument:

- Alternative platform for implementation of NDC's
- Allows creditor countries to fulfill their commitments under the Paris Agreement,
- Redirects those funds towards timely and efficient fulfillment of commitments undertaken in the NDCs, and;
- Offers the opportunity to relieve the country of its debt burden.

WIN-WIN FOR THE DEBTOR COUNTRY

- Debt relief and conversion lowers the overall foreign debt and creates investment with a multiplicative effect on the economy.
- Debt relief can strengthen economic stability, improve the credit rating of a debtor and attract new investments.
- Climate projects benefit from freed finance that would otherwise have gone towards the creditor's budget; this often produces economic and social benefits at a local level.
- Debt swaps have the potential to improve the overall macroeconomic situation.

WIN-WIN FOR THE CREDITOR COUNTRY

- 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 can bring developed countries closer to reaching their target of mobilizing at least USD 100 billion.
- Creditor countries' commitment to supporting developing countries in their climate action is being mainly fulfilled by providing climate finance to the largest climate funds in the world, which are the Green Climate Fund (GCF) and the Global Environmental Facility (GEF). However, the pace with which climate finance is being allocated is largely surpassed by the acceleration of climate change and the need to speed up climate actions.

KEY STAKEHOLDERS

Government Focal Point

Line Ministries

Creditors

Development Partners

KEY AGENCIES, MINISTRIES OF ENVIRONMENT, FINANCE AND FOREIGN AFFAIRS

- Prepare NDC implementation and financial plans
- Coordinate efforts with respective ministries of the creditor countries, donor institutions, UN agencies, IFI's and rating agencies
- Review climate and environment priorities of creditor countries
- Review commitments and obligations taken by creditor countries.
- Provide full analysis of debt sustainability, debt statistics, main creditors, transparency and other relevant information.
- Coordinate debt serving with proposed adaptation and mitigation projects
- Prepare concrete adaptation and mitigation projects with financial estimates,
- Involvement of corporate institutions of creditor countries and presenting corporate interests with the implementation of DFCS
- Involvement of the political, scientific, and other resources to promote debt for climate swap among decision-making persons of creditor countries.
- Review and analysis of the political and reputation benefits for creditor countries

IFI'S, DONOR INSTITUTIONS AND COUNTRIES

- Support debtor country with relevant preferability studies
- Support debtor country with relevant specialists
- Support debtor country with the development of adaptation and mitigation projects and financial estimates
- Support debtor country with communication strategy
- Support debtor country with technical expertise.

NEXT STEPS

- Identification of the potential creditor partners interested in DFCS
- Initiation of bilateral conversation through the diplomatic channels
- Analysis of debt portfolio, potential climate and environmental projects and linkage with time frames
- In deep cooperation with IFI's (IMF)
- Pre-feasibility of implementation
- Preparation of communication strategy



Thank you

<http://environment.am>