



# Climate/SDGs Debt Swap - Donor Nexus Initiative

## Regional Consultation with the Civil Society

Climate/SDGs Debt Swap Programme as a viable innovative financing instrument toward financing climate action and the SDGs

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# Outline

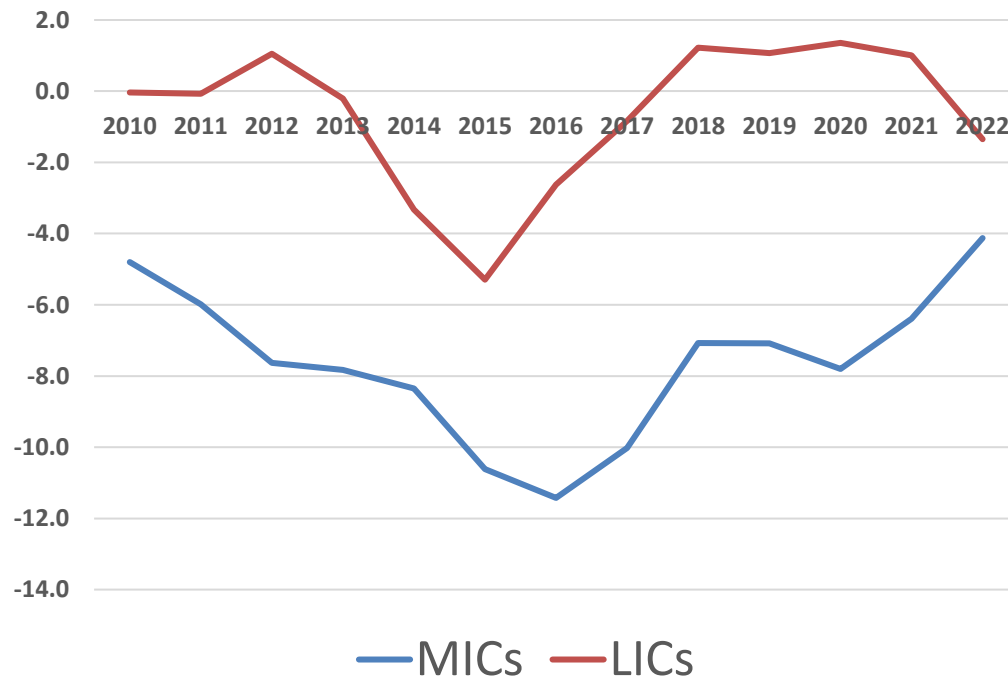


- I. Need for advancing debt solutions
- II. Debt swaps, benefits and limitations
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- IV. Co-benefits of the Initiative for the debtor, creditor and donor
- V. Milestones in operationalizing Climate/SDGs Debt Swap – Donor Nexus Initiative

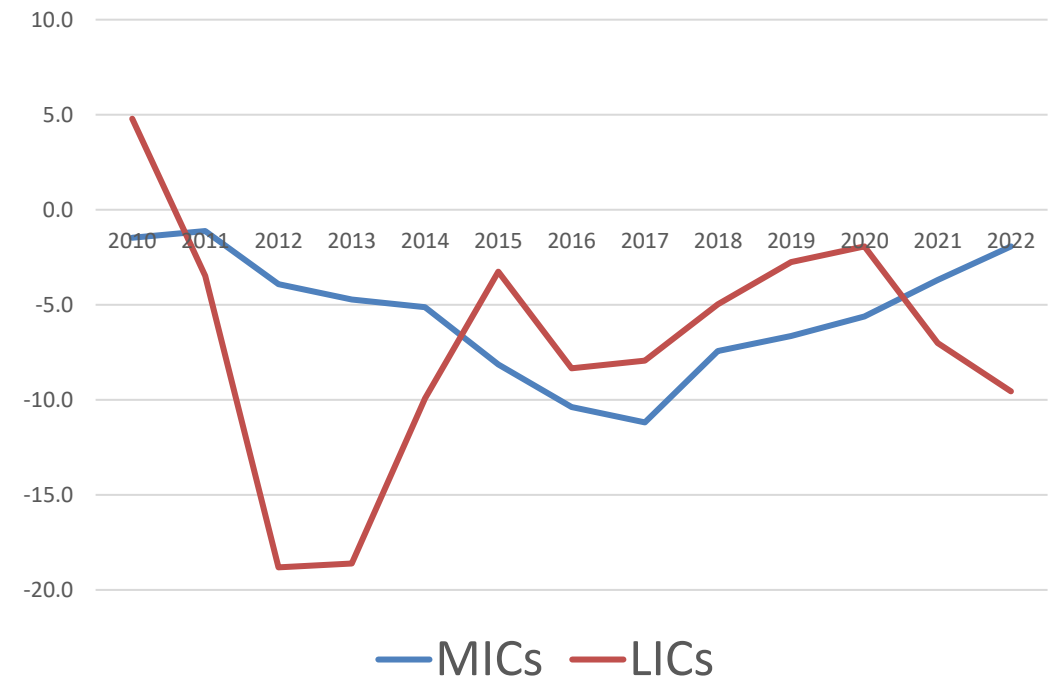
# I. Need for advancing debt solutions

*External liquidity has remained a major challenge for the low and middle-income countries, along with fiscal deficits*

### Fiscal balance (% GDP)



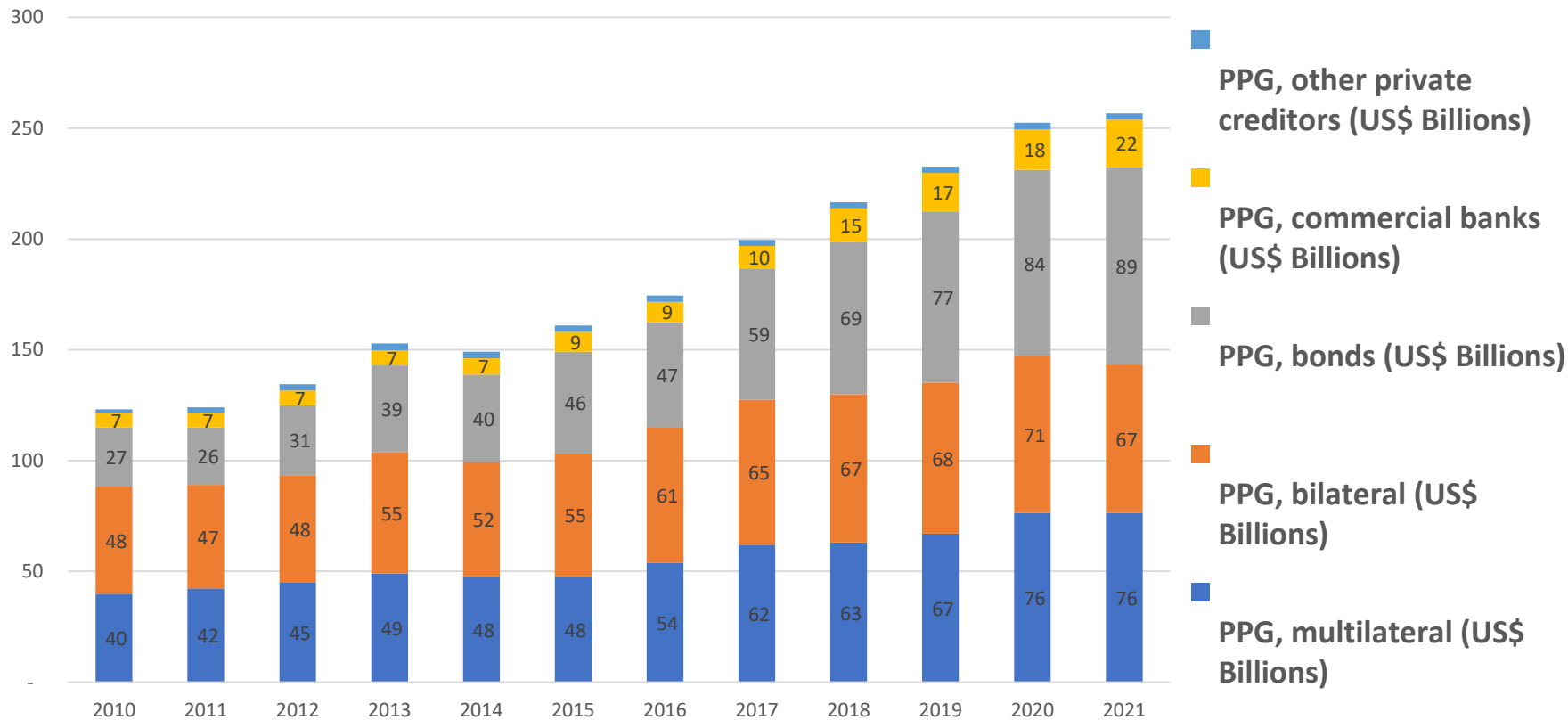
### Current account balance (% GDP)



# I. Need for advancing debt solutions

*Increasing borrowing from private creditors; Bilateral creditors hold more than a quarter of external debt of sovereigns in the low and middle-income countries in the Arab region*

External Public Debt (US\$ Billions) by creditors type



## External debt service to government revenues (%)

In 2022:

- MICs: 30 \$billion (about 15% of revenues on average)
- LICs: \$2 billion (about 19% of revenues on average)

# I. Need for advancing debt solutions

*Solutions to reduce debt service burden are essential to release resources for investing in climate action and the SDGs*



- **Debt swap can be one among the solutions**
  - Advocated by ESCWA since the launch of the Initiative in 2020
  - Advocated by the Sustainable Debt Coalition (2022)
  - Emphasized in the Outcomes of the Paris Summit (2023)
- **The “climate/SDGs debt swap – donor nexus initiative” aims to help improving preparedness of governments to scale up debt swap**
  - Developing a climate/SDGs **debt swap programme** in line with **national priorities** including NDC priority actions is at the heart of the Initiative.

## II. Debt swaps, benefits and limitations

### *What is debt swap? What are its objectives?*



#### Understanding debt swap:

**“Debt swaps” refer to an agreement related to transactions between a creditor and a debtor which may entail the following:**

- the existing debt may be replaced by a new debt instrument (generally part of debt restructuring);
- a commitment for some financial relief for the debtor, and a reallocation of cash flows towards targeted objectives (generally when a debtor faces high risk of default)
- a financial transformation of external debt service into local currency investments towards targeted objectives (ex. ESCWA Initiative)

#### Objectives depend upon the innovations in debt swap transaction:

- Provides debt relief with a haircut component or reallocation of cash flows (generally part of debt restructuring)
- Increases external liquidity (and BoP) when a transaction converts the debt service payments in local currency
- Enhances fiscal space when the debt swap finances an investment that is planned by the debtor country

## II. Debt swaps, benefits and limitations

*Debt swaps including debt-for-nature swaps have been useful to sovereigns but they have also invited limitations/criticisms*



### Some of the key lessons from the past debt swaps:

- Conditionalities may involve trade-offs with national priorities
- Small scale of debt swaps for specific projects (instead of a programmatic approach) poses difficulty in attributing to impact on development outcomes, external liquidity and fiscal space
- High transaction costs/complex procedures (especially in commercial debt-for-nature swaps)
- Commercial debt swaps have potential adverse impact on sovereign's credit worthiness and access to capital market

# III. ESCWA Climate/SDGs Debt Swap - Donor Nexus Initiative

## Debt Swap 2.0



### Innovative features of the Initiative

#### **A pre-emptive debt swap without debt restructuring:**

- The debtor is committed to honour debt repayments, but faces fiscal constraints for development expenditures and the debtor is NOT at high risk of default of debt service payment

#### **National priorities and nationally owned programmes:**

- A Climate/SDGs Debt Swap Programme that supports national priorities and nationally owned programmes on climate action and SDGs

#### **A programmatic approach with a Key Performance Indicators framework:**

- A results-based programme with key performance indicators at the project level and policy level, which can also accelerate policy reforms and transformational impact

#### **A planned medium to long-term debt swap to enhance scale of fiscal space:**

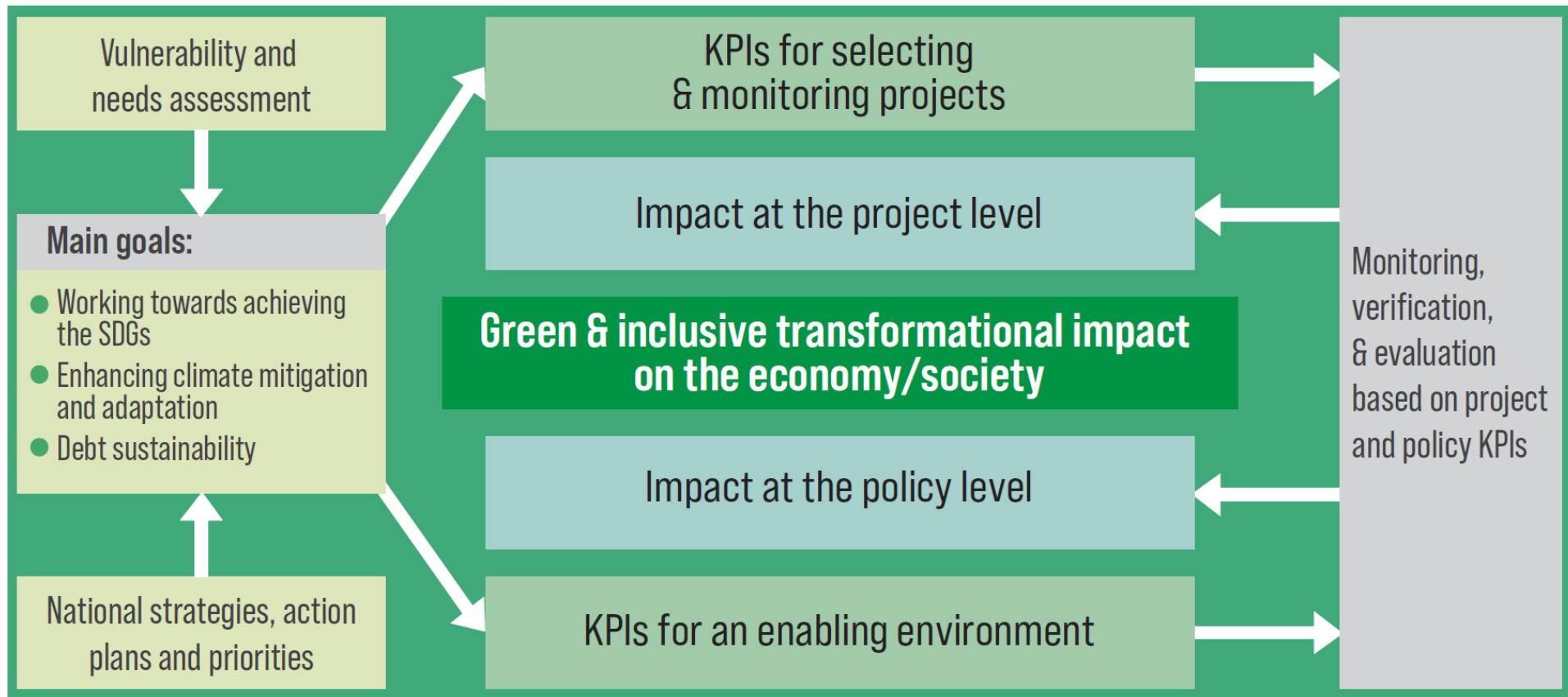
- The Initiative proposes planned medium- to long-term debt swaps, such as a multi-year period from 2024 to 2030

#### **Donor Nexus:**

- Incentivise international donors, Development Finance Institutions, MDBs to scale up the swap proceeds to finance climate action and SDGs



# A Key Performance Indicators (KPI) Framework that supports selecting Climate/SDGs Debt Swap Programme



*Source:* ESCWA 2022. [“A regional framework for a debt swap mechanism and key performance indicators for climate action/SDGs progress in the Arab region”](#), prepared by Dr. Ulrich Volz.

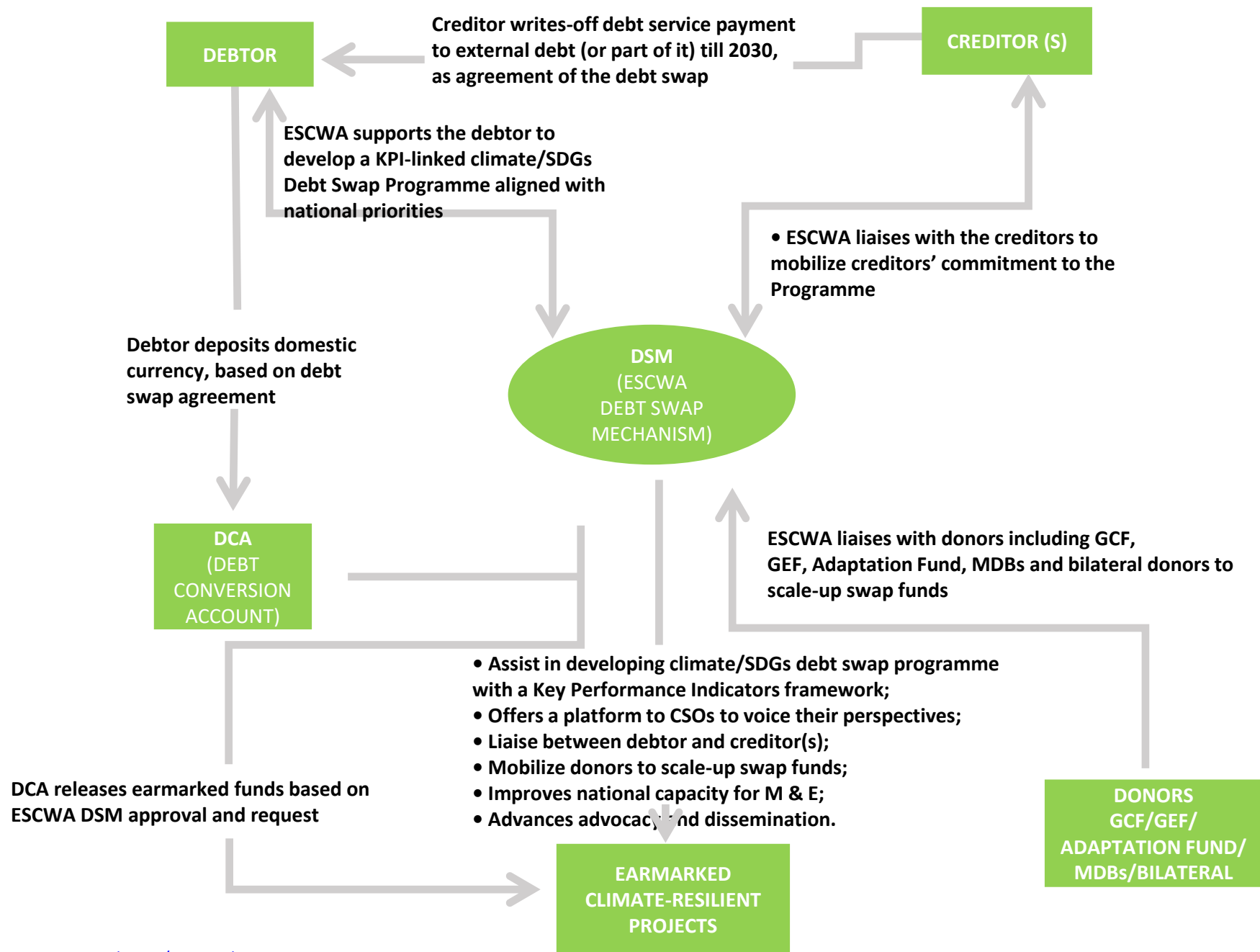
# Operationalising the framework for developing a Climate/SDGs Debt Swap Programme



Three main goals of assessment of vulnerabilities/national priorities	Specific Assessments	Consultations
<p><b>Enhance climate mitigation and/or adaptation actions</b></p>	<ul style="list-style-type: none"> <li>• Project analysis from the NDCs/other national plans and strategies (identify KPIs related to climate action and SDGs)</li> </ul>	<ul style="list-style-type: none"> <li>• Consultation with the inter-agency taskforce and civil society at national level (take into account different perspectives in finalising the programme that contributes to achieving national priorities)</li> </ul>
<p><b>Targets vulnerable populations and locations – working toward achieving the SDGs</b></p>	<ul style="list-style-type: none"> <li>• Climate vulnerability analysis at regional/governorate level</li> <li>• Multi-dimensional poverty analysis at regional/governorate level</li> </ul>	
<p><b>Increase fiscal space --Improves debt sustainability</b></p>	<ul style="list-style-type: none"> <li>• Debt structure/ debt service payments analysis</li> </ul>	



# Climate/SDGs Debt Swap Donor Nexus Initiative



## IV. Co-benefits of the Initiative for the debtor, creditor and donor



### Debtor's benefit

- Enhances fiscal space to support investment in national priorities including adaptation and mitigation commitments/targets
- Releases liquidity from external debt repayment (and improves BoP) toward investment into climate action and SDGs
- Promotes economic transformation/private sector opportunities/
- Increases jobs/ livelihoods/incomes/ local community development and women empowerment.

### Creditor's benefit

- Lower transaction costs by swaps as opposed to fresh funds or conditional grants
- Avoids direct monitoring of implementation
- Ensures debtor's expenditure commitment to climate action/SDGs through public budgets
- Advances meeting climate finance pledges / ODA commitments

### Donor's benefit

- Increases partnership opportunity for climate/SDGs actions with public and private actors and civil society
- Avoids transaction costs related to complex process of engaging with national stakeholders
- Avoids direct monitoring of implementation of grants
- Scales-up resources for climate-resilient projects and SDGs actions

## V. Milestones in Operationalizing Climate/SDGs Debt Swap – Donor Nexus Initiative



- **Establish an interagency taskforce at national level** (national ownership and cooperation across line ministries)
- **Assess the sovereign debt repayments over the medium to long term by type of creditors** (helps identifying the scale/amount of debt release and selecting the creditors)
- **Identify the priority sectors and programme/projects in line with NDCs/NDPs** (helps implementing the Agenda 2030 and climate action)
- **Consult with civil society to consider their perspectives in developing a national programme and its monitoring and evaluation strategy** (helps improving the selection of the programme as well as monitoring)

## V. Milestones in Operationalizing Climate/SDGs Debt Swap – Donor Nexus Initiative



- **Develop a climate/SDGs debt swap programme in a Key Performance Indicators (KPIs) framework** (develop KPIs at the programme level (macro level) and project level)
- **Design the financial conditionalities** (helps better understanding the incentives, risks and obligations and implications on budgeting exercise)
- **Engage with credit rating agencies and IFIs** (helps reducing risk of lowering credit rating, access to borrowing from capital market, builds trust of investors and people)
- **Mobilize support from creditors and donors** (helps improving scaling up funds mobilization)

# Thank You

**Niranjan Sarangi**, Senior Economic Affairs Officer,  
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**Carol Chouchani Cherfane**, Director, Arab Centre for  
Climate Change Policies, and Cluster Leader, Climate  
Change and Natural Resource

Link to the ESCWA [climate-SDGs debt swap/donor nexus initiative](#)

Link to a technical paper on ESCWA initiative:  
[https://www.unescwa.org/sites/default/files/event/materials/ESCWA\\_Paper\\_Debt\\_Swap\\_for\\_Climate\\_and\\_SDGs\\_Finance.pdf](https://www.unescwa.org/sites/default/files/event/materials/ESCWA_Paper_Debt_Swap_for_Climate_and_SDGs_Finance.pdf)



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