



Shared Prosperity **Dignified Life**



Economic and Social Commission for Western Asia

Climate/SDGs Debt Swap - Donor Nexus Initiative

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Outline

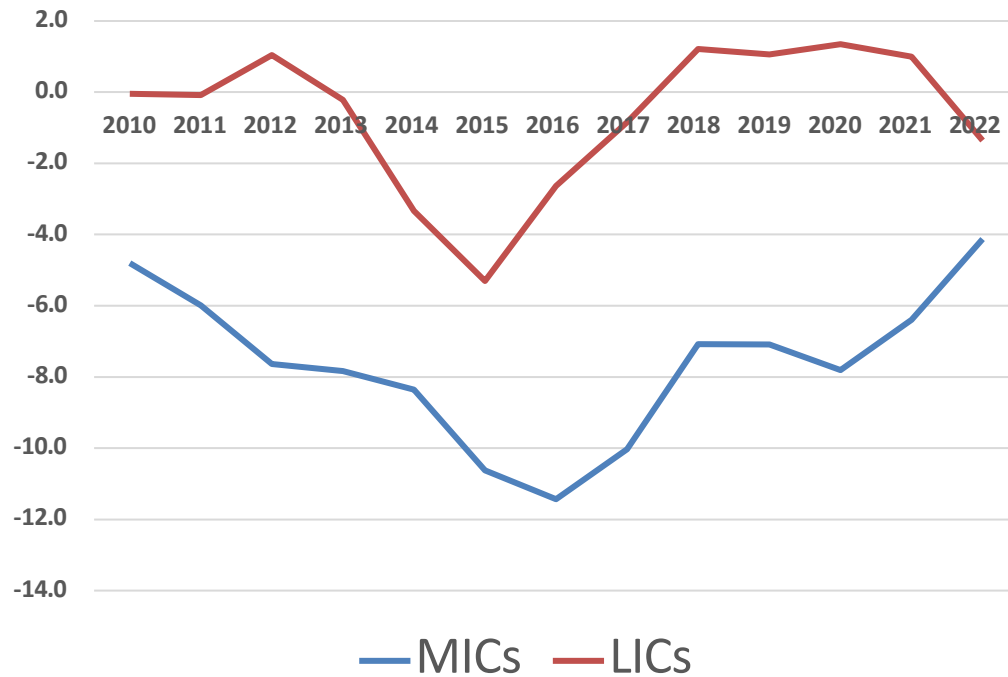


- I. Need for advancing debt solutions
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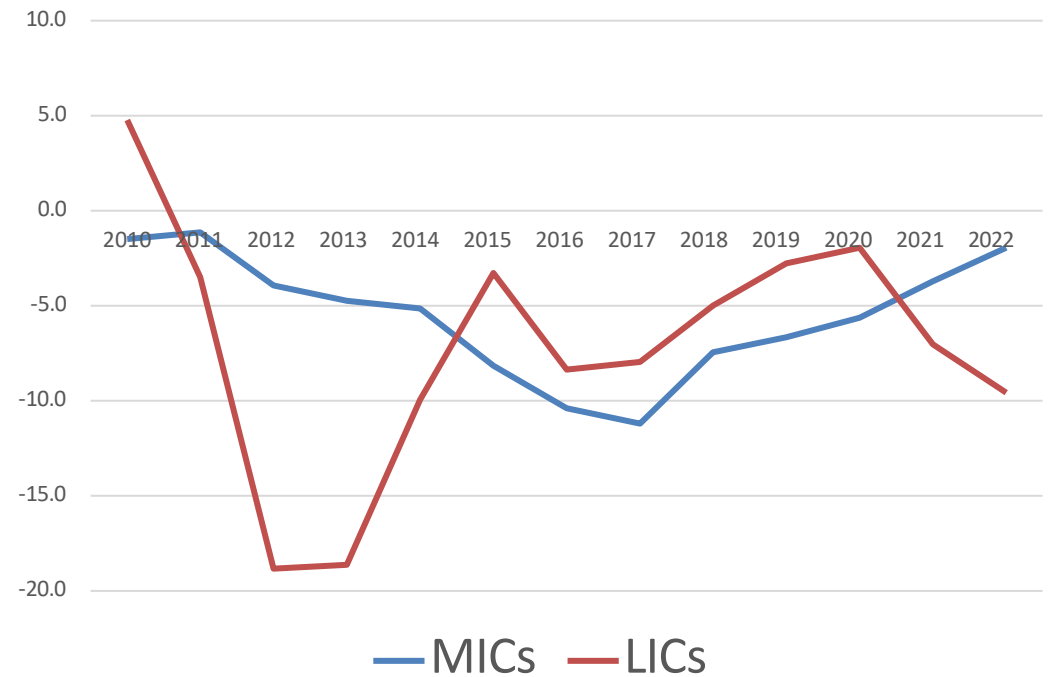
Setting the Context

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

Fiscal balance (% GDP)



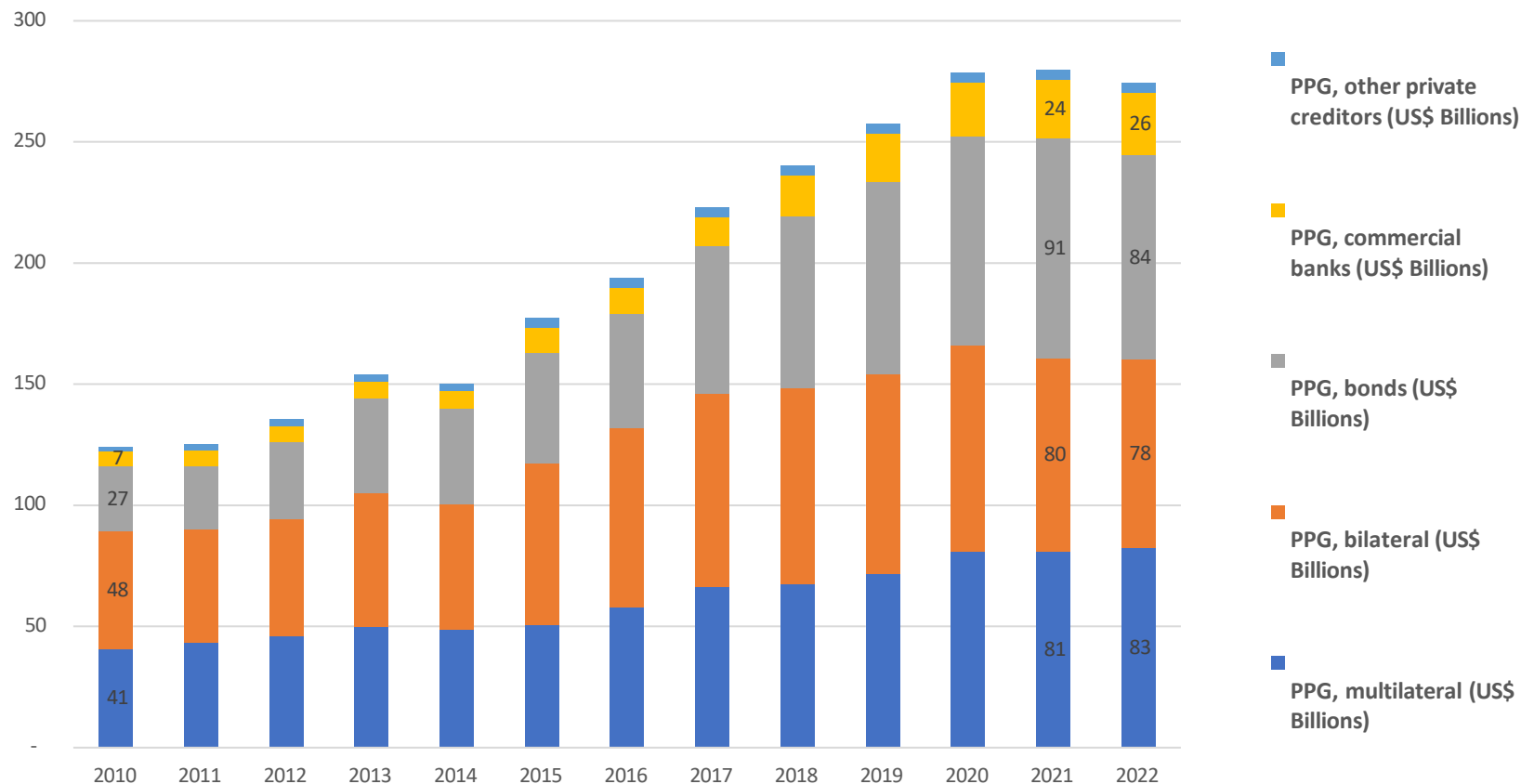
Current account balance (% GDP)



Setting the Context

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 Debt: Creditors of MICs and LICs in the Arab Region



External debt service to government revenues (%)

In 2022:

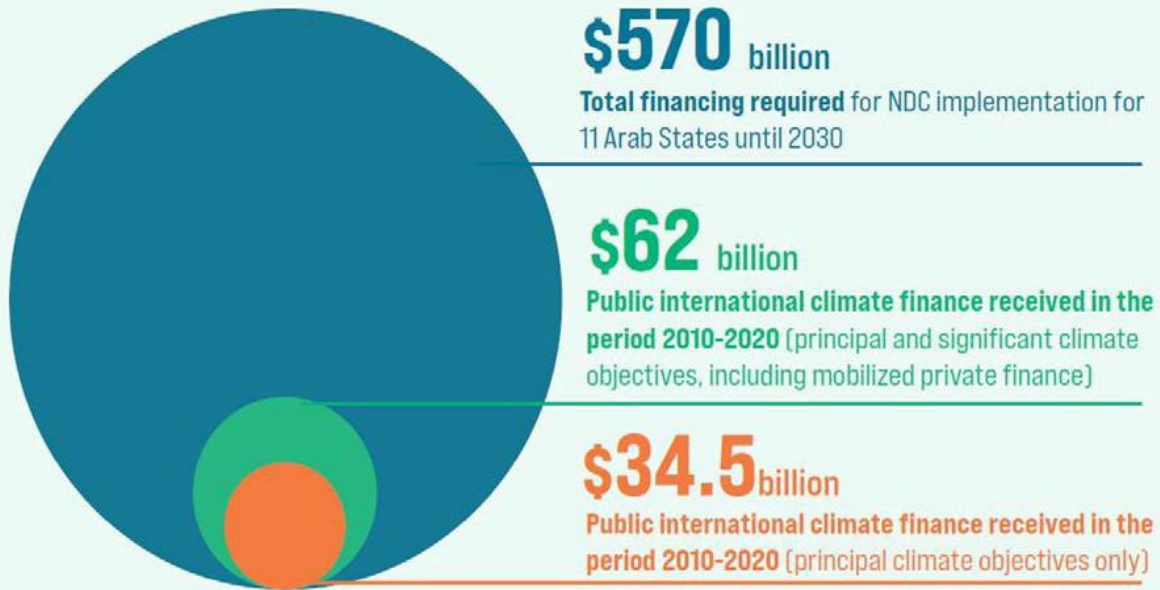
- MICs: 30 \$billion (about 15% of revenues on average)
- LICs: \$2 billion (about 19% of revenues on average)

Setting the Context

Public Climate Finance Flows to Arab States do not meet needs & is largely debt

Climate finance received over the past decade relative to financing needs expressed for NDC implementation over the coming decade

Total climate finance in the Arab region by type of financial instrument



Source: Compiled by ESCWA based on the OECD database entitled "Climate-related development finance at the activity level: Recipient perspective 2000-2020".



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Note: Figure 3 evaluates bilateral and multilateral climate finance flows to the Arab region based on reporting to OECD, from the recipient's perspective. It includes commitments with climate marked as a principal objective (Rio tag), and includes climate components reported by multilateral development banks. Flows with climate marked as a significant objective are not included. GCF reports all flows to OECD with a significant objective, and are therefore not included in figure 3.

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

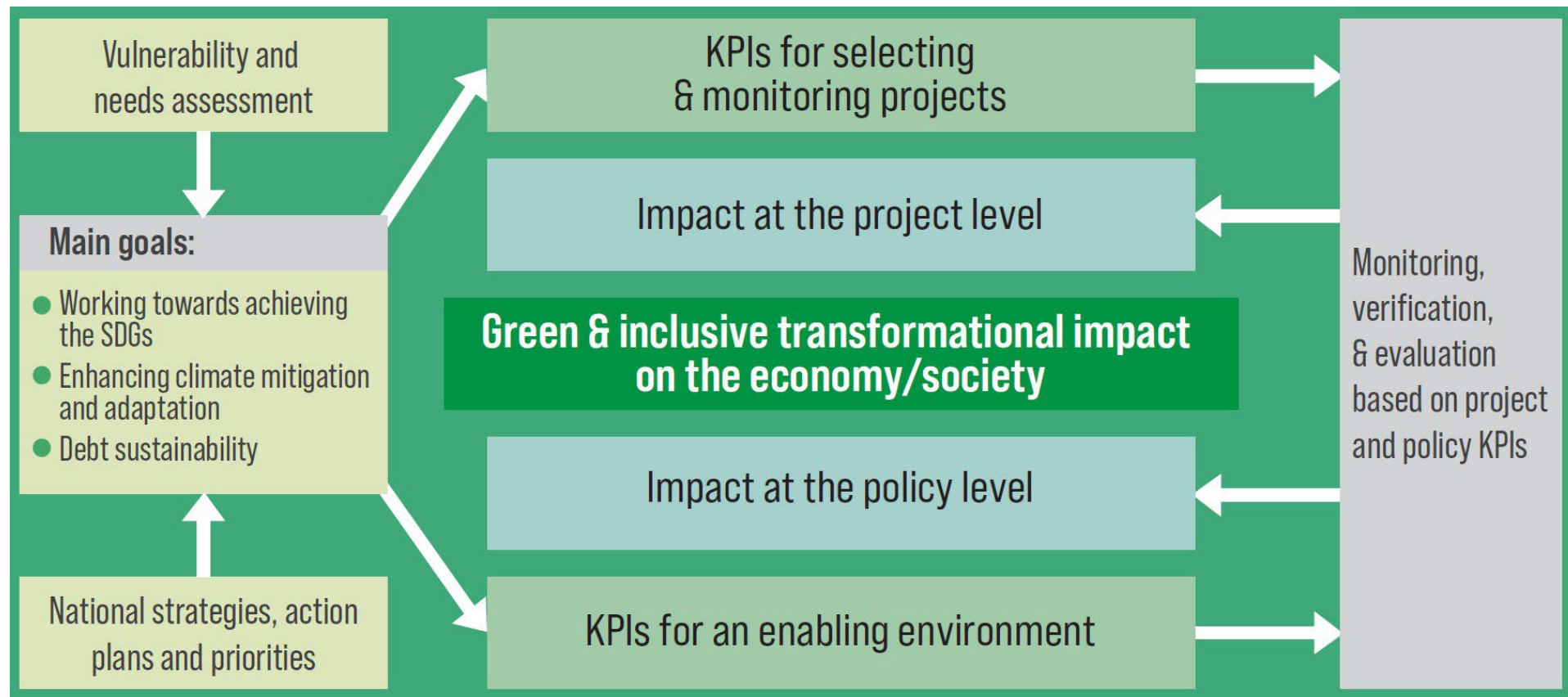
A planned medium to long-term debt swap to enhance scale of fiscal space:

- 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 and credit enhancement facilities to scale up the swap proceeds to finance climate action and

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 initiative

Developing a Climate/SDGs Debt Swap Programme Proposal



Consultations to identify national priorities/projects	Assessment of vulnerabilities to identify projects with climate/SDGs impacts	Thematic studies/assessments
<ul style="list-style-type: none"> • Inter-agency government taskforce • Civil society at national level • Advisory Committee strategic guidance 	<p>Enhance climate mitigation and/or adaptation actions</p>	<ul style="list-style-type: none"> • Project analysis from the NDCs/other national plans and strategies (identify KPIs related to climate action and SDGs)
<p>These consultations take into account different national priorities in finalising the programme</p>	<p>Targets vulnerable populations and locations – working toward achieving the SDGs</p>	<ul style="list-style-type: none"> • Climate vulnerability analysis at regional/governorate level • Multi-dimensional poverty analysis at regional/governorate level
	<p>Increase fiscal space --Improves debt sustainability</p>	<ul style="list-style-type: none"> • Debt structure/ debt service payments analysis

Lessons Learned

Jordan's National Taskforce on Operationalizing Climate/SDGs Debt Swap – Donor Nexus Initiative



The formulation of Taskforce depends on national context

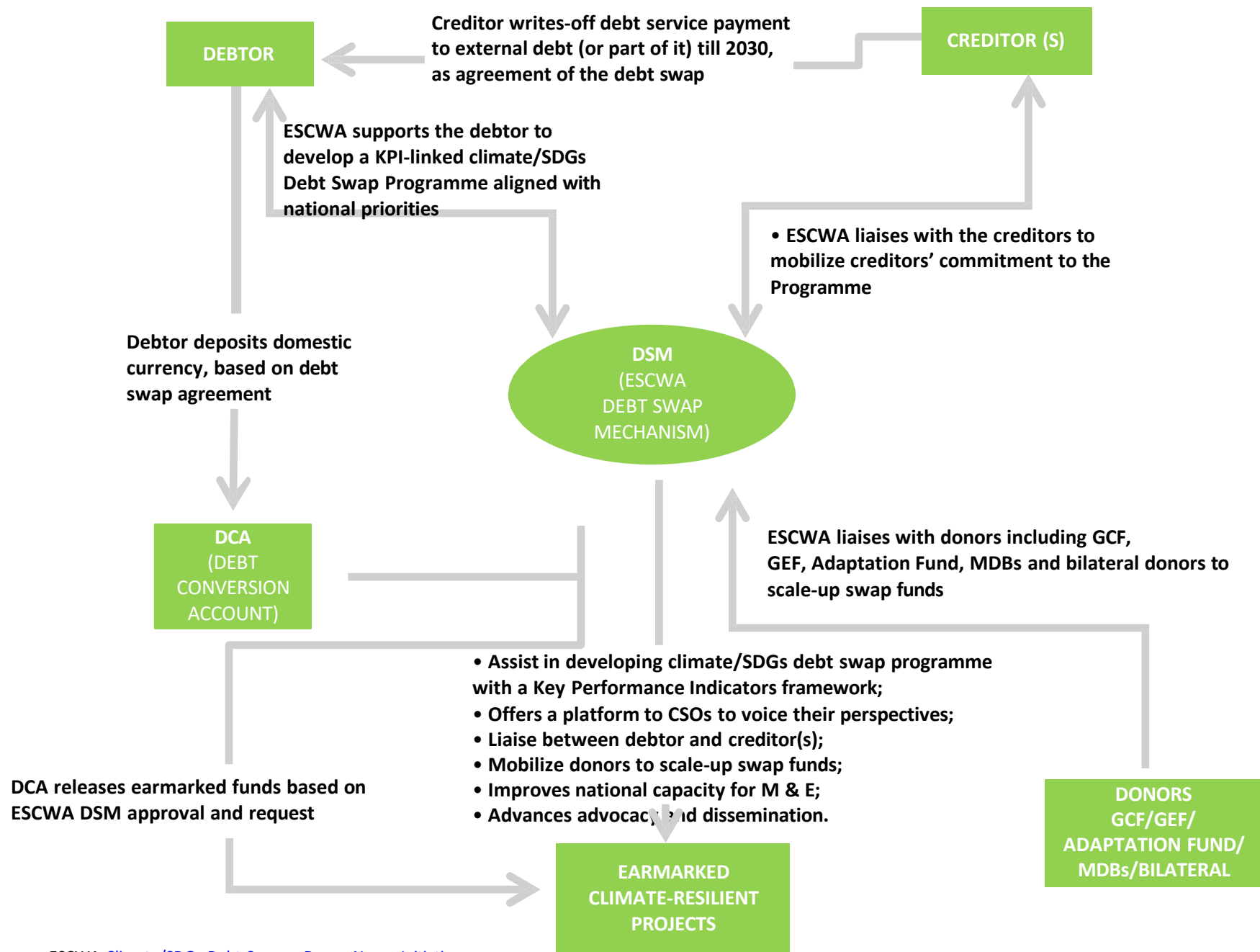
In case of Jordan, the government established an inter-ministerial taskforce to operationalize the initiative. The taskforce includes representatives from:

- Ministry of Planning and International Cooperation (coordinates the taskforce)
- Ministry of Finance
- Ministry of Environment
- Ministry of Water and Irrigation
- Ministry of Energy

The taskforce, in cooperation with ESCWA, finalised a proposal with climate/SDGs debt swap programme toward achieving objectives in Jordan's NDC priority actions.



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

Please share your comments:

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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



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