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# DEBT FOR CLIMATE

3-party funding mechanism for debt relief and  
climate action support in developing countries

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## Debt For Climate

### DEBT FOR CLIMATE

- Developing countries needs and required financial support to address climate vulnerabilities by far exceed available financial commitments of developed countries
- Mitigation and adaptation finance could play better role in catalyzing additional funding and involving developing countries in real support of GCF climate projects
- Economic consequences of COVID-19 pandemic create additional challenges to continue ambitious climate-related funding in traditional way

**Suggested 3-party funding mechanism could facilitate effective continuation of funding for climate projects and provide debt relief support for vulnerable countries**



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### GCF OVERVIEW

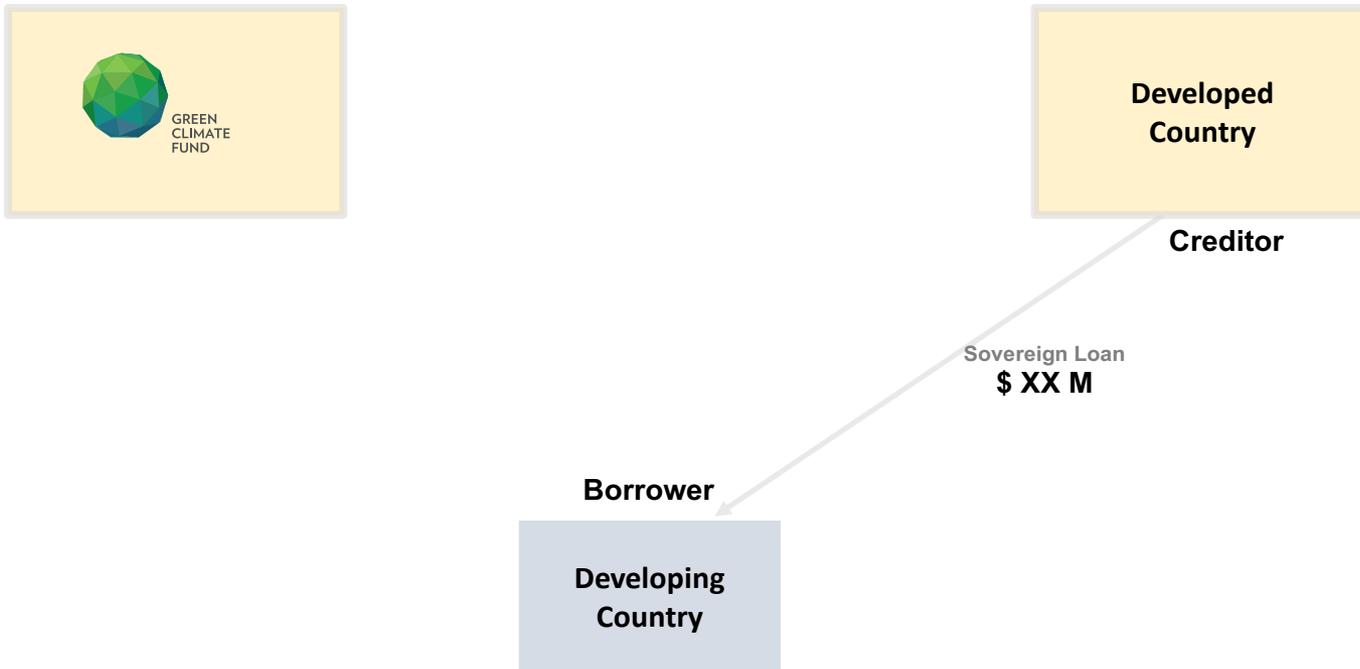
- **Green Climate Fund** («GCF») was established in 2010 as financing mechanism of United Framework Convention on Climate Change (UNFCCC) to finance climate mitigation and adaptation projects in developing countries
- Through initial resource mobilization and 2019 replenishment, developed countries committed over 20 billion US dollars to support climate projects across the world
- By the end of 2020 GCF approved 159 projects with total committed funding 7.3 bln US dollars



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## INDICATIVE PROCESS STRUCTURE (1)

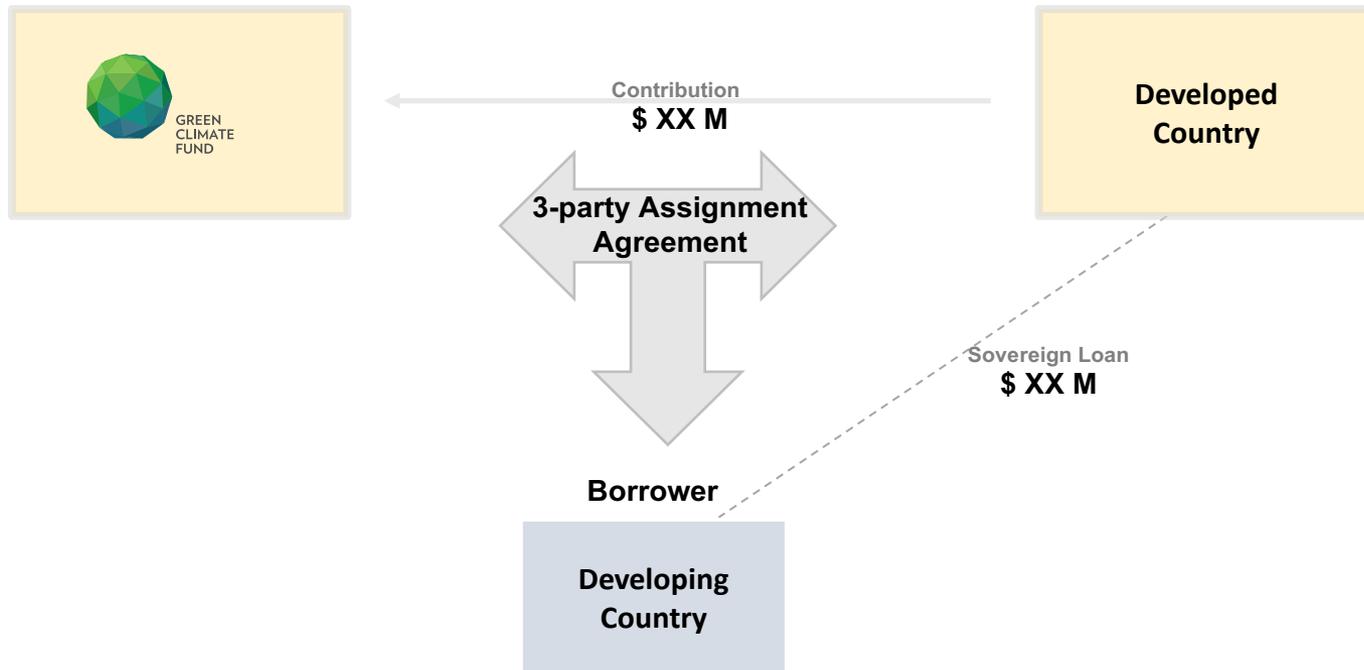




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## INDICATIVE PROCESS STRUCTURE (2)

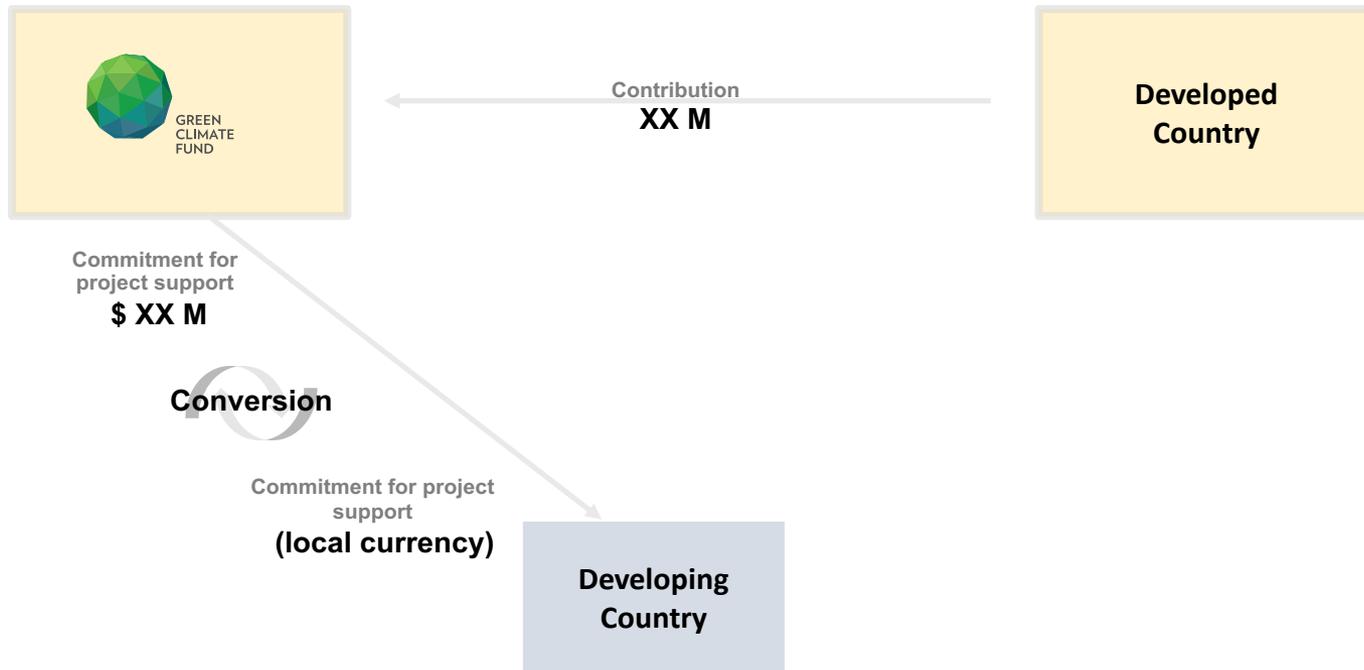




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## INDICATIVE PROCESS STRUCTURE (3)





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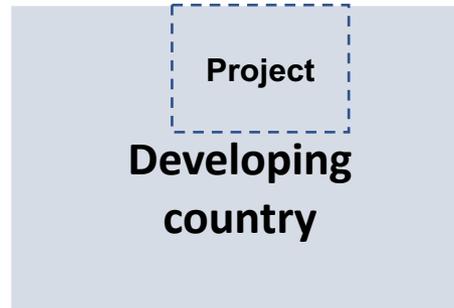
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## FUNDING IMPLEMENTATION



Additional  
project funding  
(equity, loans, grants)

Project  
funding

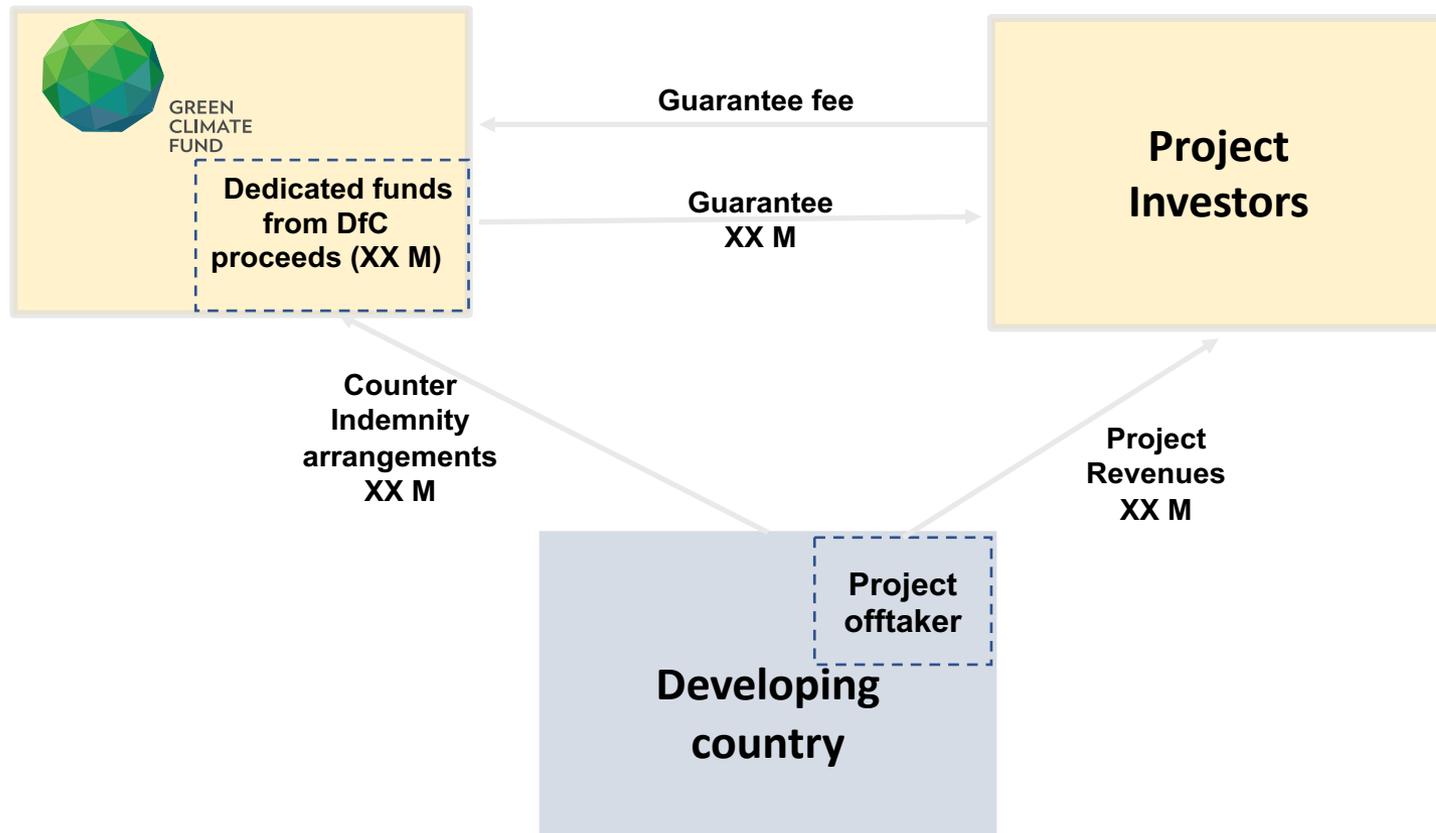




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## GUARANTEE IMPLEMENTATION





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## IMPLEMENTATION CONSIDERATIONS

- Debt-for-Climate (DfC) proceeds will be the key tool helping GCF to ensure interest alignment and risk allocation among the parties most suitable for bearing it
- Funding with DfC proceeds will help GCF to achieve greater levels of concessionality (including increased grant portion) and mobilize additional funding with structural subordination
- For guarantee implementation the longer the developing country ensures that project investors are receiving project revenues, the longer will GCF be able to guarantee other projects in the country (creating virtuous cycle with multiplier effect)
- Through the projects supported by the guarantee, the developing country will receive project investment and lower costs of goods/services sold to the clients as the project output
- DfC proceeds can guarantee funds loaned by domestic banks in local currency and/or ensure longer maturity of the debt funding
- DfC proceeds can also guarantee foreign currency repayments (subject to the mirroring conditions of “counter-indemnity” arrangements with the developing country)



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## ADVANTAGES FOR PARTICIPANTS

### Developed Country

Financial support of climate  
change projects

Optimal use of existing  
financial assets

### Developing Country

Additional financial  
resources for sustainable  
development

Decreased levels of hard  
currency indebtedness



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Decreased risks and  
expenses for project  
financial infrastructure

Alignment of developing  
country interests with GCF  
projects support



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## OTHER KEY CONSIDERATIONS

### **Advantages:**

- Additional financial inputs for projects funding
- Relieve contributing countries from monetary funding constraints
- Align recipient countries interest to facilitate GCF projects development
- Address local currency funding issues
- Bring more concessionality to the project funding mix
- The process may be applied to private portions of sovereign debt, increasing the amount of funding
- Facilitate financial development via additional support initiatives (e.g. climate projects guarantee platform)