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Debt For Climate Swap

Tuesday June 22, 2021

Debt for Climate Swap

- Debt is already a major concern for many developing countries, reaching more than US\$8 trillion in 2019.
- This has been made worse by the economic collapse in the wake of COVID-19, with debt servicing alone estimated to be more than US\$3 trillion in developing countries in 2020 and 2021.
- Protecting our climate and biodiversity while debt stands at record levels will be critical in the coming years.
- Post-COVID-19 economic recovery costs could deplete the financial resources needed to address the climate crisis and environmental degradation.

Climate Finance and Gaps

In the Copenhagen Accord in 2009, developed countries pledged to mobilize US\$100 billion annually by 2020 to support developing countries with mitigation and adaptation.

In Paris in 2015, this goal was reiterated, and countries agreed to set a new collective quantified goal prior to 2025, using the US\$100 billion as a floor.

Has the US\$100 billion goal been met?

Annual costs of adaptation in developing countries could range from US\$140 billion to US\$300 billion annually by 2030 and rise from US\$280 billion to US\$500 billion by 2050.

Mitigation represents 2/3 of total current climate finance

Adaptation: large gap between approved and disbursed funds, which are highly concentrated in small number of developing countries

Debt for Climate Swap

Swapping debt for nature and climate protection provides a bridge to greater debt sustainability, potentially benefitting both agendas.

What?

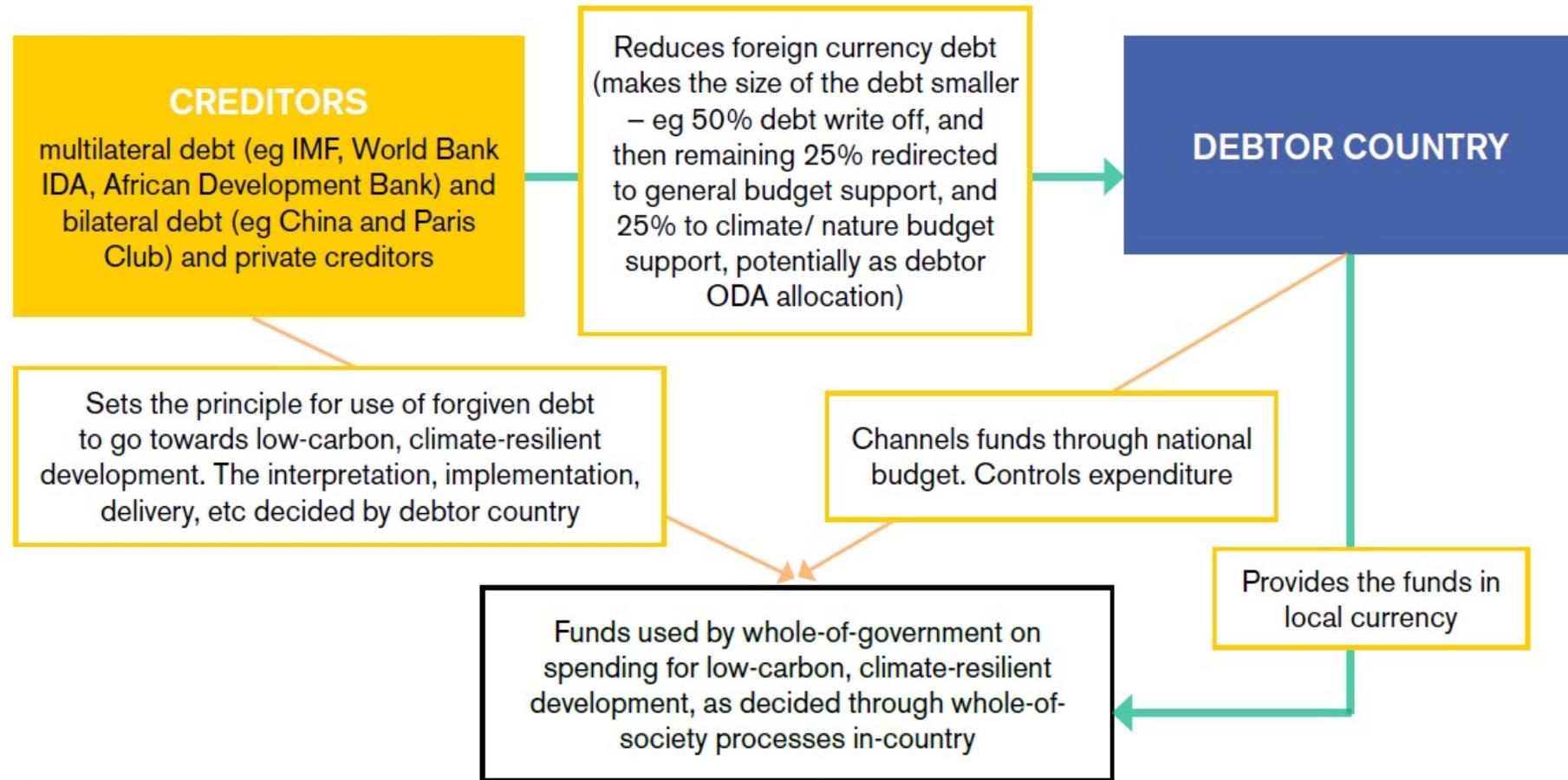
Debt for climate swaps are where a creditor allows the debt to be reduced either by conversion to local currency and/or paid at a lower interest rate or some form of debt write-off and the money saved is used to enhance climate action by investing in climate change adaptation and mitigation efforts.

Effectiveness Principles

To be effective, debt for climate swaps should be underpinned by the following principles:

- Structured and coordinated approach based on prioritisation- Debt- Climate & Environmental vulnerabilities-- Public Financial Management
- Building on experiences from the past- Country Ownership-- Enabling Environment-- Combining debt relief and swapping-- upscaling and reducing transaction cost --Human and Institutional Capacities
- Lessons from budget and sector-wide approaches- General and Environmental budget aid.
- Using expenditure reviews in the design of the Programme--Climate Public Expenditures and Institutional Reviews (CPEIRS)-baseline of current--climate expenditures in selected ministerial budgets sector wise—Size and scale of climate programme swap

Operational Model



Green arrows depict the flow of finance. Orange arrows depict roles of each actor towards delivery of climate and nature outcomes.⁹¹

Opportunities

- Address climate adaptation and mitigation within the context of climate action needs and development goals in small and vulnerable countries.
- Create sustainable funding streams at scale for adaptation to maintain natural resources driven economies.
- Tangible debt reduction impacting local economy

Challenges

- Complex, time consuming mechanism, requiring multiple willing actors to negotiate and agree on terms
- Gaps in Human and Institutional Capacities



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Thank You



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