



Debt instruments: Tackling the triple crisis of debt, climate and nature

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What are debt instruments for climate and nature?

Debt for climate and nature programme swaps are where a creditor allows **debt** (ie principal and/or servicing) **to be reduced** either by:

- conversion to local currency and/or
- paid at a lower interest rate or
- some form of debt write-off
- Can be linked to **debt rollover or new bonds**

and the **money saved is used to invest** in poverty-and growth linked:

- climate resilience and adaptation
- climate emissions mitigation or
- biodiversity protection

Growth linkages so improves **debt sustainability**



What are economic benefits of a debt swap?

Country context dependent:

- **Fiscal space** in the debtor country's government budget expanded
- **Investment for climate and nature** increased
- **Growth increased** through sustainable investments
- **Reduction in the debt stock** sufficient to improve debt sustainability
- **Decline in poverty** through pro-poor investments



(photo: Martin Barraud/iStock by Getty Images)

How to get large scale debt for climate and nature swaps?



So far debt swaps have been focused on **smaller projects** with money managed in trust funds by international NGOs (eg Latin America in 1980s, Seychelles in 2018) so **high transaction costs**

We propose that these swaps shift from fragmented projects to **systemic programmes** through the use of **budget support** where funds are paid into a debtor government's **own budget**

- Budget support allows for **larger amount of funds**
- Budget support increases debtor government **ownership**
- Budget support shifts **accountability to national citizens**

Swap as budget support managed as **performance based payments** based on **agreed policy commitments linked to Key Performance Indicators (KPIs)** from NDCs and NBSAPs

Large scale debt for climate and nature swaps as performance-based payments?

Debt swaps would be **performance based payments** linked to **Key Performance Indicators (KPIs)** of which there are **many examples**:

- **IMF balance of payments and macro-economic support and Resilience and Sustainability Trust**: paid in instalments linked to policy actions with periodic reviews
 - Commitments include Prior actions, Quantitative performance criteria (QPCs), indicative targets (Its) and structural benchmarks (SBs)
- **World Bank and RDBs Development Policy based Lending (DPL)**
- **European Union Budget Support**
- **Norway payments for Reduced Emissions from Deforestation and Forest Degradation (REDD+)**
- **SIDS and LDCs proposing similar approaches**:
 - **Caribbean SIDS climate and nature swaps proposal** and
 - **LDC Initiative for Effective Adaptation & Resilience (LIFE-AR)**



Incentives for creditors for restructuring using climate and nature programme debt instruments?

- **Paris Club:** Finance for climate, reduce post HIPC lack of debt sustainability
- **China :** As co-host of UN Biodiversity Convention, finance for biodiversity
- **Private creditors:** Increased debt sustainability so reduced haircuts, alignment with sustainable investment commitments, possible existing climate emission credits

