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Debt management for climate and nature outcomes

Using debt management to address debt, climate crisis and nature loss, post-COVID-19

Sejal Patel
sejal.patel@iied.org

What is debt management for climate and nature?

An approach to coherently tackle three global crises:

- Climate crisis
- Biodiversity crisis
- Debt crisis

Debt management for climate and nature is where a creditor agrees for the **debt to be reduced** either by:

- conversion to local currency and/or paid at a lower interest rate and/or
- debt bought back on the secondary market at a cheaper cost
- And some form of debt write-off

It also looks to ensure debt sustainability in new bond issuances going forward.

and the **money 'saved' from the debt management is used to invest** in poverty-reducing and growth enhancing activities:

- climate adaptation and resilience
- climate mitigation
- biodiversity protection

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

So far debt management approaches have taken piecemeal approaches. Modalities like debt swaps have focused on **smaller projects** with money managed in trust funds by international NGOs.

We propose that debt management is undertaken with a systematic approach by integrating into the international architecture, and shifting proceeds from projects to 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** to be mobilised; increases debtor government **ownership**; and shifts **accountability to national citizens**
- The funds are managed as **performance-based payments** based on **agreed policy commitments**
- Key performance indicators linked to Nationally Determined Contributions (NDCs) and National Biodiversity Strategies and Action Plans (NBSAPs)

Economic benefits of large scale debt management:

▲ **Expanded fiscal space** in the debtor country's government budget

▲ **Increased investment for climate and nature**

▲ **Growth increased** through sustainable investments

▽ **Reduction in the debt stock** sufficient to improve debt sustainability

▽ **Decline in poverty** through pro-poor investments

Incentives for restructuring using climate and nature outcomes

- **Ministries of Finance & Central Banks in debtor countries:** economic growth, debt sustainability and ownership. Debtor country leaders are expressing interest: e.g. Cabo Verde, Uganda, Jamaica, Pakistan, Costa Rica, Namibia, Ecuador
- **UN Process and Paris Agreement negotiators:** the mechanism supports the SDGs. The potential new climate finance flows from the debt management could dwarf Green Climate Fund flows
- **UK:** as host of UN Climate Convention, new source of climate finance
- **China:** as host of UN Biodiversity Convention, finance for biodiversity
- **Private creditors: i**ncreased debt sustainability - so reduced haircuts, alignment with sustainable investment commitments, possible existing climate emission credits
- **Paris Club and G20:** finance for climate, DSSI, reduce post HIPC lack of debt sustainability
- **US: President Biden's climate plan**: "provide "green debt relief" for developing countries that make climate commitments."
- **Potential IMF, World Bank, OECD, UN platform**: concept to be presented at April Spring Meetings
- Moving to an international **Highly Indebted Countries Climate and Nature debt management (HICCNDM) initiative**

LDC coordination meeting at COP21 © Matt Wright/IIED