

Revisiting Debt-for-Climate

Tim Stumhofer, Robert Bosch Foundation Fellow

“Global Climate Policy Conference”

30 April - 1 May 2015 India Habitat Center, New Delhi

Presentation overview

- Background on climate finance
- Introduce Debt-for-Climate swaps
 - Mechanics
 - Challenges/opportunities
 - Political developments
 - Quantified estimates

The \$100 billion question

Eligibility (in/out?)

```
graph TD; A[Eligibility (in/out?)] --> B[Calculation (how much?)]; B --> C[Attribution (who can count it?)]
```

Calculation (how much?)

Attribution (who can count it?)

AGF sets the table

- Decide on sources to analyze and review for:
 - Efficiency, equity, practicality, political palatability

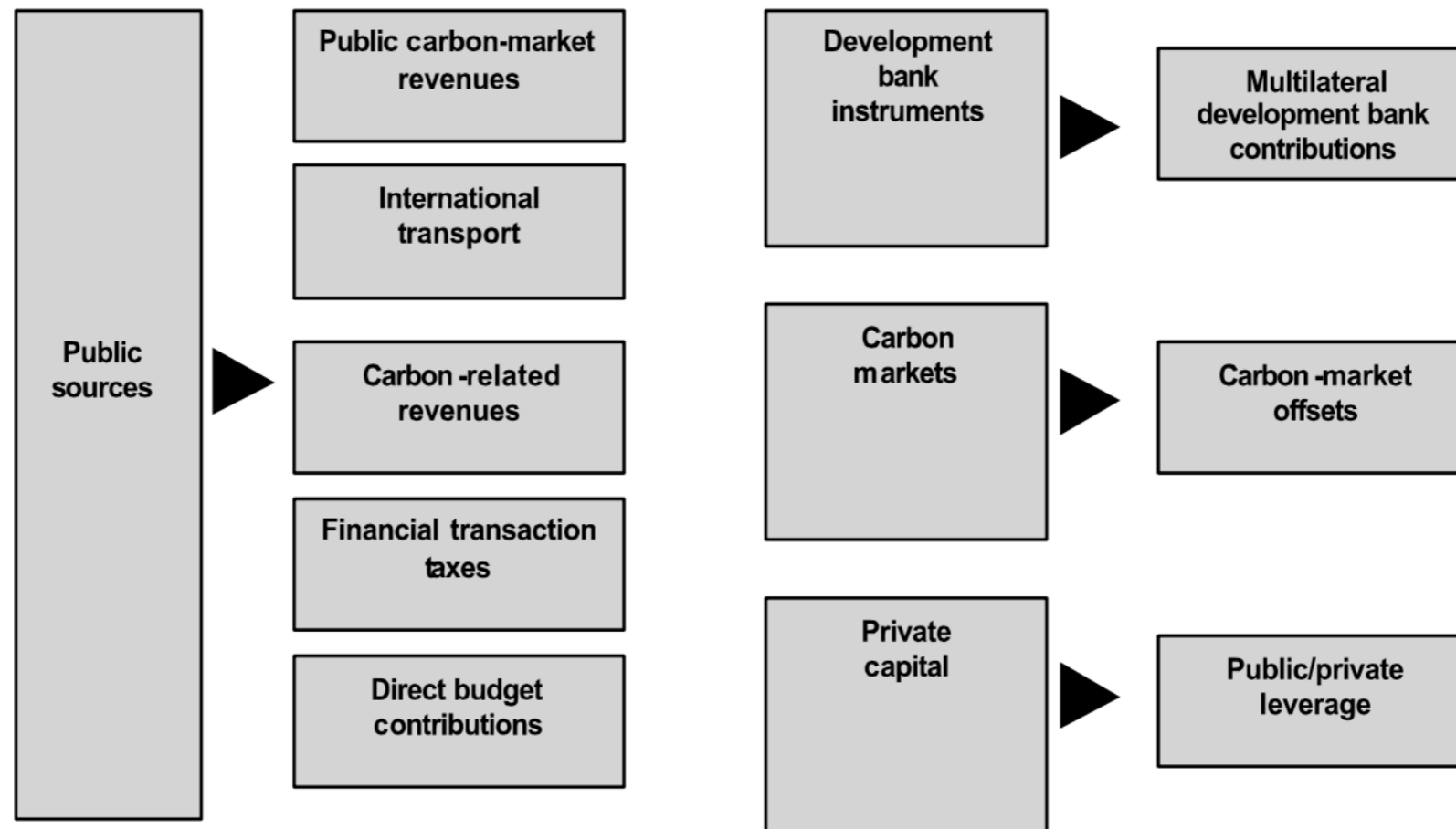


Figure source: AGF 2010

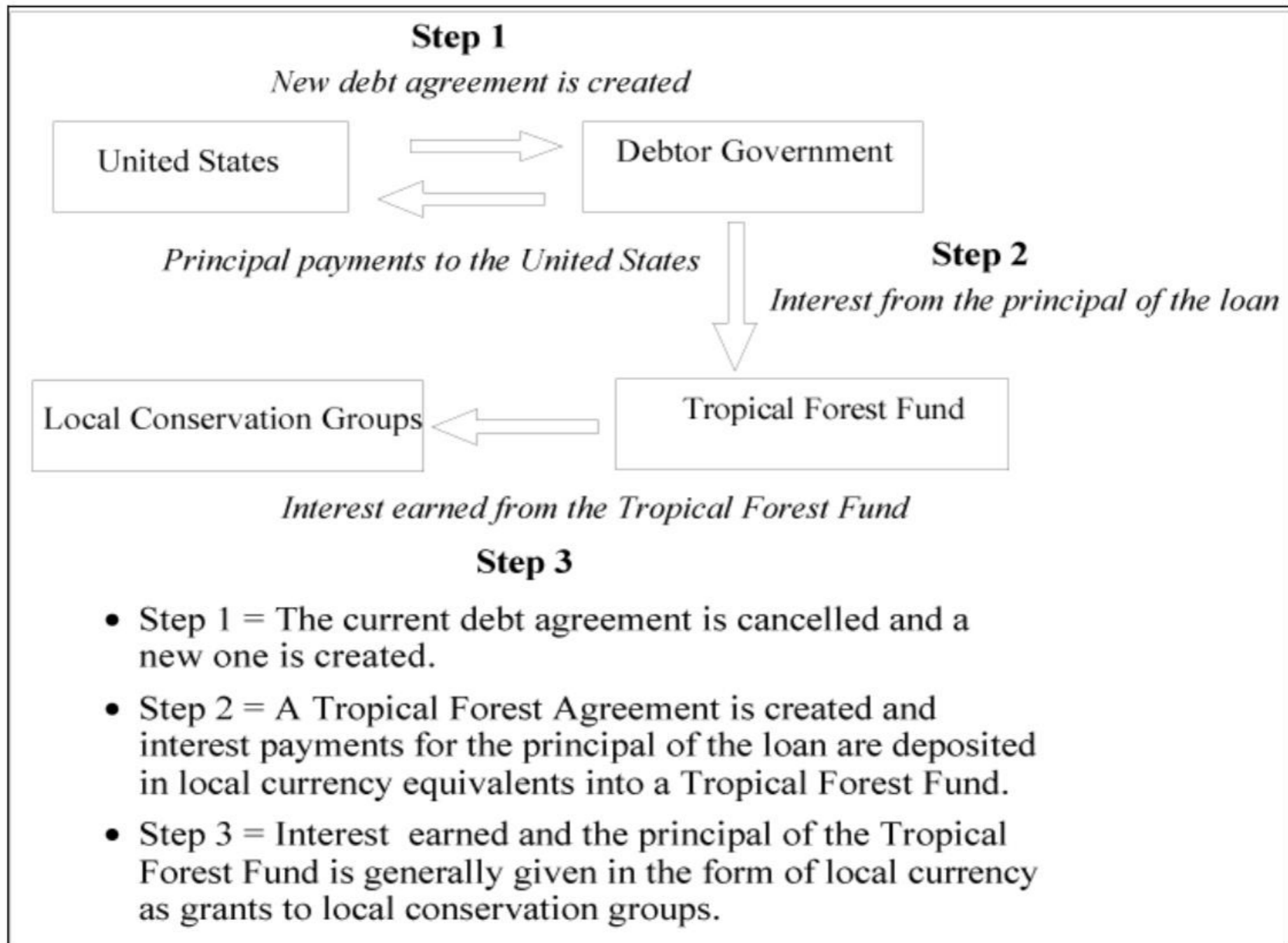
AGF sources (I)

- WS1: Revenues from Kyoto and domestic ETS allowances
- WS1: Revenues from offset levies
- WS2: Taxes on international transport
- WS3: Revenues on a wires charge
- WS3: Revenues from diverting fossil fuel subsidies
- WS3: Revenues from fossil fuel extraction royalties
- WS3: Revenues from national carbon taxes

AGF sources (II)

- WS4: Resources from using current MDB headroom
- WS4: Resources from paid-in capital to MDBs
- WS4: Fund financed by special drawing rights
- WS5: Revenues from financial transaction tax
- WS6: Direct budgetary contributions
- WS7: Publicly mobilized private finance
- WS8: Carbon offsets

DfC mechanics



DfC before AGF

- **Long debt-for-development history**
 - 1987-2007 \$5.7b debt for \$3.6b of financing
- **"Debt-for-nature"** - DfC precursor (~1987)
 - US TFCA; European experience
- Spain-Uruguay CDM "debt-for-efficiency" (2005)
- Debt relief in UNFCCC negotiating text (2009)

DfC after AGF

- DfC in **Fast Start Finance** submissions (2010-12)
 - US and Italy; adaptation, REDD+ in Asia/Americas
- **Commonwealth Secretariat** active on DfC since 2009
 - Joint CommSec-OIF study (2009)
 - Multilateral DfC proposals in 2013 and 2015
 - Submission to SIDS conference (2014)
- NGO advocacy (eg TNC, IIED) + transactions (2011-now)

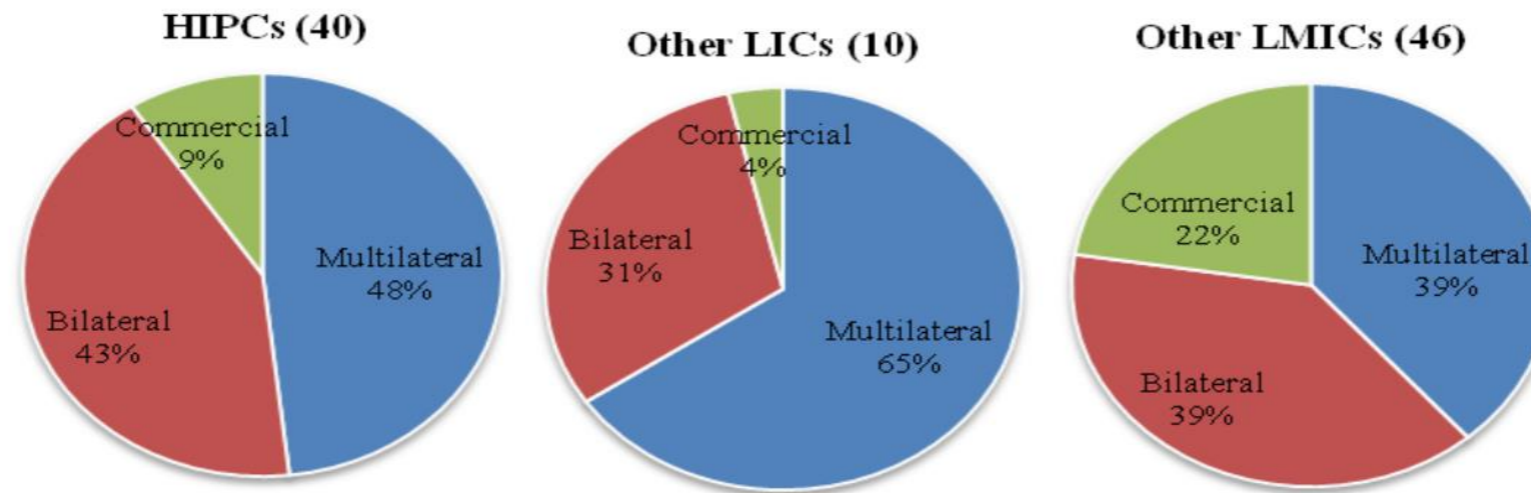
DfC opportunities

- “Double dividend”
 - 1. Reduce debt burden
 - 2. Divert debt repayment to local projects
- ~30 years of creditor & debtor **experience**
- **Institutions** for long-term flows well tested
- **Politically expedient** (no “additional” resources)

DfC challenges

- **Fishing in the same pond:** Competing priorities for debt conversion
- **Slow + contextual:** individual transactions, no standard haircut
- **Moral hazard:** May incentivize debt taking
- **Interaction with broader debt relief initiatives:** eg 2005 G8 Multilateral Debt Relief Initiative (MDRI)
- **Appropriation policies** may moot political benefits

Quantifying DfC potential



- Types of debt titles: bilateral and/or multilateral
- Eligible countries: IDA and/or middle income
- Estimated available debt titles (UNESCO/ComSec):
 - Bilateral (2011; screening for MDRI): **\$236b**
 - Multilateral (2015; SVE only): **\$4.5b (\$277m/yr)**