Revisiting Debt-for-Climate

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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?)

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

Step 1
New debt agreement is created

United States  \(\rightarrow\)  Debtor Government

Principal payments to the United States

Step 2
Interest from the principal of the loan

Local Conservation Groups  \(\leftarrow\)  Tropical Forest Fund

Interest earned from the Tropical Forest Fund

Step 3
- Step 1 = The current debt agreement is cancelled and a new one is created.
- Step 2 = A Tropical Forest Agreement is created and interest payments for the principal of the loan are deposited in local currency equivalents into a Tropical Forest Fund.
- Step 3 = Interest earned and the principal of the Tropical Forest Fund is generally given in the form of local currency as grants to local conservation groups.

Source: Sheikh 2010
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)

Figure source: Cassimon and Essers 2011