A. Context
The developing countries of the world are facing a serious overlapping burden of debt and climate crisis. Fiscal stress is high for most of the Middle-Income Countries (MIC) with the increasing debt and debt service levels, with interest payments over 50 percent of revenues in some cases. While SDG financing gaps are getting bigger following the COVID-19 pandemic, higher interest rates and geopolitical uncertainty indicates that the risk of public debt distress in developing countries will remain elevated in the coming years.

Tightened fiscal space risks budgetary allocations to climate related expenditures especially for countries that honour debt service payments. The time is now for solutions to reduce debt burden of developing countries to release liquidity from external debt repayment toward investment into resilience, as emphasized in the outcome of the Paris Summit held in June 2023.

Programme-based climate/SDGs debt swaps with a Key Performance Indicators (KPI) framework, as developed by UN ESCWA, can be a viable instruments to mobilize significant liquidity for scaling-up investments for accelerating the implementation of the 2030 Agenda and the Paris Agreement. The instrument is proposed as pre-emptive debt swap with twin benefits for the debtor and the creditor: (a) it increases budgetary commitments (of the debtor) to finance national priorities on SDGs/climate action; (b) it improves delivery of pledges to finance SDGs/climate action (for the creditor) with less transaction cost. Jordan, as a pilot, has developed a climate/SDGs debt swap programme for consideration of creditors.

Making green investments remains key to foster inclusive growth and progress on sustainable development goals, as outlined by the Marrakesh Call for Action by the IMF. Some countries have issued green bonds, some others are working on issuing sustainability-linked bonds (SLBs) with a Key Performance Indicators (KPI) framework to achieve climate goals and SDGs. However, structuring and executing such transactions is lengthy and complex, in addition to the affordability of raising private finances in emerging markets economies.

Scaling up of the programme-based instruments can provide transformational impact on climate action and SDG achievements if supported through international financing, credit enhancement, and concessional financing through donors and development finance institutions.

B. Objectives of the Session
The Session aims to discuss programme-based Climate/SDGs Debt Swaps (Debt Swap 2.0) as a viable instrument to improve liquidity and fiscal space for countries for scaling-up investments

1 The Initiative is supported by Open Society Foundations since April 2023.
into climate action and SDG achievements. The instrument can be supported by a pre-emptive debt conversion mechanism between debtors and bilateral creditors, which is not part of debt restructuring. In addition, the panelists will deep dive into assessing the role of credit enhancement and concessional finance mechanisms to support the programme-based debt swaps and other KPI-linked instruments such as sustainability-linked bonds (SLBs) to scale up. The discussion aims to:

- Call upon middle-income debtor countries to **develop programme-based debt swaps** (debt swap 2.0) to connect debt swap proceeds to climate action and SDGs.
- Call upon bilateral creditor countries to support **programme-based debt swaps through a pre-emptive debt conversion mechanism**;
- Call upon International Financial Institutions to support scaling-up finance for debt swaps and other KPI-linked instruments with **linkage to credit enhancement and concessional financing**.

C. Programme and Speakers
Format/time: Panel discussion of 90-minutes in two segments, with a Moderator, and Q & A.

**Moderator:**
- **Mr. Jean-Paul Adam**, Director of Policy and Advocacy, United Nations Office of the Special Adviser on Africa

**Welcome remarks:** (5-7 minutes)
- **H.E. Dr. Mahmoud Mohieldin**, Executive Director at the International Monetary Fund, UN Special Envoy on Financing the 2030 Agenda for Sustainable Development

**Panelists:** (7-10 minutes each)
- **Dr. Rola Dashti**, United Nations Under-Secretary-General and Executive Secretary, ESCWA
- **H.E. Dr. Rania Al-Mashat**, Minister of International Cooperation, Egypt
- **Mr. Ananthakrishnan Prasad**, Advisor and Unit Chief of Monetary and Capital Markets, IMF
- **Mr. Arend Kulenkampff**, Director, Sustainability-Linked Sovereign Debt Hub (SSDH)
- **Ms. Laura Kelly**, Director, Shaping Sustainable Markets, IIED

Q & A facilitated by the moderator

Closing remarks by **Dr. Ulrich Volz**, Professor at and Founding Director of SOAS Centre for Sustainable Finance, University of London (5 minutes)

Contact persons: Dr. Niranjan Sarangi, Senior Economic Affairs Officer and Lead Economist on Debt and Fiscal Policy, ESCWA [sarangi@un.org]; Malak El Baba, Research Assistant, ESCWA [elbaba@un.org].