ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA (ESCWA)

Expert Consultation on the Climate/SDGs Debt Swap Initiative
Beirut, 15 December 2020, 15:00hrs to 18:00hrs (Beirut time, GMT+2)

INFORMATION NOTE

I. BACKGROUND

The years since the global economic downturn in 2008 have seen an increase in public debt in several major economies around the world. This trend is more worrying for the low and middle-income countries of the Arab region. The build-up of total debt and external debt is remarkably high relative to the level of output being achieved in the of countries of the region, which poses external debt sustainability risks. Several factors contributed to high and increasing debt in recent years, including loss revenues due to global economic slowdown, a series of conflicts and crises in several parts of the region, as well as environment degradation, increasing water scarcity and stresses on natural resources that are negatively impacted by climate change. This is adding pressure on public finance management and increasing social discontent and demand to improve public services in the context of achieving the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs). The socio-economic impacts of the COVID-19 pandemic have exacerbated budgetary and fiscal pressures as countries manage high existing debt burdens with the need to fund COVID-19 responses and efforts to build back better.

A series of ESCWA publications and expert group meetings over the past three years have identified and discussed debt sustainability challenges facing Arab States. Public budgets in the developing countries of the region are pressed due to rising external debt and debt service, which risks expenditure on climate action and for achieving the SDGs. Among possible response measures are debt swaps. Debt swaps entail the conversion of national debt serving payments on foreign debt into domestic investment for implementing national development projects; climate debt swaps would direct such investments into climate-resilient projects through collaborative arrangements between debtors, creditors and donors that support accelerated implementation of SDGs and Paris Agreement.

Given these circumstances and the importance of identifying innovative and operational approaches for assisting Arab States, the United Nations Economic and Social Commission for Western Asia (ESCWA) is launching a Climate/SDG Debt Swap Initiative in the Arab region. The initiative aims to establish a Debt

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1 ESCWA publications on this issue include: Fiscal Policy Review of Arab States (2019); Fiscal policy response to public debt in the Arab region (2017); Rethinking fiscal policy for the Arab region (2017); Arab sustainable development report (2015); Climate projections and extreme climate indices for the Arab region (2015); A fiscal-monetary interaction model for inclusive growth in the middle-income Arab countries: Application to Egypt’s economy (2019); Climate finance in the Arab region” (2019).
Swap Mechanism (DSM) that can provide win-win-win solutions for debtors, creditors and donors that can utilize debt servicing payments for achieving climate-sensitive national development objectives in line with global development goals. This first consultation in a series of expert and inter-governmental exchanges will consider opportunities and challenges that affect the institutionalization of debt swaps in the region.

II. OBJECTIVES OF THE MEETING

The objective of this first expert consultation is to:

- Receive feedback on opportunities for “Climate/SDGs Debt Swap” for Arab States, its socio-economic consequences, potential challenges and their mitigation, and implementation arrangements, from creditors, debtors and donors’ perspectives.
- Identify potential partners and create a network of strategic stakeholders to engage with them in course of operationalizing the climate/SDGs debt swap proposal.

III. ISSUES FOR DISCUSSION

The expert consultation will deliberate on challenges and opportunities in operationalizing debt swaps for climate and development finance, including methodologies, operational mechanisms, actors engaged in debt swap, and effectiveness of debt swap in the context of the Arab States facing debt sustainability loads. Specifically, the meeting will:

- Discuss how debt swaps can address debt vulnerabilities, while providing new opportunities to finance climate actions and SDG progress.
- Consider the challenges and opportunities of setting up a Debt Swap Mechanism in the context of the Arab region
- Explore substantive issues regarding the effectiveness of debt swap from the different perspectives of debtors, creditors and donors, in view of formulating a win-win strategy for operationalizing climate/SDGs debt swaps.
- Identify the potential socio-economic and climate challenges and national sensitivities associated with formalizing a Climate/SDGs Debt Swap Initiative in the Arab region, and suggest remedial measures based on lessons learned from other regions.
- Formulate options to scale up coordinated climate/SDGs debt swap funding, such as through mobilizing matching grant from the donors including the possibilities of, and requirements for, accessing grant finance from various donors (GCF, GEF, Adaptation Fund, MDBs/Bilateral donors) that can support the climate/SDGs debt swaps.
- Solicit feedback on the institutional mechanism proposed to operationalize the Climate/SDGs Debt Swap Initiative and its Debt Swap Mechanism, including the performance indicators that can be used to evaluate effectiveness and impact at various stages of implementation.

IV. PARTICIPANTS

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2 See ESCWA’s “Climate/SDGs Debt Swap Mechanism”; Also see more details in the background paper on “Debt Swap for Climate/SDGs Finance”, forthcoming.
The expert consultation brings together ministers, senior officials and technical experts with experience working on debt swap and climate finance from ministries responsible for debt management, climate finance and development planning in selected Arab countries, as well as representatives from the Paris Club, multilateral and regional development funds, United Nations agencies and academia.

V. ORGANIZATION OF THE MEETING

The expert consultation is organized by ESCWA and will be held virtually on 15 December 2020. The meeting is expected to begin at 15:00 and conclude by 18:00 (Beirut time, GMT+2). Registered participants will receive the final meeting agenda, list of participants and link to the online meeting the week prior to the meeting. All meeting presentations, interventions and documentation will be delivered in the English language. There will be no interpretation provided during the meeting.

VI. REGISTRATION

Invited participants are requested to confirm their attendance by emailing the focal points listed below. A dedicated weblink will be provided to the confirmed participants and speakers prior to the meeting. It is recommended to test your audio and video connections and interpretation settings with the meeting organizers 15 minutes prior to the opening session.

VII. CORRESPONDENCE

Invitees are requested to reply via email or post inquiries to the following meeting focal points:

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<th>Niranjan Sarangi</th>
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