



Frequently asked questions

Climate/SDGs Debt Swap – Donor Nexus Initiative



Shared Prosperity Dignified Life





1. What climate change-related challenges are countries in the Arab region experiencing?

The Arab region is highly vulnerable to climate change. It is significantly affected by droughts, the erosion of biodiversity, aridity, land degradation, increasing temperatures, desertification and natural disasters, all of which adversely affect development as they threaten water, energy and food security. Consequently, the socioeconomic and environmental impacts of climate change are expected to worsen in the Arab region.

2. What are the estimated financial resources needed to address climate change and implement the Sustainable Development Goals (SDGs) in the Arab region?

Climate finance in the Arab region falls severely short of what is required to implement the nationally determined contributions of Arab States. Based on the estimates of climate finance needs of 11 Arab States' nationally determined contributions, the region requires a total of \$570 billion by the year 2030.¹ Estimates for financing the implementation of the proposed adaptation interventions are not available due to difficulties in cost estimation. Prior to the COVID-19 pandemic, the gross financing needs for the Arab region to achieve the SDGs were estimated at \$6 trillion.² Due to the pandemic, the cost of funding the SDGs has significantly increased.

3. Can countries in the Arab region mobilize the financial resources needed to address climate change and implement the SDGs?

The public budgets of Arab countries, especially low- and middle-income countries, are already under pressure with pre-existing structural challenges combined with the adverse impacts of the COVID-19 pandemic, the war in Ukraine, high debt service burdens and inflationary pressures. These factors are major obstacles to financing climate action and implementing the SDGs.³ Over the past decade, Arab States received a total of \$34.5 billion in international climate finance. Relative to the financing required to implement the nationally determined contributions of 11 Arab countries, this amount is equivalent to less than 6 per cent of the financing needs of the Arab region for the coming decade.⁴

4. What is the Climate/SDGs Debt Swap – Donor Nexus Initiative developed by ESCWA?

ESCWA developed the Initiative to address the challenges of reducing debt service burdens, improving climate finance and accelerating the implementation of the Paris Agreement and the 2030 Agenda for Sustainable Development.⁵ The Initiative helps Governments to design Climate/SDGs Debt Swap programmes aligned with national priorities. The programme uses a key performance indicators framework for monitoring and evaluation to assess impacts at the project level and policy reforms with transformational impact on climate and the SDGs. The Initiative has been supported by the Open Society Foundations since 2023.

5. Does the Initiative support national priorities of debtor countries?

¹ United Nations Economic and Social Commission for Western Asia (ESCWA), *Climate finance needs and flows in the Arab region*, 2022.

² ESCWA, *SDG-Financing Dashboard, Integrated National Diagnostic and Financing Frameworks Project*.

³ ESCWA, *Liquidity shortage and debt: Obstacles to recovery in the Arab region*, 2021.

⁴ ESCWA, *Climate finance needs and flows in the Arab region*, 2022.

⁵ ESCWA, *Climate/SDGs Debt Swap – Donor Nexus Initiative*.

The Initiative helps Governments to design climate/SDG debt swap programmes aligned with national priorities drawn from the nationally determined contributions and other national development plans and strategies, supported by consultations with national stakeholders.

6. Are debt swaps as proposed by the Initiative a part of the debt restructuring of a debtor country?

The Initiative proposes a pre-emptive debt swap, which is not a part of the debt restructuring process of a debtor country. The debtor is not seeking debt restructuring and is committed to honour debt service payments.

7. What type of debtors and creditors does the Initiative target?

- **Debtors:** The Initiative targets middle-income countries in the Arab region that are committed to honouring debt repayments; are not seeking debt restructuring; are not at high risk of defaulting on debt service payments; and are seeking pre-emptive debt swaps to enhance fiscal space.
- **Creditors:** The Initiative targets bilateral creditors who have significant outstanding loans with the debtor country, in addition to developed countries that are committed to providing finance under official development assistance and climate finance pledges.

8. Does the implementation of the Initiative impact the sovereign ratings of a country?

The bilateral debt swaps do not impact ratings assessment, in general. If the debt swap transaction does not involve private creditors, it does not affect the market adversely. Therefore, the sovereign ratings of a country are not likely to be impacted. Previous bilateral debt swaps in the region have not negatively impacted credit ratings. Since the Initiative proposes pre-emptive debt swaps with bilateral creditors as opposed to distressed debt exchanges in the market, any impact of the bilateral debt swap on sovereign ratings should be positive or neutral.

9. Does the Initiative provide debt relief to debtor countries?

The debt swap transaction is not debt forgiveness. However, it provides debt relief to debtor countries by releasing the pressure of liquidity needs for external debt repayments. By converting a portion of countries' external debt repayments into investments for climate action and sustainable development projects, the debt swap transaction reduces the burden of the debt service and enhances fiscal space to redirect resources for climate action and financing the SDGs.

10. How does the Initiative complement other international actions to address debt and the climate crisis?

The Initiative complements several calls for action to the international community that proposed climate/SDG debt swaps:



- The United Nations Financing for Development in the Era of COVID-19 and Beyond Initiative, led by Canada and Jamaica, proposed debt-for-SDG or debt-for-climate swaps as part of the menu of options to address the impacts of the COVID-19 pandemic.⁶
- The United Nations Secretary General's SDG Stimulus to Deliver Agenda 2030 advocates debt for SDG or climate swaps as an option to tackle risks of debt distress and high cost of debt.⁷
- The Sustainable Debt Coalition led by Egypt and supported by ESCWA and the United Nations Economic Commission for Africa, which was launched during the 2022 United Nations Climate Change Conference at Sharm-El-Sheikh, advances various debt solutions, including debt swaps, as viable instruments for enhancing fiscal space to address debt and the climate crisis.
- The June 2023 Paris Summit concluded that debt swaps are a useful tool, especially when used to reorient financing from external debt repayment into investment towards resilience.

11. What are the innovative features of the ESCWA Climate/SDGs Debt Swap-Donor Nexus Initiative?

The innovative features of the Initiative are as follows:

- National priorities: The Initiative proposes pre-emptive multi-year debt swaps to enhance fiscal space for programmes (rather than projects), supporting national priorities on climate action and progress on SDGs – linking national development plans and nationally developed contributions. The Initiative supports the establishment of inter-ministerial taskforces and consults with civil society organizations to develop nationally owned programmes on debt swap.

- Programmatic approach: The Initiative provides results-based programmes with key performance indicators at the project level and policy level for the selection and monitoring of the programme financed through national budgets, which can also accelerate policy reforms and transformational impact.
- Scale and terms: The Initiative proposes planned medium- to long-term debt swaps, such as swapping debt service payments till 2030, which enables more fiscal space for achieving programmatic impact and increases economies of scale.

12. What is the role of ESCWA?

- Assisting member States in developing nationally owned climate/SDG debt swap programmes.
- Liaising between debtors and creditors to mobilize creditors' commitment to climate/SDG debt swap programmes.
- Providing a platform for sharing the perspectives of civil society organizations as well as their potential role in developing national climate/SDG debt swap programmes.
- Mobilizing support from donors, development finance institutions and multilateral development banks for scaling up funds for debt swap programmes.
- Engaging with credit rating agencies to increase awareness of the benefits of climate/SDG debt swap programmes on macroeconomic stability and the investment environment.
- Improving national capacities through national training workshops on monitoring and evaluation, involving national stakeholders.
- Increasing advocacy and dissemination of climate/SDG debt swap programmes in global and regional forums.

⁶ United Nations, *Financing for Development in the Era of COVID-19 and Beyond Menu of Options for the Consideration of Heads of State and Government*, 2020.

⁷ United Nations, *United Nations Secretary-General's SDG Stimulus to Deliver Agenda 2030*, 2023.

