Debt-for-Climate Swaps

Currently, 11 Asia-Pacific countries are at high risk of debt distress. Debt-for-climate swaps offer a feasible option for countries in the Asia-Pacific region facing this risk.

What is a debt-for-climate swap?

A debt-for-climate swap entails a scenario in which a creditor forgives debt owed to them in exchange for a commitment by the debtor to use the outstanding debt service payments for verifiable climate adaptation or mitigation projects. As such, debt-for-climate swaps mobilize resources for climate action while reducing the debt burden of countries facing distress.

In light of the fiscal constraints in many countries due to the pandemic, debt-for-climate swaps may be able to assist in the post COVID-19 era. Debt-for-climate swaps are an innovative means to tackle the challenge of climate finance and address debt sustainability. Debt for climate swaps could offer a useful debt management tool for countries in the region, increasing debt sustainability and contributing funding available for green and climate projects.
Consultation
Conduct consultations with all relevant stakeholders to understand their views and seek to ensure strong support. Note this includes both political support and support from local communities which the swap may effect.

Term Sheet
A term sheet should be designed to encapsulate the main terms and conditions of the swap deal and facilitate the negotiation process among stakeholders.

Monitoring, reporting, and verification
Adopt an effective monitoring, reporting, and verification (MRV) framework.

Nationally Determined Contributions
Projects selected should be based on each countries NDC's

Funding
Funding must be in addition to the creditor governments’ ODA commitments.

ESCAP and GGGI are working together to support the Asia-Pacific region in reaching its climate targets. Together we believe that NDCs need to be drastically enhanced to achieve carbon neutrality by 2050, however, these commitments need to be accommodated by policy action and financing to support investment in a green future.

Partner with ESCAP and GGGI in the following areas:

Financial Support
Innovative Climate Finance Solutions
Research and Analysis
Advocacy
Policy and Regulatory Support

Lessons Learned

Lessons learned and best practices should be considered by countries interested in applying this option, these include: