DEBT FOR CLIMATE

3-party funding mechanism for debt relief and climate action support in developing countries

April 2022
Green Climate Fund («GCF») was established in 2010 as financing mechanism of United Framework Convention on Climate Change (UNFCCC) to finance climate mitigation and adaptation projects in developing countries

- Through initial resource mobilization and 2019 replenishment, developed countries committed over 20 billion US dollars to support climate projects across the world
- By the end of 2021 GCF approved 181 projects with total committed funding exceeding 10 bln US dollars
• Developing countries' needs and required financial support to address climate vulnerabilities by far exceed available financial commitments of developed countries.

• Mitigation and adaptation finance could play a better role in catalyzing additional funding and involving developing countries in real support of GCF climate projects.

• Economic consequences of COVID-19 pandemic create additional challenges to continue ambitious climate-related funding in traditional ways.

**Suggested 3-party funding mechanism could facilitate effective continuation of funding for climate projects and provide debt relief support for vulnerable countries.**
Debt For Climate

INDICATIVE PROCESS STRUCTURE (1)

Sovereign Loan
$ XX M

Developing Country
Borrower

Developed Country
Creditor
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INDICATIVE PROCESS STRUCTURE (2)

GREEN CLIMATE FUND

CONTRIBUTION $ XX M

3-party Assignment Agreement

Borrower

Developing Country

Developed Country

Sovereign Loan $ XX M
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INDICATIVE PROCESS STRUCTURE (3)

Developing Country

Conversion

Commitment for project support (local currency)

Developing Country

Commitment for project support $ XX M

Conversion

Developed Country

Contribution XX M

GREEN CLIMATE FUND
FUNDING IMPLEMENTATION

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GREEN CLIMATE FUND

Dedicated funds from DfC proceeds (XX M)

Additional project funding (equity, loans, grants)

Project Investors

Project funding

Project

Developing country
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Guarantee Implementation

- Dedicated funds from DfC proceeds (XX M)
- Guarantee fee
- Counter Indemnity arrangements (XX M)
- Project Revenues (XX M)
- Project offtaker
- Project Investors
- Developing country

Guarantee (XX M)
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IMPLEMENTATION CONSIDERATIONS

• Debt-for-Climate (DfC) proceeds will be the key tool helping GCF to ensure interest alignment and risk allocation among the parties most suitable for bearing it
• Funding with DfC proceeds will help GCF to achieve greater levels of concessionality (including increased grant portion) and mobilize additional funding with structural subordination
• For guarantee implementation the longer the developing country ensures that project investors are receiving project revenues, the longer will GCF be able to guarantee other projects in the country (creating virtuous cycle with multiplier effect)
• Through the projects supported by the guarantee, the developing country will receive project investment and lower costs of goods/services offered to the clients as the project output
• DfC proceeds can guarantee funds loaned by domestic banks in local currency and/or ensure longer maturity of the debt funding
• DfC proceeds can also guarantee foreign currency repayments (subject to the mirroring conditions of “counter-indemnity” arrangements with the developing country)
ADVANTAGES FOR PARTICIPANTS

**Developed Country**
- Financial support of climate change projects
- Optimal use of existing financial assets

**Developing Country**
- Additional financial resources for sustainable development
- Decreased levels of hard currency indebtedness

**Debt For Climate Fund**
- Decreased risks and expenses for project financial infrastructure
- Alignment of developing country interests with GCF projects support
Advantages:

- Additional financial inputs for projects funding
- Relieve contributing countries from monetary funding constraints
- Align recipient countries interest to facilitate GCF projects development
- Address local currency funding issues
- Bring more concessionality to the project funding mix
- The process may be applied to private portions of sovereign debt, increasing the amount of funding
- Facilitate financial development via additional support initiatives (e.g. climate projects guarantee platform)