22nd session of the Committee of Experts on Public Administration

Written statement by the Center for Public Policy Development-ESPOL Polytechnic University

Agenda item 5: Institutional mechanisms for providing economic, financial and structural support to address climate change, reduce the use of fossil fuels and protect biodiversity

Session: "Public institutions and support for climate funding"

This intervention acknowledges the significant effort reflected in the paper prepared by committee members and attempts to contribute with suggestions to finetune messages for the final report. It has been informed by discussions held during the first day of the 22nd session and extensive research and efforts implemented by members of the Debt and Climate Global Working Group lead by civil society organizations and on-going efforts by The Integrity Council of the Voluntary Carbon Market.

Principle-based mechanism design

In summary, our Center recommends a principle-based approach to develop a global institutional arrangement for climate finance that facilitates political support and decision-making.

1. Just-transition
2. High-integrity
3. Impact-driven

By following these three high-level principles, intergovernmental negotiations may facilitate progress in securing financial resources for climate action and biodiversity protection in the scale and speed needed while ensuring its effectiveness.

Comments

Let me know explore comments to the ***recommendations*** contained in the expert paper prepared by the Committee. These recommendations have been group into those related to Quantity, Quality and Institutional Arrangements.

First, the central limitation to deliver climate finance is that it remains an undefined goal. Therefore, our first task is to defined a science-based goal for climate finance. This requires a joint effort including an IPCC-like approach and political endorsement by a legally binding agreement to catalyze institutional and effective delivery.

Second, mobilizing climate finance is an issue of scale and speed. We need every available tool working at full speed. This requires improving and combining available tools in the short-term and developing alternatives across time. Although the idea of improving adaptation project financial attractiveness is appealing, there are readily available options with secured potential. The International Institute for Environment and Development estimates debt-for-climate swaps could generate more than $100bn for environmental action in the Global South and a levy on voluntary carbon market transaction in the form of a 5% share of proceeds directed to adaptation can

mobilize annually by 2030 between $0.5 billion and $2 billion. Both instruments can be linked in the context of debt-for-climate swaps that include private creditor incentives for debt to be exchanged for validated, high-quality carbon credits that could credibly support private sector net-zero targets and contribute with adaptation finance through their share of proceeds. This institutional arrangement also ensures that the swap proceeds are being used by developing country governments for financing their climate transition efforts reported to the United Nations Convention on Climate Change as part of their National Determined Contribution while contributing to the Adaptation Fund to address needs of those vulnerable countries with low mitigation potential.

Debt-for-climate swaps can help megabiodiverse oil-rich countries escape high risk of, or are currently in, debt distress and make the investments they need to make in low-carbon, high-biodiversity, climate-resilient development pathway such as sustainable bioeconomy. For instance, although framed as middle-income country, Ecuador economic development is limited to a narrow range of sectors such as petroleum production. It is a serial defaulter and its sovereign bonds are again trading at distressed levels, or a deep discount to their face value due to increased political instability-linked country risk. But it does have a wealth of biodiversity that it could leverage to diversify economic sectors in a wider region where biodiversity loss has reached an unprecedented level. The country is holding talks with banks and a nonprofit group in an attempt to reach a deal that would see about $800 million of its debt refinanced more cheaply, freeing up the savings for conservation efforts.

A UN-backed debt swap mechanism should facilitate to achieve an investment-grade rating from credit ratings firms, low interest rates, a delayed payment schedule, and a long bond maturity without a complex financial architecture that increases transaction cost and may be challenged by civil society actors. Development banks should come together with expanded and standardized support to drive widespread use of debt swap instruments. Securing the buy-in of development banks is usually key for the economics of a deal. But as the banks must closely guard their capital and credit ratings to preserve their ability to borrow cheaply, that hurdle has long restricted the growth of swaps. Thus, all IFI and MDB should be instructed to "absolutely" start de-risking climate-linked debt swaps by providing credit guarantees to reduce transactions cost. In line with the proposed principle-based approach of this submission, the sovereignty of country decision should not be undermined while commitments and conditions for debt-swap or refinancing should be negotiated in full transparent framework, including disclosing which debt holders would be involved in the swap and how much debt would be forgiven.

Third, build integrity and scale will follow. Impact is driving investment in the private sector. There are private-led efforts such as the Integrity Council for the Voluntary Carbon Market (VCM) aiming at developing high-integrity frameworks drawing from UN Principles of effective governance. In 2023, the Integrity Council will release its Core Carbon Principles (CCPs): a threshold for high-quality carbon credits. To be eligible for CCP labeling, mitigation activity developers and carbon crediting programs must meet several criteria, including on the robustness, additionality and permanence of impacts on emissions, governance, independent verification, and environmental and social safeguards and positive sustainable development impacts. Compliance is voluntary but the principles are expected to become a mark of credibility that will improve trust, practices and information across credit supply. This framework incorporates the need to identify, measure, report and verify positive sustainable

development impacts beyond mitigation contributions (i.e., emissions reductions or removals).

Improvements are also needed in how climate / biodiversity pledges under debt swaps are monitored and verified so that creditors are satisfied that countries are meeting their commitments. Sovereigns should embrace KPI-linked adaptation and biodiversity bonds integrated into their national financing frameworks. Incentivizing the joint use of debt swaps with sovereign sustainability-linked bonds and green bonds can add one additional layer of monitoring and reporting in light with Green Bond Principle as best-practice to avoid over the counter negotiations with poor transparency and accountability, helping mobilize more private investment into mitigation and adaption finance consistent with sustainable development priorities and the SDGs at the country level. In the case of Ecuador, this would mean that future jurisdictional REDD+ credits could serve as leverage to a potential debt swap.

Lastly, there is need for novel institutional arrangements to alleviate global massive debt distress and facilitate climate fiscal reform including debt relief and swaps as well as other complementary measures such as channeling a share of allocated Special Drawing Rights for adaptation purposes. In addition, new financing agreements should be designed building in dedicated climate resilient debt clauses and to defer debt service repayments in the event of a major climate disaster as well as to encourage the uptake of Majority Voting Provisions in new sovereign loan agreements with commercial lenders to facilitate restructuring of syndicated loans.