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T7 Task Force Climate and Environment

POLICY BRIEF

USING DEBT CONVERSIONS TO SUPPORT THE SUSTAINABILITY AGENDA

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Executive Summary

Countries across the global are facing a sovereign debt challenge in the wake of the economic impacts of Covid. This will likely result in an increasing need for debt restructuring and debt forgiveness operations. As global institutions look at this issue, they have an opportunity to ensure that these restructuring and forgiveness interventions are truly sustainable by incorporating climate and nature risk. The G7 countries are influential creditors in the sovereign debt market. As such, setting out a joint statement of intent and direction through the G7 process would be an important market signal. Importantly, the G7 countries – when acting together – can also influence discussions and outcomes at the IMF and other influential sovereign debt fora to ensure that debt conversions and debt forgiveness operations explicitly secure climate and biodiversity benefits.

Challenge

Countries across the global are facing a sovereign debt challenge in the wake of the economic impacts of Covid. This will likely result in an increasing need for debt restructuring and debt forgiveness operations to address the \$8.7 trillion developing country sovereign debt burden. As global institutions like the IMF, the Paris Club of sovereign creditors, and the G20 look at this issue they have an opportunity to ensure that these restructuring and forgiveness interventions are truly sustainable by incorporating climate and nature risk, transforming this debt market into a vehicle to accelerate the transition to low-carbon, nature-positive economies that deliver sustainable and long-term prosperity to communities across the developing world.

Proposals

- The G7 should declare its support for expanding the sustainable financing toolbox to include debt conversions and debt forgiveness operations that explicitly secure climate and biodiversity benefits.
- This support should be supplemented by a commitment to represent this view in other key fora, such as the G20, IMF and Paris Club, to ensure that sovereign debt sustainability efforts support climate and biodiversity outcomes alongside macroeconomic sustainability.

Implementation

The G7 countries are influential creditors in the sovereign debt market. As such, setting out a joint statement of intent and direction through the G7 process would be an important market signal. Importantly, the G7 countries – when acting together – can also influence discussions and outcomes at the IMF which is an important forum for sovereign debt discussions. G7 agreement would therefore provide the joint platform to make meaningful change in the IMF as well as at the G20 and Paris Club.

Concrete steps for implementation will be:

- Agreement in relevant G7 communique (leaders, finance, development and/or climate and environment) that sustainable financing includes debt conversions and debt forgiveness operations that explicitly secure climate and biodiversity benefits.
- Agreement among G7 members to take this position into IMF and G20 negotiations on the future of the DSSI and debt restructuring efforts to incorporate climate and nature risk into debt sustainability considerations and operations.
- Agreement from G7 members to explore with their national development institutions as well as in multilateral development banks and international finance institutions they are members with how those institutions can better support debt conversions and forgiveness operations through guarantees and other risk insurance.

About the Authors



Andrew Deutz – The Nature Conservancy

Dr. Andrew Deutz is the Director of Global Policy, Institutions and Conservation Finance at The Nature Conservancy. He is an expert in international environmental law, policy and diplomacy. He directs the TNC's global policy work spanning the areas of biodiversity, sustainable development and conservation finance, as well as overseeing relationships with international organizations, multilateral development banks and foreign aid agencies.

Prior to joining TNC, he served in several leadership roles with the International Union for the Conservation of Nature and has also served as the acting Lead Forest Negotiator for the US State Department and as Forest Policy Advisor to the World Bank. He holds a doctorate in International Environmental Law from the Fletcher School of Law and Diplomacy.



Andreas Hansen – The Nature Conservancy

Andreas Hansen is a Senior Policy Advisor on Conservation Finance Policy at The Nature Conservancy. He has extensive policy and managerial experience from a range of UK government departments.

Specifically, Andreas worked on delivering the UK's plan for improving air quality. This included overseeing the £220m Clean Air Fund, helping to ensure that the UK's plan to reduce air pollution is carried out in a fair and equitable way. He also led the team managing the UK's G7 and G20 negotiations on agriculture, water and the environment. As Head of International Marine Environment at Defra, he led teams responsible for the marine aspects of the Convention on Biological Diversity, marine species conservation, marine protected areas in areas beyond national jurisdiction, the UK Marine Strategy and SDG14.



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