Innovative financing for Africa

Harnessing debt for climate and nature

Sejal Patel, Paul Steele, Laura Kelly and Jean-Paul Adam

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About the author

Sejal Patel is a researcher in IIED's Shaping Sustainable Markets Group

Paul Steele is chief economist in IIED's Shaping Sustainable Markets Group

Laura Kelly is director of IIED's Shaping Sustainable Markets Group

Jean-Paul Adam is the director of Climate Change, Natural Resource Management and Technology at the United Nations Economic Commission for Africa (UNECA)

Corresponding authors: sejal.patel@iied.org and paul.steele@iied.org and jean-paul.adam@un.org

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International Institute for Environment and Development
235 High Holborn, Holborn,
London WC1V 7DN, UK
Tel: +44 (0)20 3463 7399
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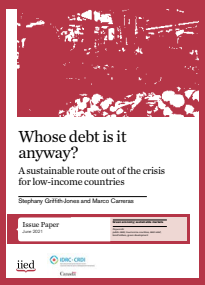

Africa is severely impacted by the triple crisis of debt, climate change and nature loss. The continent's debt now stands at more than 70% of GDP. There is potential to address these crises through 'general purpose' debt financing linked to climate and nature key performance indicators (KPIs). For severely indebted African countries this could be through debt-for-climate-and-nature conversion or swaps. For less debt distressed countries with good market access, the best instrument would be general-purpose performance bonds for climate and nature. There is growing demand for these instruments among African governments, but for this approach to succeed key African creditors including China and the private sector would need to engage, with support from the G20, UN, IMF, World Bank and African Development Bank.

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Summary

Africa's triple crisis of debt, climate and nature

The 54 African states are among the most vulnerable to the triple crisis of debt, climate change and nature loss in the post-COVID-19 context. The average debt-to-GDP ratio in Africa is expected to increase to more than 70% in 2021. Most African countries are projected to lose 2–5% of GDP a year as a result of climate change by 2030 according to conservative estimates.[1] At the same time, the marine and terrestrial biodiversity of Africa is under massive pressure due to habitat loss, climate change, over-fishing and poaching.

Given the decline in public finances, African governments' ability to invest in an inclusive and sustainable post-COVID-19 recovery will largely depend on the availability of external financing, such as:

- debt relief and restructuring
- multilateral and bilateral financial assistance including soft loans/grants and IMF special drawing rights (SDRs)
- access to markets and external private finance.

Safeguarding Africa's climate and biodiversity while debt levels are so high is extremely challenging. Post-COVID-19 economic recovery costs will deplete the financial resources needed to address the climate crisis and environmental degradation. Managing Africa's debt to provide inclusive investment in nature protection and climate could provide a bridge to greater debt sustainability and address the three crises of debt, climate and nature.

Debt instruments for climate and nature in Africa

The type of large-scale debt management instrument that could be used for climate and nature would depend on the debt situation of the particular country. African countries in debt distress could reduce (ie swap or convert) debt – either by conversion to local currency and/or repayment at a lower interest rate, or some form of debt write-off, in agreement with their creditors, or by changing the instrument used through refinancing. The money saved would then be used, through government systems, to achieve agreed key performance indicators (KPIs) on climate resilience or protecting biodiversity that also contribute to poverty reduction. To date only relatively small-scale debt swaps have been tried, such as the Seychelles' debt-for-climate swap for US$28 million in 2015. But some African countries such as Cabo Verde are now aiming for larger programmatic debt-for-climate swaps.

This debt restructuring linked to climate and nature is beginning to gain traction with OECD bilateral lenders and some multilateral organisations, such as the IMF, but Africa's debt is now held by a wider group of creditors including China and private financiers. These newer creditors are still reluctant to engage in debt linked to climate and nature. But growing recognition of the need for more public and private investment to achieve the Paris Agreement goals and to protect biodiversity is beginning to influence private creditors and G20 members.

For less debt-distressed African countries with reasonable access to the markets, the best debt financing option could be issuing new debt or at least rolling over old debt as bonds for climate and nature. These could be 'use of proceeds' green or blue bonds for terrestrial and marine investments respectively where all the funds raised by the bond is used for these environmental purposes. A second and emerging debt instrument is the 'general purpose' performance bond under which some funds are available for general fiscal goals and other sectoral priorities, including health and social protection, on condition that agreed climate and nature key performance indicators (KPIs) are achieved through appropriate investments. In Africa, Benin has already issued a sustainability-linked bond and Ghana and Senegal have expressed interest.

Debt instruments based on key performance indicators

This report focuses on 'general purpose' debt financing instruments linked to climate and nature KPIs (ie debt-management instruments for climate and nature and 'general purpose' performance bonds for climate and nature). The novelty of these instruments is the KPIs, and we highlight three aspects:

- Our emphasis here is on debtor-country ownership by identifying KPIs based on existing national strategies, budgets and plans such as nationally determined contributions (NDCs) for climate (or the national climate strategy equivalent) and national biodiversity strategy and action plans (NBSAPs) for nature.
- We highlight the need for effective monitoring, reporting and verification (MRV) and the need for independent MRV to ensure credibility.
- Finally, we stress the need to involve citizens in the selection and agreement of climate and nature objectives to ensure accountability and effective implementation, and buy-in to positive climate and biodiversity outcomes.

Looking forward

There is increasing demand among African countries for debt instruments for climate and nature outcomes. At the High-Level Event on Financing for Development in the Era of COVID-19 and Beyond[2] in September 2020, Namibia's president Hage Geingob called for debt-for-climate swaps as a key mechanism. Cabo Verde's prime minister called for debt relief for sustainable development in his speech to the UN General Assembly in September 2020, and the president of Gabon called for financial innovations such as debt swaps to better protect carbon sinks and biodiversity in Africa at the Global Center on Adaptation's Leaders Dialogue in April 2021.[3] Benin has issued Africa's first SDG-linked performance bond for €500 million and Ghana is preparing a US$2 billion social and environmental performance bond.

The United Nations Economic Commission for Africa (UNECA) and the International Institute for Environment and Development (IIED) are working together with selected African countries to contribute to the analysis, advocacy and action around debt instruments for climate and nature to improve debt sustainability and promote investment in poverty-reducing climate and nature outcomes.

The IMF and World Bank are playing a key role in highlighting the need for debt instruments to support a green and inclusive post-COVID-19 recovery. With the OECD and United Nations, they are developing a platform that will support countries with debt financing for climate and nature. The United Nations is also engaged in a post-COVID-19 review of 'financing for development' architecture under the Addis Ababa Action Agenda, which also prioritises sustainable debt treatment with debt swaps emerging as a possible part of the solution.[4]

For this approach to succeed, major creditors including China and the private sector will have to engage. This can be taken forward through the G20 and by identifying innovative ways to combine the G20's debt initiatives with achieving climate and nature outcomes.

Africa's triple crisis of debt, climate and nature loss

1

Even before the COVID-19 pandemic, fears were growing over developing countries' debt, which had surpassed US$8 trillion by the end of 2019.[5] The pandemic has made the situation much worse as its economic impact pushes millions more women, children and men in these countries into poverty. This paper builds on Steele and Patel (2020),[6] taking into account the impacts on Africa of the ongoing pandemic, and integrating UNECA's experience from their 54 member states on context, country experience, and the specific risks and opportunities for supporting country-led sustainable development.

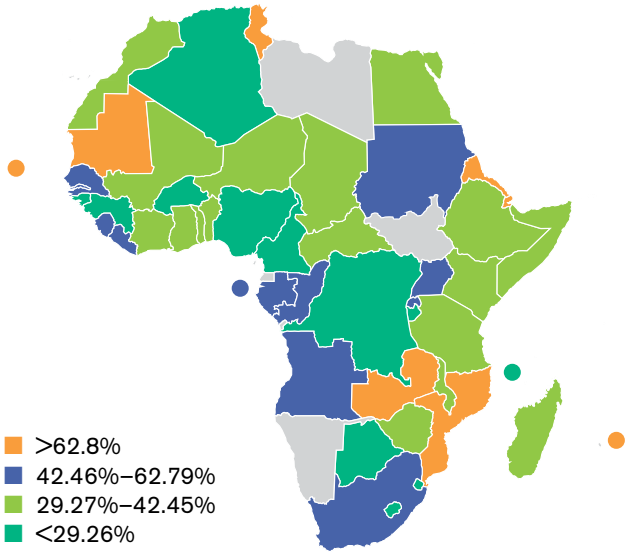
1.1 Africa's sovereign debt

For many countries globally the COVID-19 pandemic has required a major increase in spending on health and welfare, and has resulted in a significant decline in economic productivity, including from tourism and commodity-based sectors, and reductions in diaspora remittances. This has led to both a narrowing of fiscal space and an increase in sovereign borrowing. The least developed countries across Africa have been among the hardest hit.

Of the 54 African states (see Table 1), 23 are low-income countries, also classified as least developed countries (LDCs), and are all International Development Association (IDA)-eligible countries, with 14 of them being fragile or conflict-affected states (FCAS), and one a small island developing state (SIDS). There are a further 23 lower-middle-income countries, ten of which are LDCs, and 15 of which are either IDA-eligible or IDA–International Bank for Reconstruction and Development (IBRD) blend-eligible (discussed further below). Three of these states are SIDS and five are FCAS. Six countries are upper-middle income, among which one is FCAS. There are two high-income countries, and it is notable that these are SIDS and have much higher loss and damage burdens and are therefore at very high climate risk.

The global average external debt stocks across lower-middle-income countries in 2018 was 54% of gross national income (GNI), but within this income group across African countries this ranged from 3% in Algeria and 11% in Eswatini, to 158% in Djibouti. In the low-income group, the global average external debt stocks were 37% of GNI, and across African countries this ranged from 11% in the Democratic Republic of Congo and 19% in Burundi to 108% in Mozambique and 58% in Rwanda (Figure 1).[7]

Figure 1: External debt stocks as a percentage of GNI 2018



Source: World Bank International Debt Statistics data.[7]

Most countries in Africa are experiencing significant increases in their debt-to-GDP ratios. The African Development Bank (2021)[8] estimates that the average debt-to-GDP ratio in Africa is expected to increase to more than 70%, from 60% in 2019. This ratio was around 30% in 2014. Africa's total external debt stock has more than doubled in the last decade as African countries have increasingly turned to the market to fund development needs. Griffith-Jones and Carreras (2021)[9] discuss the composition and complexity of the increasing debt stocks across Africa.

An increase in debt-to-GDP ratio is not in itself unfavourable when it is the result of investment in economic growth-inducing activities. Given that much of Africa's debt now comes from national and international private capital markets, market access is crucial for African economies. Credit agencies whose purpose is to rank countries' ability to pay debt thus wield enormous power. Countries are reluctant to have their credit ratings downgraded or to start negotiations with creditors that may signal a default and thus limit access to the markets for future borrowing.

The economic sustainability of a country's debt burden varies depending on its economic position and growth projections. If a country's growth rate outvalues the repayment burden, there is net value, so the debt burden is economically sustainable. However, crisis-induced

Table 1: Income and other classifications of the 54 African states

Income Classification[a]	Country	Lending (IDA/Blend/IBRD)[b]	LDC?[c]	SIDS?[d]	FCAS?[e]
Low Income	Burkina Faso	IDA	LDC		Medium-Intensity Conflict
	Burundi	IDA	LDC		Medium-Intensity Conflict
	Central African Republic	IDA	LDC		High-Intensity Conflict
	Chad	IDA	LDC		High Institutional and Social Fragility
	Congo, Dem. Rep	IDA	LDC		Medium-Intensity Conflict
	Eritrea	IDA	LDC		High Institutional and Social Fragility
	Ethiopia	IDA	LDC		
	Gambia, The	IDA	LDC		High Institutional and Social Fragility
	Guinea	IDA	LDC		
	Guinea-Bissau	IDA	LDC	AIMS	High Institutional and Social Fragility
	Liberia	IDA	LDC		High Institutional and Social Fragility
	Madagascar	IDA	LDC		
	Malawi	IDA	LDC		
	Mali	IDA	LDC		Medium-Intensity Conflict
	Mozambique	IDA	LDC		
	Niger	IDA	LDC		Medium-Intensity Conflict
	Rwanda	IDA	LDC		
	Sierra Leone	IDA	LDC		
	Somalia	IDA	LDC		High-Intensity Conflict
	South Sudan	IDA	LDC		High-Intensity Conflict
	Sudan	IDA	LDC		Medium-Intensity Conflict
	Togo	IDA	LDC		
	Uganda	IDA	LDC		
Lower-Middle Income	Algeria	IBRD			
	Angola	IBRD	LDC		
	Benin	IDA	LDC		
	Cabo Verde	Blend		AIMS	
	Cameroon	Blend			Medium-Intensity Conflict
	Comoros	IDA	LDC	AIMS	High Institutional and Social Fragility
	Congo, Rep.	Blend			High Institutional and Social Fragility
	Côte d'Ivoire	IDA			

Income Classification[a]	Country	Lending (IDA/Blend/IBRD)[b]	LDC?[c]	SIDS?[d]	FCAS?[e]
Lower-Middle Income (cont.)	Djibouti	IDA	LDC		
	Egypt, Arab Rep.	IBRD			
	Eswatini	IBRD			
	Ghana	IDA			
	Kenya	Blend			
	Lesotho	IDA	LDC		
	Mauritania	IDA	LDC		
	Morocco	IBRD			
	Nigeria	Blend			Medium-Intensity Conflict
	São Tomé and Principe	IDA	LDC	AIMS	
	Senegal	IDA	LDC		
	Tanzania	IDA	LDC		
	Tunisia	IBRD			
	Zambia	IDA	LDC		
	Zimbabwe	Blend			High Institutional and Social Fragility
Upper-Middle Income	Botswana	IBRD			
	Equatorial Guinea	IBRD			
	Gabon	IBRD			
	Libya	IBRD			High-Intensity Conflict
	Namibia	IBRD			
	South Africa	IBRD			
High Income	Mauritius	IBRD		AIMS	
	Seychelles	IBRD		AIMS	

[a] Income Classification as per World Bank Classification[10]: low-income economies ($1,035 or less); lower-middle income economies ($1,036 to $4,045); upper-middle-income economies ($4,046 to $12,535); high-income economies ($12,535 or more)
[b] Access to World Bank lending facilities[10]
[c] Least Developed Countries classification according to the UN[11]
[d] Small Island Developing States classification according to the UN, and categories as: Caribbean; Pacific; Atlantic, Indian Ocean, Mediterranean and South China Sea (AIMS); and Other - Non-UN Members/Associate Members of Regional Commissions[12]
[e] Fragile or conflict-affected state according to World Bank classification, and according to the categories: High-Intensity Conflict; Medium-Intensity Conflict; High Institutional and Social Fragility[13]

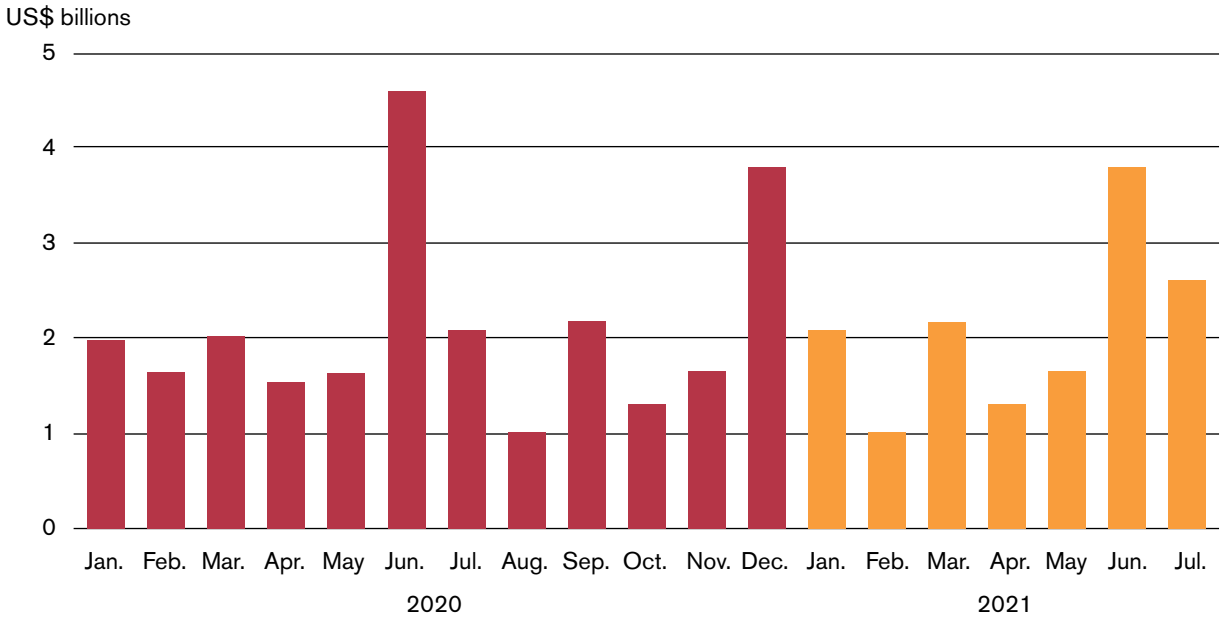
borrowing is for crisis spending and consumption, not investment, and therefore debt that accumulates will decrease the economic sustainability of the debt burden. For this reason, the international community should support crisis spending to help reduce long-term negative impacts, which will otherwise undermine gains in poverty reduction, and address climate change and nature loss.

The LDCs and six lower-middle income[14] African states have access to the International Development Association (IDA), which is the concessional lending arm of the World Bank that provides zero- to low-interest loans and grants for programmes. Other African countries can borrow from the more commercial IBRD arm of the World Bank. This categorisation affects the credit terms on which the country can borrow.

During periods of emergency, this categorisation can be unhelpful because it does not take into account needs, particularly in relation to potential loss and damage from climate vulnerability. For many lower-middle income and low-income countries, climate risk has the potential to destabilise economies in the medium and long term. For example, conservative estimates put costs for a scenario holding global warming below two degrees at US$50 billion per year in Africa, and up to US$100 billion a year by 2050.[15] Continued finance for adaptation activities is a priority to help mitigate some loss and damage costs in these countries. During the COVID-19 pandemic, lower-middle income countries have been unable to access the additional support provided to low-income countries, such as the IMF support through its Poverty Reduction and Growth Trust (PRGT). This access would have helped support liquidity and response measures and enabled them to invest more in climate resilience. Accessible and low-cost additional international financial resources are crucial to provide adequate liquidity for short-term needs. This includes the availability of special drawing rights (SDRs) both as quotas and as reallocated funds, for example, through the proposed IMF Resilience and Sustainability Fund (RST).

African debt data from 2015 to 2017 shows that, on average, Africa's debt was already four times higher than its tax revenue.[16] Against the backdrop of both increases in interest expenses as a share of revenue (for some countries, the interest burden has doubled in the last five years), and reduced liquidity, many African countries are struggling to meet their debt service obligations in 2021[17 18] (Figure 2). This puts significant pressure on their government revenues and fiscal space.

Figure 2: Short-term debt service profile for Africa (US$ billion paid per month)



Source: AfDB staff calculations based on data from World Bank International Debt Statistics[17]

1.1.1 Africa and the Debt Service Suspension Initiative and Common Framework

As part of the international community's response to the worsening debt crisis, the G20 established the Debt Service Suspension Initiative (DSSI) on 1 May 2020, and subsequently extended it until December 2021.[19] The initiative offers 73 countries, 38 of which are African, a temporary suspension, ie postponement, of debt-service payments owed to their official bilateral creditors. There is no change to the net present value of the loans to the creditors, and repayments will resume according to the repayment schedule at the end of the suspension period. The initiative therefore has very limited impact in relation to any structural support. Not all creditors participated in the initiative, including large multilateral lenders, such as the World Bank. Private creditors are encouraged to participate on comparable terms, but there is little evidence of such participation. Countries must request to opt in to the DSSI, and support is not automatic. Some countries are not participating because they fear that credit ratings agencies will downgrade their country rating, as participation in the DSSI is seen as a form of default. A downgrade could make it more difficult to raise funds from the market.

As of September 2021, 32 African countries are participating in the initiative, representing potential DSSI savings of 1.6% of the 32 states' combined GDP (US$13.1 billion). Of these countries:

- Three are in debt distress: the Republic of Congo; Mozambique; and São Tomé and Príncipe
- 15 are at high risk of debt distress: Cabo Verde; Cameroon; Central African Republic; Chad; Djibouti; Ethiopia; The Gambia; Guinea-Bissau; Kenya; Liberia; Malawi; Mauritania; Sierra Leone; Togo; Zambia
- 11 are in moderate risk of debt distress: Burkina Faso; Comoros; the Democratic Republic of Congo; Cote d'Ivoire; Guinea; Lesotho; Madagascar; Mali; Niger; Senegal; Uganda
- No data is available on the debt distress situation for Angola, Burundi and Tanzania
- Of the six countries not participating in the initiative,
  - Somalia is in debt distress
  - Ghana and South Sudan are at high risk of debt distress
  - Benin and Rwanda have moderate risk of debt distress
  - there is no data available on the debt distress situation of Nigeria.

As the DSSI only suspends debt, more substantial debt support is needed for most countries for pandemic recovery. The G20 recognised this shortcoming and responded with the Common Framework.[20] The Common Framework aims to address unsustainable sovereign debt burdens and ensure broad participation of creditors with fair burden sharing. It seeks to bring in official creditors that were previously not part of the Paris Club process. It also requires that participating debtor countries seek treatment on comparable or better terms from other creditors, including the private sector, thereby enabling more comprehensive and timely debt resolution. As at September 2021 three African countries – Chad, Ethiopia, and Zambia – have requested restructuring under the framework.

1.1.2 Impacts of climate change and COVID-19 on Africa's debt

Climate vulnerability makes the costs of borrowing higher than they should be for many African countries, if only macroeconomic and fiscal indicators are considered. This presents a negative feedback loop whereby countries with higher climate vulnerability have higher borrowing costs, and so have to spend more on both borrowing and on addressing climate vulnerabilities. These higher borrowing costs could result in upwards of US$146 billion in extra costs for vulnerable countries globally in the next decade (including private sector borrowing costs).[21,22] Gallagher et al. (2021)[23] report that IMF surveillance has paid minimal and uneven attention to climate risks and this has limited the climate-responsive support that multilateral institutions like the IMF provide.

The impact of the pandemic on growth has been much greater than that experienced during the global financial crisis of 2007–08. In October 2020, the World Bank stated that global extreme poverty was expected to rise in 2020 for the first time in more than 20 years as the COVID-19 pandemic compounds the forces of conflict and climate change, which were already slowing poverty reduction progress.[24] The World Bank also stated that the COVID-19 pandemic had pushed approximately an additional 100 million people into extreme poverty in 2020, which could rise to 150 million by 2021, depending on the severity of the economic contraction. This requires the urgent social and economic stimulus spending that we have witnessed in most developed economies. However, most African countries simply do not have access to the scale of resources needed.

The IMF recently estimated that low-income countries would need around US$200 billion up to 2025 to respond to the pandemic, and an additional US$250 billion to accelerate their income convergence with advanced economies, noting that a downside scenario of a slower global recovery could add a further US$100 billion in financing needs.[25]

As a country's ability to access finance on concessional terms is determined by their GDP per capita, this can create problems for countries graduating from low- to middle-income status. GDP per capita is not a good measure of a country's ability to respond to external shocks, whether linked to a pandemic or a climate-related natural disaster. Highly climate-vulnerable countries will remain climate vulnerable after graduation to middle-income status but will lose access to concessional finance, which could undermine their income gains. For example, the IMF's Catastrophe Containment and Relief Trust (CCRT) is only available for low-income countries. If concessional finance is not available, the only option for investment is more commercial debt.

UNECA (2020)[26] has proposed a three-pronged approach of phased actions in response to and after recovery from COVID:

- *Immediate response:* many countries need to increase liquidity – creating sufficient fiscal space to ensure they have the resources to deal with the health crisis and keep their economies afloat. International measures that support this include flexibility from development partners, by, for example, front-loading financing for ongoing projects, liquidity issuances from multilateral organisations, such as from the CCRT or the IMF's SDR allocation, and coordinated debt management responses, such as DSSI.
- *Kickstarting recovery:* short-term solutions need to transition to longer-term sources and scale of investments that will put economies on a sustainable pathway. This involves developing green stimulus packages that are supported by instruments such as debt management linked to climate and nature.
- *Long-term solutions:* linking debt management with climate change, nature and inclusion. This involves longer-term green financing, where low-carbon climate resilience is mainstreamed into national plans and strategies and operationalised through recovery instruments and tools. This would aid debt sustainability and poverty-reducing economic growth.

The IMF's Heavily Indebted Poor Countries (HIPC) Initiative, launched in 1996, wrote off more than US$70 billion worth of debt for almost 40 countries, partly funded through the sales of IMF gold. While it had shortcomings, this initiative did show that large-scale debt relief was possible with political support. Useree (2021)[27] discusses lessons from HIPC to inform support that could be provided during this debt crisis. These lessons are integrated into the proposed approach outlined in Section 2.

1.1.3 Who are Africa's creditors?

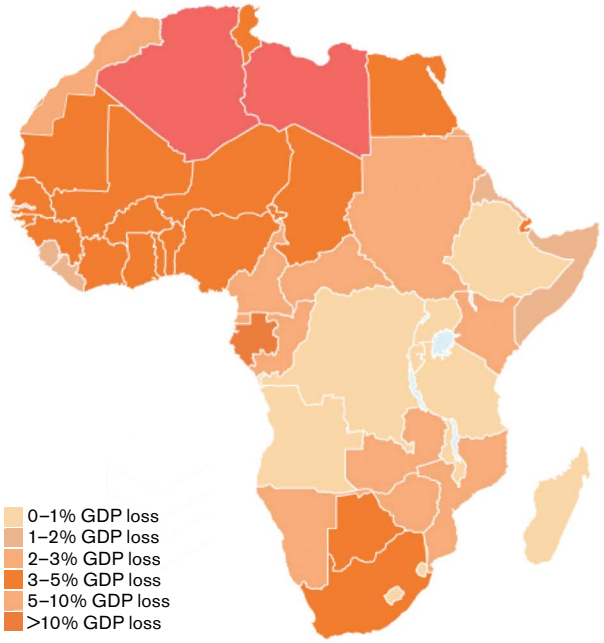
Griffith-Jones and Carreras (2021)[9] elaborate on the changing nature of the debt structure in recent decades. A lower proportion of debt is now held by Paris Club bilateral and multilateral creditors, and more is held by China and the private sector (definitions of which become important – some commercial banks are state-owned enterprises (SOEs), although classified and working as private institutions). Private banks charge higher rates on borrowing.

Estimates from Brookings (2020) puts the volume of Chinese-held public debt in Africa at US$143 billion,[1] or 20% of African debt. But estimates from Horn et al. (2019) suggest that the actual amount could be far greater.[28] This highlights the need for transparency and accountability in debt relief, reduction and restructure, and for all types of creditors to be engaged.

1.2 Africa's climate finance needs and vulnerabilities

African countries are some of the most vulnerable to climate change. Increasing temperatures and rising sea levels, changing precipitation patterns and more extreme weather are threatening human health and safety, food and water security and socio-economic development across Africa.[29]

Figure 3: Impacts of climate change – as pronounced as COVID-19

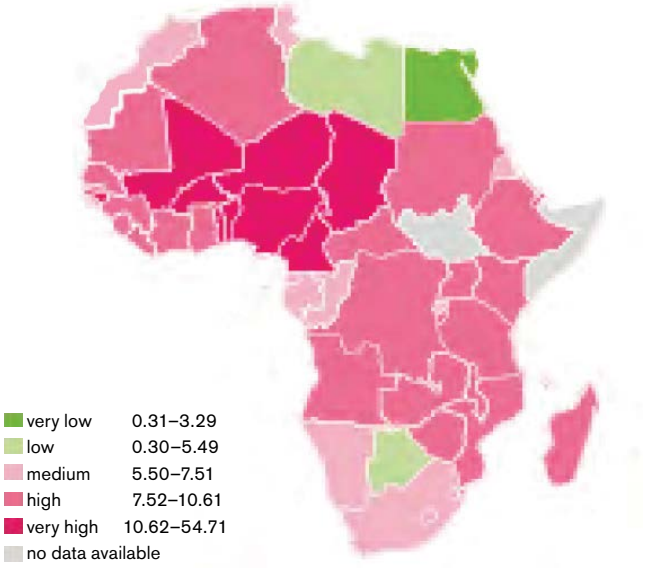


Source: AdaptCost/EastAfrica based on FUND national model[82]

Conservative estimates project that most African countries will lose 2–5% of GDP to climate change by 2030.[30,31] Western and eastern Africa could lose up to 15% of their GDP by 2050.[32] By these measures the economic impacts of climate change are likely to be more pronounced in Africa than those of COVID-19

Climate and disaster risk is determined by the exposure and vulnerability of a system.[33] Figure 4 presents the climate World Risk Index for climate and disaster risk, developed by the German Development Aid Alliance.[34] It shows that the countries facing the highest risk of negative climate impacts are lower-income countries that have contributed least to greenhouse gas emissions. The top five African countries on the 2019 World Risk Index for overall climate and disaster risk are Cabo Verde, Djibouti, Comoros, Niger, and Guinea-Bissau. The Central African Republic, Chad, the Democratic Republic of the Congo, Eritrea and Niger are the most climate vulnerable.

Figure 4: World Risk Index 2019.



Source: Bündnis Entwicklung Hilft 2019[34]

African countries contribute just 3.8% of total global annual greenhouse gas emissions, despite representing 17% of the global population.[35] As well as their low emissions contribution, many African countries' NDCs still present ambitious mitigation targets that support low-carbon development pathways. Achieving these targets would require significant finance, which could result in even more debt if the investment is financing needs that are not supported by the international community.[36]

The United Nations Framework Convention on Climate Change (UNFCCC) acknowledges disproportionate historical responsibility for emissions. It recognises the need for common but differentiated responsibility for addressing climate change by including equity clauses requiring the major CO_2 emitters (mainly OECD countries) to provide finance and resources to developing countries. This is loosely defined as climate finance – finance to help developing countries reduce or avoid greenhouse gas emissions (mitigation) and build their resilience to current or future impacts of climate change (adaptation). At UNFCCC's COP15 in 2009, developed countries committed to jointly mobilise US$100 billion per year by 2020 as climate finance.[37,38] However, this target is unlikely to be met and a new more ambitious goal, as mandated by UNFCCC for finance mobilisation from 2025, from a floor of US$100 billion, taking into account the needs and priorities of developing countries, has yet to be agreed. In addition, it has been estimated that more than two-thirds of the public climate finance delivered between 2013 and 2018 was in the form of loans, which exacerbated the debt problem.[39]

African states represent 33 of the 48 LDCs. LDCs are characterised by challenges such as low per capita income, low levels of human development, and economic and structural barriers to growth that limit resilience to vulnerabilities. Recognising this, the Istanbul Programme of Action (IPoA) for the LDCs (2011 to 2020) was developed to chart out the international community's vision and strategy for supporting the sustainable development of LDCs over a decade. One of the principles on which the IPoA is founded is that LDCs have ownership of and primary responsibility for their own development. It also holds LDCs' development partners to a renewed and strengthened global partnership under principles of solidarity and equity. These partners include the United Nations system, including the Bretton Woods institutions, other multilateral institutions and regional development banks. These development partners have committed to providing support to effectively implement the Programme of Action.[40]

The United Nations Environment Programme (UNEP) estimates that developing countries will need US$300 billion for adaptation by 2030, rising to US$500 billion by 2050; yet in 2015-2016, only US$22 billion was committed.[41] Estimates indicate that by 2030 the global loss and damage associated with climate change will require financing for developing countries of at least US$300 billion annually, and that this will reach approximately US$1.2 trillion per year by 2060.[42]

Addressing climate change requires systemic change.[43] In most African states, adaptation is of far greater importance than mitigation.[44] Adaptation involves supporting structural, financial and post-disaster resilience (including social resilience) in countries, according to their own national context and situations. Countries set out climate plans and strategies to map

their climate actions. At the international level, this is communicated through the adaptation component of NDCs and other national adaptation communications, including national adaptation plans (NAPs), biennial transparency reports, and long-term low-carbon development strategies (LTSs). At the regional level, LDCs have adopted a commitment to work towards low-carbon, climate-resilient development pathways.[45] African countries have also adopted a set of principles for an African Green Stimulus Programme (see section 3.1.2) to guide the continent towards low-carbon development.

There are opportunities this year to improve the quantity and quality of climate finance available to Africa. The UK hosts the 26th Conference of the Parties to the UNFCCC (COP26) in Glasgow in November and as host has a mandate to advance global and country action for climate mitigation and climate adaptation. As part of this process, the UK held a climate and development Ministerial in March, in which fiscal space and debt sustainability was one of four key themes discussed. Ministers from the global South raised concerns relating to:[46]

- Fiscal space and liquidity issues – and SDR issuance and re-allocation as potential short-term support
- The importance of multilateral development banks (MDBs) in a green recovery and as key players to crowd-in additional capital and stakeholders at both domestic and international level
- Including climate and nature as productivity drivers in debt sustainability criteria.

The UK also holds the 2021 presidency of the G7. This provides an opportunity to push G7 countries to deliver on their climate finance commitments for low-income countries. Both the G7 and COP26 processes could provide momentum for action on debt-management-for-climate-and-nature programme swaps to help deliver this finance.

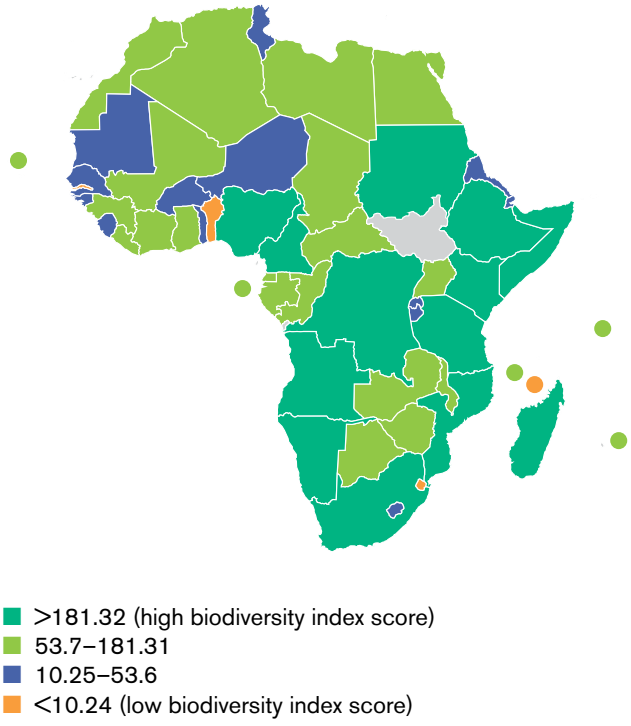
1.3 Africa's biodiversity and the global biodiversity agenda

The world is facing large-scale ecological breakdown and biodiversity loss on an unprecedented scale. In 2019, the Intergovernmental Platform on Biodiversity and Ecosystem Services (IPBES) estimated that nearly 11.5% of the world's 8.7 million global species are currently threatened with extinction.[47]

Africa is immensely rich in biodiversity. It's terrestrial and marine plants and animals comprise around a quarter of global biodiversity and provide ecosystem services that contribute to livelihoods and help cope with climate change.[48] However, this biodiversity is under threat as habitats are lost because of deforestation and agricultural expansion, and fish and wildlife are overexploited. Climate change is also exacerbating species loss, with estimates that over half of all African animal and bird species could be lost by 2100 alongside significant losses of plant species.[48] This will negatively affect economies, food security and resilience to adverse weather. Investment is therefore urgently required to combat this loss.

The Global Environment Facility Benefits Index 2008 (Figure 5) ranks Madagascar, South Africa, the Democratic Republic of Congo, Tanzania, Cameroon, Kenya and Ethiopia amongst the highest African countries in terms of biodiversity potential.[49]

Figure 5: GEF Benefits Index for Biodiversity 2008.



Source: GEF (2005)[50]

Existing cross-Africa agreements on biodiversity include the African Ministerial Declaration on Biodiversity, adopted at the African Ministerial Summit on Biodiversity in November 2018 in Sharm El Sheikh, Egypt; and the Egyptian initiative to promote a coherent approach for addressing biodiversity loss, climate change, and land and ecosystem degradation, endorsed by the African Ministerial Conference on the Environment (AMCEN) in its Decision 17/1.

The 15th meeting of the Conference of the Parties to the Convention on Biological Diversity (CBD) will be hosted by China in two parts – one in late 2021 and one in 2022. The COP will develop a new post-2020

biodiversity framework to build on the Aichi Biodiversity Targets – a set of 20 global targets under the CBD's Strategic Plan for Biodiversity 2011–2020. Target 20 calls for a substantial increase in financial resources from all sources to effectively implement the Strategic Plan. A financial goal has yet to be set in the post-2020 Biodiversity Framework but decision 14/22, agreed at the 14th CBD COP in 2018, affirmed that resource mobilisation would also be an integral part of the post-2020 global biodiversity framework.

China, as its host and as one of the most biodiverse countries in the world, will have a key opportunity to advance the global biodiversity agenda, including financing biodiversity through debt-for-climate-and-nature programme swaps.

Leading up to the Biodiversity COP, there is also increasing consensus around the need for commitments to increase the scope of protected areas, for example through the 30x30 initiative,[51] which aims to protect 30% of the world's land and oceans by 2030.

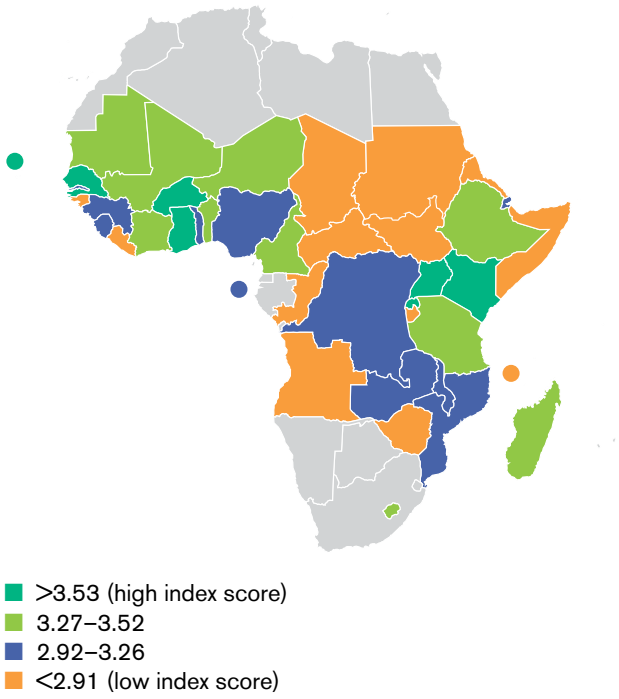
1.4 Africa's creditworthiness

A country's creditworthiness impacts the availability and terms of credit it can access. Lenders are reluctant to invest in countries with a high risk of default, whether this is related to economic stability, transparency or accountability. Thus, for many African countries access to finance is limited. After spending the necessary finance on immediate needs such health care, there is often little room to finance longer-term and systemic needs like climate resilience.

The World Bank's IDA Resource Allocation Index (IRAI) is a key element in the country performance rating,[52] which indicates their creditworthiness. High-scoring countries are considered to be more creditworthy. Rwanda, Cabo Verde, Senegal, Kenya, Uganda, and Burkina Faso all score highly while South Sudan, Somalia, Eritrea, and Sudan have low scores.

LDCs' tend to have very limited access to international markets. As of 2020, a total of 21 African countries had issued international sovereign bonds, raising a combined total of more than US$115 billion.[53] It is generally impossible to issue foreign currency international sovereign bonds without first getting a rating by one of the three international rating agencies: Standard and Poor's (S&P), Moody's and Fitch. Having a credit rating is costly, and countries only get ratings if they have market access and are planning a bond issuance. Of those LDCs that have ratings, many were downgraded during the pandemic, and most are below investment grade. The level of the rating affects the rates at which countries can borrow on the market – with lower ratings resulting in more costly borrowing. In the first half of 2021, seven African countries saw their ratings downgraded, including Morocco, which is one of only three African countries to still be rated above 'junk' status (see Annex 3). Morocco was downgraded by S&P in the first half of 2021, losing its investment grade rating, after Fitch had already downgraded it in the second half of 2020. Only two countries, Botswana and Mauritius, are the only remaining 'investment grade' countries on the continent. However, Mauritius has been given a negative outlook, as it is still at risk of being downgraded owing to its struggling tourism sector and growing budget deficit.[55]

Figure 6: IDA Resource Allocation Index 2018



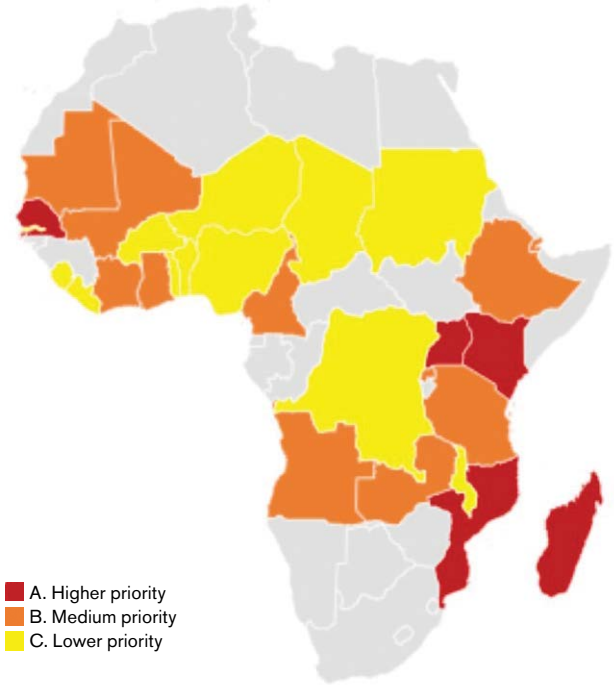
Source: World Bank 2020.[54]

Benin was the only African country to be upgraded during the first half of 2021, due to overall improvement in its public finance management as fiscal authorities made significant progress in implementing fiscal consolidation. Benin has successfully implemented structural reforms in both government revenues and expenditures, supported by the IMF through an extended credit facility (ECF) programme.[52]

1.5 Priority African countries for debt, climate and nature support

Analysing rising debt burdens, high climate and biodiversity vulnerability and limited access to credit, gives a picture of where additional support is needed. Cabo Verde, Kenya, Senegal, Uganda and Madagascar are emerging as countries that urgently need such support.

Figure 7: Emerging urgency for debt, climate and nature support



Source: IIED 2020. See Annex 1.

Linking debt, climate and nature in Africa

2

2.1 Benefits to Africa of debt-for-climate-and-nature instruments

The objective of climate-and-nature-linked debt instruments is to both ensure the direction of resources towards national climate and nature priorities and to help create fiscal space to allow the country to spend on immediate health and welfare needs and pandemic responses, whilst maintaining spending in other areas. We outline the main benefits below:

- *Increased fiscal space*: Linking debt instruments with a country's climate and nature priorities can support countries with increasingly unsustainable debt. The approach helps relieve pressure on the fiscal space by reducing the need for sovereign borrowing and allowing expenditure on priority areas. Undertaking debt-for-climate-and-nature transactions does not preclude using finance for sectors like health or education. The terms of the transaction should suit the debtor government's needs as well as creditor's wants. Mechanisms such as climate and nature performance instruments are based on 'general use' funds rather than 'use of proceeds', meaning the funds would not be specifically ringfenced for environmental activities, and the government would have to decide how much of the proceeds to commit to which priorities in order to meet their commitments under the agreement.
- *Improving inclusive economic growth and climate and nature outcomes*: The climate and nature crises destabilise economic activity. Thus there is an urgent need to increase climate resilience and environmental sustainability across all sectors and parts of society. Otherwise progress across all the Sustainable Development Goals (SDGs) will be reversed. The approach would support domestic spending on national priorities, whilst also supporting areas that reduce negative global externalities and where countries have committed to act under global conventions, such as the UNFCCC and CBD. Investments in job-creating inclusive climate and biodiversity activities support economic growth. As demonstrated in UNECA's recent green recovery report, there are significant investments which contribute to climate resilience and also provide significant benefits in terms of job creation and gross value addition across the economy.[56] This is borne out by several other studies that show how investment in climate and nature has high yields.[57]
- *Leveraging in existing credit and investor interest:* As the approach supports climate and biodiversity global public goods, countries can use this as leverage in negotiations with their creditors. Debt forgiveness is a politically challenging process and can harm investor confidence for future investments. Climate and nature-linked instruments like swaps or new issuances of loans or performance bonds, where feasible, can be a way to increase investor interest because they signal proactive management of the debtor's economy, and debtor commitment to fulfil obligations in a way they align with – particularly in the case of bilateral and multilateral creditors.
- *Access to new sustainable finance markets*: These transactions can also build debtor government experience and capacity in working with innovative financing instruments. This further benefit, which the Seychelles experienced following their 2015 swap, means that the improved economic position and increased experience of innovative financial instruments can increase creditor confidence. This in turn can support the use of other sustainable financing instruments, such as the subsequent Seychelles blue bond. Debt instruments could enable African countries to increase the issue of sustainable finance instruments by creating awareness of the impact that such climate-resilience investment can have, by freeing up fiscal space for additional issuances, and by developing awareness and trust among impact and institutional investors. The Green Climate Fund (GCF), for example, is promoting private sector investment in adaptation by supporting climate-resilience financial products to match the risk profile of products familiar to institutional investors through de-risking approaches. The GCF is also working with developing countries to expand adaptation investments that boost vulnerable people's livelihood protection, as part of green stimulus measures to revive economies damaged by COVID-19 – for example, through debt-for-climate swaps. It is also exploring how policy integration across different sectors boosting national development can reduce the need for climate investments by up to a half.[58]

2.2 What debt instruments for climate and nature are available to Africa?

Debt management instruments linked to climate and nature can be part of a coherent response to tackle these crises. The type of climate-and-nature-linked debt transaction will depend on the country's situation, based on factors such as: their level of debt distress; the amount of fiscal space they have; and the scope they have to improve their debt portfolio. According to this and other contextual factors, the instruments may vary from climate-and-nature-linked debt forgiveness, to debt restructuring, or the issuance of new debt instruments such as sovereign bonds.

2.2.1 Debt swaps or conversions for countries in debt distress

For countries already in a debt distress situation (see section 1.1), a more focused and immediate process may be more appropriate, ie debt relief via the Common Framework for debt treatment beyond the DSSI (or under a potential climate–nature–debt global initiative).

Instruments for countries in debt distress could be refinancing or conversion, such as a debt swap, where an agreement is made with the creditors to redirect some debt service payments or principal back into the debtor's balance sheet, with the objective of channelling more funds towards climate and nature (see Box 1). Such a transaction could involve a proportion of debt forgiveness too, based on the country's ability to service the debt. If the country is already struggling to meet the debt service payments, simply redirecting the payments would not be enough to prevent cash flow distress. Lowering the debt service through some measure of debt forgiveness would then provide critical fiscal space for the government.

The timing and use of instruments must be appropriate. The approach to link debt to climate and nature covers long-term sovereign debt. It is most suitable where debt is high but still sustainable. Debt restructuring is typically a complex and lengthy process to negotiate, so the approach might not be adequate as a timely response to the debt distress that some countries are facing, or to provide immediate liquidity. However, if debt management instruments for climate and nature become more common, and part of routine debt restructuring architecture, administrative costs and burdens will likely reduce. Capacity building around debt restructuring would also be useful. If there is a global drive towards climate-related financial disclosures,[59] this could further incentivise bond holders to consider swapping their debt for new instruments aligned with the Paris Agreement.

BOX 1. SEYCHELLES' DEBT-FOR-CLIMATE-AND-NATURE SWAP, 2015

At the time of the global financial crisis in 2008, Seychelles had one of the highest debt-to-GDP ratios in the world, at 175%. The narrow economic base and the sudden impact of the crisis led it to default on its debt and to subsequently renegotiate with its Paris Club creditors, resulting in a 45% 'haircut'.

The Seychelles' economy rebounded rapidly after 2008 on the basis of a successful tourism strategy, but adherence to an IMF restructuring programme and a determination to avoid new debt meant that there was limited fiscal space, particularly for investment in areas such as conservation.

The government recognised that the country's natural beauty, particularly its oceanic space, was the lynchpin of its success as a tourism destination. In subsequent warming events associated with El Niño a large percentage of Seychelles' coral reefs were impacted by coral bleaching. Seychelles had been aiming to increase its oceanic areas under protection as means of boosting the resilience of its oceanic habitats including coral reefs.

In 2015, Seychelles aimed to raise additional climate finance through a debt swap to support the creation of marine protected areas covering 30% of its exclusive economic zone, and in particular improving protection for high biodiversity hotspots. The US-based organisation The Nature Conservancy (TNC) agreed to finance the debt buy-back.

Initial exchanges with the whole Paris Club on restructuring the bulk of the remaining debt were unsuccessful since Seychelles creditors had already taken a significant haircut between 2008 and 2010. Nevertheless, a debt buy-back was agreed with a sub-group of like-minded creditors under the Paris Club for US$21.6 million and was financed by a loan of US$15.2 million from The Nature Conservancy using its own funds. Grants of US$5 million were also raised from: the Waitt Foundation, Oceans 5, Oak Foundation, Leonardo Dicaprio Foundation, LH Foundation and the Grantham Foundation.

This was possible also thanks to the leadership of the French government, which was a partial holder of the debt and encouraged other creditors to follow suit. The successful transaction, while small, marked a significant example of the opportunity for debt swaps to raise additional liquidity for investment in climate resilience. It was showcased at the Conference of Parties of the UNFCCC at the end of 2015 where the Paris Agreement was adopted.

Under the terms of the buy-back, the various loans were consolidated into a single loan, which was transferred from the Paris Club creditors to a specially created trust fund, the Seychelles Conservation and Climate Adaptation Trust (SeyCCAT– https://seyccat.org/). A portion of the payments are used to refund TNC and interest payments contribute towards grants

disbursed by SeyCCAT to support blue economy projects around conservation and climate adaptation.

The creation of a specific vehicle enshrined in law has led to a high degree of accountability and transparency. SeyCCAT reports are presented annually to the National Assembly and its board is made up of government representatives and members of civil society.

The main benefits achieved through the debt swap

- The Seychelles government benefited from a lower average interest rate as the maturity of the debt was extended from eight to 13 years
- Balance of payments was improved as payments were made in local currency
- US$5.7 million of additional finance channelled towards ocean conservation
- Redirection of over US$11 million, previously channelled to external debt service, towards in-country investments
- Capital endowment of US$6.6 million for SeyCCAT led to long-term opportunity for further mobilisation of capital through the trust fund
- Implementation of a marine spatial plan in Seychelles based on a high level of local stakeholder engagement to ensure meaningful implementation
- 400,000 km^2 of new marine protected areas created in line with ambition of the Convention on Biodiversity

Challenges

Challenges were linked to the relatively small size of the operation and the associated high administrative burden and costs. However, in the context of a small country such as Seychelles, these sums had a considerable impact. The redirection of these funds into the conservation sector have positioned SeyCCAT as one of the most significant sources of finance for local civil society organisations engaged in the conservation space

Going forward

The success of the debt swap also created interest among impact investors for Seychelles to issue a blue bond in 2018, linked to a sustainable fisheries strategy for the Mahe plateau. The bond benefited from a partial guarantee from the World Bank and was also blended with concessional finance available through the Global Environment Facility (GEF). The three main investors were Nuveen, Prudential and Calvert Impact Capital.

While the administrative costs for the debt swap and the blue bond were relatively onerous, it is apparent that if there is a clear objective on both sides, and clarity on key indicators, the actual debt transaction can be concluded relatively rapidly.

Mainstreaming debt swap operations by linking them to budget support-type operations as already supported by the IMF and the World Bank and other development finance institutions would significantly simplify the establishment of such transactions.

Source: co-author Jean-Paul Adam, former Minister of Finance for Seychelles during this debt swap development

2.2.2 Performance bonds for countries in lower debt distress

For African countries that are not yet in debt distress and are seeking to improve their situation, such as the countries classified as at high or moderate risk in Section 1.1, climate and nature-linked bond instruments may support this objective and their broader national goals. These countries will probably already have access to the markets through issuance of USD and Eurobonds – see table below. There are currently 20 African sovereigns in the Eurobond market, with US$136 billion worth of Eurobonds being traded (up from US$100 billion in 2019 years ago).[60] Table 2 shows some Eurobond issuances across Africa since the start of the pandemic in 2020.

Countries in stronger debt sustainability positions could take advantage of voluntary refinancing, by raising new loans or performance bonds, using those to prepay existing debt, and then channelling the remaining funds towards climate and nature objectives. A climate-and-nature-linked performance bond is a type of bond where the terms of repayment improve if the debtor continues to provide support to the agreed climate and nature objectives in their country. This type of bond can also support general use funds rather than use of proceeds, which supports greater debtor country ownership and maximises fiscal space.

There is increasing appetite among private investors for sustainability-linked bonds that are aligned with the Paris Agreement, although Africa's participation in such issuances is currently marginal at only 0.4% up to 2018.[61] Benin was the first to issue an SDG-linked bond of €500 million and Ghana is likely to follow soon with up to US$2 billion.

Table 2: African Eurobond issuances from 2020 to 2021

COUNTRY	ISSUE DATE	AMOUNT (US$B)	PURPOSE	TENOR	COUPON	SUBSCRIPTION
Gabon	06/02/2020	1	Budget support	11-year 31-year	6.40%	3.5x
Ghana	11/02/2020	1.25 1 0.75	Budget support and refinance	7-year 15-year 41-year	6.3% 7.9% 8.7%	4x
Egypt	May-20	1.25 1.75 2	Budget support	4-year 12-year 30-year	5.75% 7.625% 8.875%	4x
Côte d'Ivoire	25/11/2020	1.19	Budget support	12-year	5%	5x
Morocco	19/09/2020	0.5 0.5	Budget support and covid recovery measures	5.5-year 10-year	1.375% 2%	2.5x
Benin	15/01/2021	0.855 0.365	Budget support & bond refinance	11-year 31-year	4.875% 6.875%	3x
Côte d'Ivoire	09/02/2021	0.727 0.303	Budget support	10-year 20-year	4.30% 5.75%	3.4x
Egypt	08/02/2021	0.75 1.5 1.5	Budget support	5-year 10-year 40-year	3.875% 5.875% 7.5%	4x
Ghana	30/03/2021	0.525 1 1 0.5	Budget support	4-year 7-year 12-year 20-year	0% 7.75% 8.625% 8.875%	2x
Senegal	02/06/2021	0.95	Budget support and refinance	16-year	5%	
Kenya	18/06/2021	1	Budget support	12-year	6.30%	5x
Cameroon	Jun-21	0.7	Budget support and refinance	11-year	5.95%	

Source: World Government Bonds, June 2020 and June 2021; and adapted from APRM reports in 2020[62] and 2021[55]

BOX 2 BENIN'S SDG-LINKED BONDS

On 15 July 2021, Benin issued its first Sustainable Development Goal Bond (SDG Bond) (see the framework here[63]). The bond was for €500 million over a 12.5-year tenor and a coupon rate of 4.95%.[64] A large share of the bond (around 91%) was allocated to investors with sustainable investment strategies (such as those incorporating environmental, social and governance (ESG) criteria in their investments). The bond can be categorised as an International Capital Market Association (ICMA) Sustainability Bond. The Framework is aligned with the Sustainability Bond Guidelines (2021 edition). The contribution to sustainability has been assessed as 'advanced' by Moody's VE.[65]

Natixis (2021)[64] highlights seven aspects of Benin's SDG Bond Framework:

1. Based on the prioritisation of the most pressing SDG targets and on an analysis of the total cost to achieve them:
   a. Benin, supported by the IMF, UNDP and the German Corporation for International Cooperation GmbH (GIZ), worked to cost their 49 SDG targets. They identified that for the period 2021–2025, the cost of accelerating measures for achieving the SDGs would require €18 billion. Around 40% of the amount would be covered by the national budget and the remainder would need to attract private capital and maximise multilateral funding. The level of detail and costing provided through this SDG Bond Framework enables a high level of transparency and clarity on needs, which is necessary to attract private finance.
2. Sophisticated process to evaluate and select expenditures based on their 'SDG sensitivity:'
   a. A process was developed to screen budget lines to ensure they contribute to narrowing SDG gaps and eligibility criteria:
      i. Falling into the classification of 'priority social spending' defined jointly with the IMF
      ii. An SDG coloration index (according to a sensitivity analysis of all ministries' individual annual work plans, based on criteria related to effectiveness, interrelationships, respect of the 'no one left behind' principle, geographical impacts).
3. The eligibility of different types of expenses with a string of conditions:
   a. Benin made the decision to limit eligibility of operating and personnel expenses to specific sectors (ie health and education) and costs to ensure prioritisation of these areas.
4. A total of 12 overarching eligible categories with rationale clarifying the context of intervention and reasoning behind the criteria and expense perimeter:
   a. The eligible expenditures are classified according to the four pillars of Benin's national development plans:
      i. Population (social)
         1. developing sustainable and productive agriculture
         2. access to drinking water and wastewater processing
         3. improving the health of all
         4. decent housing for the poor
         5. expanding education services and improving the capacity to enrol students
      ii. Prosperity (economy)
         6. access to low-carbon, reliable and affordable energy
         7. connectivity and digital inclusion throughout the territory
         8. supporting employment and financial inclusion of youth, women and rural entrepreneurs
      iii. Planet (environment)
         9. developing living environments and sustainable infrastructure for all
         10. conserving lake and coastal areas, reasonable economic exploitation of coastlines
         11. conserving biodiversity, restoration and reasonable exploitation of the forest cover, and fighting desertification
      iv. Peace (partnerships)
         12. promoting heritage sites, educational sites, and entertainment infrastructure
5. Granular target populations thoroughly defined and bespoke to Benin's context:
   a. The end beneficiaries for the 12 categories in point 4 are well-defined.
6. A comprehensive list of theme-based and sectoral exclusions with a particular focus on conservation of biodiversity:
   a. The framework encompasses stringent criteria to exclude any project that, for example, involves the deforestation of primary forests, modified natural forests or mangroves. Any fossil fuel-related or red meat sector activities are also excluded.
7. The first of this kind of partnership with the Sustainable Development Solutions Network (SDSN) creating a unique feedback loop and content to feed impact reporting:[66]
   a. The SDSN will conduct an evaluation of Benin's situation vis-à-vis the SDGs, the progress made, and the trends in filling SDG gaps. The input is intended to create a feedback loop to take stock of progress and adjust the selection of eligible expenses on an ongoing basis.

2.3 Key characteristics of a debt management instrument for climate and nature

Drawing on lessons from past initiatives, including the heavily indebted poor countries (HIPC) initiative[27] and earlier small-scale debt-for-nature swaps, two key characteristics of future debt instruments for climate and nature should be to ensure sufficient scale and effective country ownership.

2.3.1 Sufficient scale

Past debt-for-nature swaps have been small-scale and piecemeal[67] so the swaps had very limited impacts on fiscal space, relatively high transaction costs and limited climate and nature outcomes. To achieve the necessary scale, future debt instruments need to be:

- *Systemic*: undertaken at the systems level with links to several key climate and nature performance indicators. As explained above, it is important to link them to nationally owned KPIs that will drive systemic transformation.
- *Integrated*: into a supportive international debt architecture. Situating the instrument within the international architecture can help build its validity and provide an enabling environment for negotiation, which can lower transaction costs. For example, the G20's DSSI initiative involved an initial MoU between the G20 and debtor countries to ensure all countries start negotiations on common terms. This comparability clause also obligated debtor countries to approach private sector creditors on the same terms. Such a framework can improve equity in negotiations and reduce transaction costs by simplifying the initial part of the negotiation process. It can also facilitate technical assistance and capacity for debtor countries in developing the instrument and supporting the monitoring and verification structures required to monitor implementation. On the climate and nature side, the World Bank/IMF are developing a platform for debt, climate and nature. Discussed at the World Bank/IMF's Spring Meetings in April 2021, the platform aims to support debtor countries in funding climate and biodiversity activities, including support to debt restructure as well as to new debt issuances.[68] The World Bank and IMF plan to launch this platform at their Annual Meetings in October 2021.
- *Comprehensive*: engaging as many creditors as possible where the creditor landscape is increasingly complex (see section 1.1 and Griffith-Jones and Carreras, 2021[9]). An estimated 40% of debt across Africa is held by private creditors[69] while 20% is now Chinese-held public debt, in addition to more traditional Paris Club bilateral debt and multilateral debt. To achieve scale these creditors must be encouraged to participate. So far, these new investors have shown little inclination to do so but there are some promising incentives emerging:
  - Investors with ESG commitments, could be interested in instruments that better align their portfolios with positive climate and biodiversity impacts.
  - By improving long-term debt sustainability the debt instruments will reduce the risk of default on existing loans and improve prospects for future investment in the country.
  - A strong multi-creditor deal puts pressure on reluctant or 'back seat' creditors to engage in the instrument.
- *Programmatically funded*: shifting proceeds from projects to programmes through the use of budget support where funds are paid into a debtor government's own budget. Budget support is where funds are channelled directly through the debtor government's budget. This can allow for larger volumes of funds to be mobilised; increase debtor government ownership; and shift accountability to national citizens. Fiduciary standards are a key factor in using budgetary support. Public expenditure and financial assessments and accountability frameworks can support countries in identifying where their systems need to be strengthened.

2.3.2 Country ownership

This debt management approach requires the debtor country to initiate a process with its creditors, and therefore requires a proactive approach by the debtor. This includes determining where the debt is becoming unsustainable, or where fiscal space pressures are reducing spending on climate and nature priorities. The debtor country would then propose climate adaptation, mitigation or nature targets that it would commit to, aligned with national development priorities. The funds can be managed as performance-based payments based on agreed policy outcomes like the NDCs, national biodiversity strategies or other national plans and strategies as relevant for the country. Costed initiatives to deliver these targets that also incorporate inclusion factors, such as jobs created, women employed, would then be developed and the process for measuring outcomes would be set out based on existing data, systems and capacities.

Payments would then be made against the delivery of these targets, or KPIs. Managing funds through a performance-based payments system would provide transparency to the creditor on delivery of the inclusive climate and nature outcomes. It would also allow the debtor country to support nationally defined activities

and enable citizens to hold their governments to account for the commitments. This enhanced reporting and transparency requirement may require capacity building support for some of the poorest countries. This could entail using current domestic systems with current levels of transparency and reporting, and funds built into the transaction to strengthen the systems (such as improving methodologies or increasing the level of detail in reporting) over time, whilst remaining appropriate for national and local actors.[70]

2.4 Developing a KPI framework

The KPI framework should identify the national priority outcomes and policy commitments for climate and nature, alongside the inputs (costed activities) needed to achieve these, and how progress will be measured (means of verification). Annex 2 provides an example KPI framework.

2.4.1 Inclusive climate and nature outcomes

The inclusive climate and nature outcomes identified would capture the changes that the debt instrument will generate. The KPIs should be based on the following criteria:

- Climate or nature purpose
  - Climate adaptation and resilience
  - Climate mitigation (eg renewable energy)
  - Biodiversity and nature (land-based and marine)
- Economic growth enhancing
- Poverty reducing
- Gender responsive
- Nationally owned
- Including a strategy for measuring processes and outcomes based on existing data, systems and capacities.

For example, in the case of a coastal afforestation activity, climate and nature outcomes may include 'improved management of coastal forest areas contributing to reduced CO_2 emissions, X number of endangered species protected, and X number of jobs created'. Some instruments will deliver a range of outcomes. Other outcomes could include 'improved management of coastal forest areas contributing to flood management' and 'socio-economic wellbeing of communities in the vicinity of the afforestation area enhanced by climate-informed natural resource management.'

Outcome indicators could include:

- Thousands of **households made climate resilient**
- Hectares of **watersheds afforested** using low-skilled labour
- Hectares of **land restored** using low-skilled labour by poor women and men
- Square kilometres of **marine protected areas set up** for fish breeding and ecotourism
- Tons of climate **emissions mitigated** linked to energy access.

2.4.2 Outcomes and policy commitments prioritised and validated

KPIs should include existing policy commitments from key national strategies, plans and budgets. Sources for outcomes include:

- General policy commitments from **national vision and five-year plan and annual budget**
- Climate policy commitments from **nationally determined contributions** (NDCs), national adaptation plans, national communications to the UNFCCC, national climate strategies, energy and transport master plans and strategies
- Nature policy commitments from **national biodiversity strategies and action plans** (NBSAPs) and agriculture strategies
- Marine policy commitments from **fisheries strategies**

Prioritising and picking KPIs should be a consultative process with inclusive involvement of national stakeholders including government, civil society, the private sector, and parliamentarians and local government where appropriate. An initial framework should be developed and taken to national consultation workshops. These workshops should engage various government stakeholders (ministries of finance, environment, fisheries, agriculture, and others as relevant), civil society and the private sector to verify priority areas for investment, and agree details of the activities, processes and costs of the priority areas. The selected KPIs should show additionality and relevance for national stakeholders.

Within the process of debt management for climate and nature there is a tension between the urgency of dealing with the country's debt situation on one hand, and the need to ensure a consultative and inclusive climate and nature KPI development process, on the other.

2.4.3 Costed inputs

Once outcomes have been identified, the specific activities needed to achieve them must be identified. These should be specific and costed and should consider the inputs required including the costs of capital, operations and maintenance.

The potential budget for activities will be informed by the finance available from the debt transaction and any existing national initiatives. For example, if government is already undertaking coastal afforestation, but lacks funds for some components, the financing from the debt transaction could support these components, thus demonstrating additionality. Development of the KPIs therefore needs to be integrated with the development of the debt transaction instrument to ensure that the activities, scale, and modalities are relevant and achievable.

Examples of activities include: strengthen and update information management and monitoring systems to detect forest cover changes, and ecological responses of forests and other systems to impacts of climate change; promote rural alternative energy technologies such as biogas and household solar systems for communities living within protected areas; implement climate smart restoration of the degraded land within protected areas; and 'raise awareness and build capacity of local communities to mobilise them for sustainable and climate-resilient resource management practices and implement community-based climate adaptation plans as citizen scientists.

2.4.4 Means of verification: monitoring, verification and reporting

The framework should ensure that the inclusive climate and nature outcomes have defined means of verification that as far as possible are designed with an indicator, baseline and target, and components to enable direct proxy measurement. The framework should also specify the reporting frequency and the costs of the monitoring and verification (MRV). The costs of the MRV, including support to governments where required, would be funded through the debt instrument.

As discussed also in section 2.3.2, the means of verification should use existing systems as far as possible, to avoid placing additional burdens on national stakeholders. As part of the debt management agreement, this would then require independent verification. A combination of the following could be considered:

- **Domestic independent verification**, such as civil society and participatory citizen verification
- **International independent verification,** such as through the Green Climate Fund (GCF) for climate resilience and renewable energy, and to the Global Environment Facility (GEF) or the United Nations (UNDP and UNEP) for biodiversity
- **Global science networks** with technical expertise, such as members of the Consultative Group on International Agriculture Research (**CGIAR**), eg IWMI, ICRAF, WorldFish
- **Non-governmental or private verification**, for example, services provided by NGOs such as IUCN, WWF or other global organisations or companies such as the Marine Stewardship Council for oceans or SGS for national forestry control.

2.4.5 Integrating KPIs into a performance-based payment system

To integrate KPIs into the debt instrument, the cost of achieving them must be commensurate with the financing available. The time frames for delivery also need to be similar to those of the financing instrument. The debtor and creditor would negotiate and jointly agree the KPIs and who will pay for the monitoring, reporting and verification as part of the transaction process.

Actors and their roles in debt management for climate and nature in Africa

3

There are many actors with interests in climate and nature who have a potential role in debt management across the continent, ranging from local and national organisations to international organisations like the United Nations, World Bank and IMF and G20. Some of the key actors and their roles are outlined below,

3.1 Local level including municipal/local government authorities and civil society

Local-level actors have a central role to play in building local ownership of the process and outcomes. This includes:

- Developing climate and nature KPIs in partnership with, and for the empowerment of, local stakeholders
- Advocating for debt instruments by highlighting evidence of the benefits of inclusive climate and nature outcomes by showing impacts on the ground
- Engaging and leading on climate and nature activities to be undertaken as part of the KPI implementation process
- Participatory monitoring, reporting and verification at the local level to ensure citizens' accountability and transparency.

3.2 National level

Government ministries Linking debt instruments to inclusive climate and nature outcomes will require coordination among a range of government ministries and departments including finance and economic development, environment and climate, fisheries, agriculture, water, and potentially local government. Whilst debts are likely to be managed by the ministry of finance, the climate and environment component would be led by the environment ministry and sectoral ministries, such as agriculture. Structured coordination, such as a cross-ministerial task force, could help in developing the options.

National legislative bodies often approve national budgets and thus would play a role in ensuring accountability around how the proceeds of a debt management transaction are invested.

Other key national actions include:

- Agreeing KPIs and updating national climate and nature commitments, including NDCs and NBSAPs, as well as broader visions and strategies, such as long-term, climate-resilient low greenhouse gas emission strategies (LTSs). These commitments help the international community to channel support to local priorities and provide transparency for national stakeholders.
- Strengthening MRV structures
  - Climate and nature data
  - National and local MRV structures bolstered by independent verification
- Designing the debt instrument with support from legal and financial advisors
- Eliciting feedback from creditors and investors on the debt instrument.

3.3 Regional level

3.3.1 United Nations system

The UN system can play an important role in making the case for debt management approaches and supporting African countries to build their capacity and access international support.

In January 2021, the UN Secretary General called for donors and multilateral development banks to direct at least half of their climate finance commitments to adaptation; for easier access to finance for the most vulnerable; the expansion of debt relief; and support for regional initiatives for adaptation and resilience, including through debt swaps.[71]

The UN review of financing for development architecture has also identified debt swaps as one of the vehicles for addressing debt sustainability and raising additional liquidity.[72]

The United Nations Economic Commission for Africa (UNECA) has supported calls by African countries to extend the DSSI to create liquidity for African countries to deal with the challenges of COVID-19 but also to invest in a green recovery. The Council of Ministers of UNECA,[73] have also called for the new issuance of SDRs, and proposed a formula for on-lending through a liquidity and sustainability facility (LSF), which would crowd in the private sector and reduce the costs of private sector borrowing for African countries. UNECA has also encouraged African countries to make use of the G20 Common Framework for debt sustainability and provides guidance generally on debt matters.

UNECA is supporting capacity building for debt management instruments in four West African countries as part of a joint project with IIED funded by the MAVA Foundation. If other African countries express an interest in these instruments, UNECA may also be able to mobilise support. The UN's in-country specialist agencies such as UNDP, FAO and UNEP may also be able to support in identifying climate and nature KPIs and debt management.

UNECA is also analysing optimal investments to contribute towards a green recovery,[74] which may provide useful background for determining potential

investment opportunities for use of proceeds for debt management instruments. This analysis supports the implementation of the African Union's Green Stimulus Programme.[75]

3.3.2 African Union (AU)

The AU is an intergovernmental organisation aiming to promote unity and solidarity among African states, and promote economic development and international cooperation. AU-wide plans on developing the climate and nature agendas can help support the case for additional resources through debt management instruments. Two key frameworks are the:

- **African Union (AU) Green Recovery Action Plan (2021-2027),**[76] launched in July 2021, which will strengthen collaboration for the continent's sustainable recovery from Covid-19 and support the realisation of a shared vision for a prosperous, secure, inclusive and innovative future for Africa
- **African Union's Agenda 2063,** the continent's strategic framework that aims to deliver on its goal for inclusive and sustainable development and is a concrete manifestation of the pan-African drive for unity, self-determination, freedom, progress and collective prosperity. It prioritises inclusive social and economic development, continental and regional integration, democratic governance and peace and security.

3.3.3 African Development Bank (AfDB)

Regional development banks such as the African Development Bank can support the implementation of debt management instruments for climate and nature by supporting capacity building and providing finance to complement that raised from debt management transactions. The AfDB announced at the beginning of 2021 that it would double its financing for climate adaptation to US$25 billion between 2021 and 2024 under its Africa Accelerated Adaptation Programme (AAAP).[77] It also pledged that half of all its climate finance would be channelled towards adaptation.

These concessional resources available for African countries could contribute towards wider resilience goals, for example investing in nature-based solutions complementing potential debt management transactions. In the context of new issuances, the AfDB could also play a role to facilitate partial guarantees where they may be needed. Aligning KPIs to existing sustainability indicators used by African ministries of finance in their operations with AfDB could also be a way to further streamline debt management processes.

3.4 International level

3.4.1 International Monetary Fund and World Bank

The IMF and the World Bank are key international actors that support macroeconomic stability and economic development. These institutions are supporting the COVID-19 response through the DSSI initiative, their various emergency response mechanisms such as the IMF's Catastrophe Containment and Relief Trust, and monetary policy such as the issuing of special drawing rights (SDRs). As discussed in section 2.2.1, the IMF and World Bank are also developing a platform which will link climate and nature needs to finance and investment.

Both organisations have stepped up their climate commitments. In January 2021, the IMF's managing director, Kristalina Georgieva, affirmed:

> *"[Climate change] is a fundamental risk to economic and financial stability. It is also an opportunity to reinvigorate growth and create new green jobs… [for the IMF] this means actions in* ***four key areas:***
>
> 1. *Integrating climate* ***in our annual country economic assessments – our Article IV consultations.*** *In highly vulnerable countries we focus on adaptation; and we are building up* ***mitigation analysis,*** *including carbon pricing, in our assessments of large emitters.*
> 2. ***Including climate related financial stability risks in financial sector surveillance*** *– through standardized disclosure of these risks, enhanced stress tests and assessments of supervisory frameworks.*
> 3. ***Scaling up climate in capacity development*** *to help equip finance ministries and central banks with the skills needed to take climate considerations into account.*
> 4. ***Mainstreaming climate indicators in macroeconomic data****. We will launch a Climate Change Dashboard this year–with indicators to track the economic impact of climate risks and the measures taken to mitigate them."*[78]

The **World Bank Group** is the largest multilateral funder of climate investments in African countries. In fiscal year 2020, the World Bank Group institutions provided a total of US$77.1 billion in support to developing countries, of which more than US$25.4 billion went to African countries, including US$1.7 billion in International Bank for Reconstruction and Development (IBRD) commitments and US$19.1 billion in IDA commitments.[79] Between 2016

and 2020 World Bank Group institutions provided more than US$83 billion in climate finance to developing countries.[80] Between 2015 and December 2019, more than US$30 billion of World Bank finance was delivered to support 312 projects under the Africa Climate Business Plan (ACBP), which seeks to fulfil the group's commitment to mainstream climate within development.[81] In December 2020, the World Bank Group updated its target from 28% to 35% of its financing to have climate co-benefits, on average, over the next five years. Through IBRD and IDA, the group is aiming for 50% of this financing to support adaptation and resilience.

3.4.2 UNFCCC Paris Agreement

According to AdaptCost/EastAfrica, based on the FUND national model,[82] most African countries are projected to lose at least 2–5% of GDP to climate change by 2030. Under the UNFCCC Paris Agreement, developed country Parties have committed to providing finance to assist developing countries address both mitigation and adaptation in their obligations under the Convention.

The current goal is for developed countries to provide US$100 billion per year to developing countries between 2020 and 2025. Currently the definition of climate finance and the instruments used is fairly ambiguous. Developing countries have called for this sum to be based predominately on grant-based financing to appropriately and adequately support the goal.

Where debt management for climate and nature supports climate adaptation and mitigation targets, accounting for only the portion supporting these activities to avoid double counting, this could count towards the creditor countries' climate finance target – particularly in the case of transactions that include grant-based components. There is precedence for debt management being included as climate finance. For example, the US supported debt-for-nature swaps under its Tropical Forest Conservation Act, which contributed US$32 million towards their fast-start finance commitments between 2010 and 2012.[83,84]

Given that the US$100 billion per year climate finance goal has not been met, even by developed countries' accounting standards,[85] and given the economic pressures of COVID-19, climate and nature performance instruments could help leverage additional finance, which should be over and above donor countries' climate commitments.

3.4.3 Convention on Biological Diversity

China is the largest bilateral holder of African country debt and is also a significant private sector creditor through its development banks. Globally, Chinese government-sponsored banks have emerged as the largest 'private sector' creditors.[86] For the current 46 participating DSSI countries , payments due to China accounted for 68% (US$8.4 billion) of all official bilateral payments originally due by the end of 2020.[87] Simmons, et al. (2021)[88] suggest that China has built a strong record of bilateral debt relief and has begun to advocate for linking climate, biodiversity and finance.

China's role as host of the upcoming Convention on Biological Diversity (CBD) COP 15 provides an opportunity for it to engage further in debt management initiatives that would support its ambition as CBD host.

3.4.4 G20

The G20 finance ministers were quick to agree the DSSI in 2020. However, this only supports immediate relief on interest payments and more systematic initiatives will be needed to support post-COVID-19 recovery. The G20 can also play a role in relation to their private sector creditors. In March 2021, World Bank Group President David Malpass discussed the role of G20 countries in relation to private creditors:

> *"[S]o far, the relief [under DSSI] has been less than anticipated because not all creditors participated. Large non-Paris Club bilateral creditors have only partially participated in the DSSI and, most troubling of all, bondholders and other private creditors have continued to collect full repayments throughout the crisis.*
>
> *The recent DSSI experience shows that commercial creditors won't comply with calls for "voluntary participation" in debt relief initiatives. As the implementation of the Common Framework commences, G20 countries need to instruct and create incentives for all their public bilateral creditors to participate in debt relief efforts, including national policy banks. They also need to forcefully encourage the private creditors under their jurisdiction to participate fully in sovereign debt relief efforts for low-income countries.*
>
> *There are specific measures that should be considered by G7 countries to encourage more participation. To give just one example, sovereign immunity laws might be amended to include immunity from attachment by commercial creditors who refuse to participate in a Common Framework treatment in which their Government is participating."*[89]

3.4.5 Global climate and environment funds

Global climate and environment funds are a key channel of funds for climate and biodiversity and could support debt management initiatives through technical assistance and programme financing.

The Green Climate Fund (GCF), the largest multilateral climate fund linked to the UNFCCC, is responding to the financial implications of the pandemic in three major ways:

- Providing greater adaptive management and flexibility to country programming to support changes to activities and for greater liquidity and revising of project finance disbursement timetables.
- 'Rapid readiness', through which countries can receive up to US$300,000 to support green recovery and stimulus measures. Country partners can use this financing to develop measures that use non-debt financing, such as grants, equity and guarantees in response to the debt issues.
- Approving more projects, particularly initiatives that will help create jobs and have high social and environmental benefits.

As part of project delivery, countries are able to build in technical assistance and capacity building components that can help fund the development of a debt management-for-climate-and-nature instrument in country.

The Global Environment Fund (GEF) is the financial mechanism for the CBD and is similarly positioned to provide continued support for countries' environmental projects in the face of COVID-19 economic challenges, and in developing suitable instruments and tools, such as a climate and nature-linked debt management instrument.

Looking forward

4

Looking forward

African interest in debt instruments for climate and nature is growing. In September 2020, Namibia's president Hage Geingob called for debt-for-climate swaps as a key mechanism at the High-Level Event on Financing for Development in the Era of COVID-19 and Beyond.[2] The prime minister of Cabo Verde called for debt relief for sustainable development in his speech to the UN General Assembly in September 2020, and the president of Gabon also called for financial innovations to be mainstreamed in addressing climate finance, including through debt swaps, at the Leaders Dialogue on Adaptation in April 2021. Benin has this year issued Africa's first SDG-linked performance bond for €500 million and Ghana is preparing a US$2 billion social and environmental performance bond.

UNECA, the African Union and a group of African finance ministers are designing a special-purpose vehicle for a debt swap to support economies across the continent. The proposal is being driven by UNECA executive secretary Vera Songwe and AU special envoys for the pandemic response Ngozi Okonjo-Iweala (a former Nigeria finance minister) and Tidjane Thiam (a former CEO of Credit Suisse Group). They are working closely with Ghana's Finance Minister Ken Ofori-Atta and South Africa's Tito Mboweni, both of whose countries face escalating debt service obligations over the next five years.[90] This initiative could be linked with climate and nature outcomes.

Three African states – Chad, Ethiopia, and Zambia – have requested restructuring of their debts under the Common Framework that was agreed last year by the G20 and this could include a link with climate and nature.

Work is ongoing by UNECA, IIED and other partners funded by the MAVA Foundation in West Africa to develop climate and nature debt instruments as part of a green and inclusive economic recovery. This pilot will help other African governments understand how innovative financing mechanisms and instruments could respond to the climate, nature, debt and COVID-19 crises.

Inclusive climate and nature-linked debt management approaches could enable African governments to:

- Increase fiscal space and reduce debt distress
- Increase pro-poor growth through inclusive climate and nature investments, which will improve debt sustainability
- Increase existing investor interest and provide access to new sustainable finance markets

This can be supported at the international level by:

- The IMF/World Bank/OECD and UN platform providing the necessary international architecture to support the debt instruments linked to climate and nature in African countries
- The G20 supporting African countries beyond the DSSI to include a link with climate and nature outcomes and to identify ways to bring China and private creditors into the process
- International organisations, non-governmental organisations and private sector advisors offering financial and technical assistance to African stakeholders to develop debt instruments for climate and nature.

Annex 1

African countries ranked according to their debt distress, climate vulnerability, biodiversity richness and credit worthiness

As with any tool or mechanism, it is important that it is applied where appropriate and relevant. Analysis by Steele and Patel (2020)[6] sets out four relevant indicators that provide a preliminary perspective on which countries may benefit from the mechanism, ranked according to debt distress, climate vulnerability, biodiversity richness and credit worthiness.

The following table is adapted from that analysis, showing only African countries:

Country	LDC/SIDS/FCAS?*	World Risk Index (Climate; higher value = greater risk) (2019)	GEF benefits index for biodiversity (0 = no biodiversity potential) (2008)	External debt stocks (% of GNI) 2018	WB IDA resource allocation index (1=low to 6=high)	Ranking based on the 4 indices (1 is highest)
Cabo Verde	SIDS – AIMS	18.0	94.1	89.3	3.8	1
Kenya		10.3	343.8	36.1	3.7	2
Madagascar	LDC	10.5	1139.4	31.8	3.3	3
Mozambique	LDC	9.5	280.1	107.6	3.2	3
Senegal	LDC	9.8	39.9	52.4	3.7	3
Uganda	LDC	8.7	108.0	46.3	3.7	3
Angola	LDC	10.6	322.2	54.0	2.7	4
Cameroon	FCAS - Medium-Intensity Conflict	12.9	487.8	28.7	3.3	4
Côte d'Ivoire		10.0	134.0	37.9	3.5	4
Djibouti	LDC	16.5	18.8	157.6	3.1	4
Ethiopia	LDC	7.8	326.7	33.4	3.5	4
Ghana		9.4	72.5	36.3	3.5	4
Mali	LDC; FCAS - Medium-Intensity Conflict	10.7	58.7	29.5	3.4	4
Mauritania	LDC	7.7	52.0	97.8	3.4	4
Rwanda	LDC	7.5	33.2	58.0	4.0	4
Tanzania	LDC	9.2	575.8	33.1	3.5	4
Zambia	LDC	7.8	146.7	73.7	3.3	4
Burkina Faso	LDC; FCAS - Medium-Intensity Conflict	11.1	10.5	23.4	3.6	5

Country	LDC/SIDS/FCAS?*	World Risk Index (Climate; higher value = greater risk) (2019)	GEF benefits index for biodiversity (0 = no biodiversity potential) (2008)	External debt stocks (% of GNI) 2018	WB IDA resource allocation index (1=low to 6=high)	Ranking based on the 4 indices (1 is highest)
Niger	LDC; FCAS - Medium-Intensity Conflict	13.8	36.0	36.1	3.4	5
Nigeria	FCAS - Medium-Intensity Conflict	13.1	234.2	12.4	3.1	5
Sierra Leone	LDC	9.6	50.4	45.1	3.2	5
Sudan	LDC; FCAS - Medium-Intensity Conflict	8.5	200.4	56.9	2.3	5
Benin	LDC	12.3	8.9	35.9	3.5	6
Chad	LDC; FCAS - High Institutional and Social Fragility	11.9	84.7	29.3	2.7	6
Congo, Dem. Rep	LDC; FCAS - Medium-Intensity Conflict	8.8	777.9	10.9	2.9	6
Congo, Rep.	FCAS - High Institutional and Social Fragility	7.1	141.2	51.1	2.7	6
Gambia, The	LDC; FCAS - High Institutional and Social Fragility	12.1	3.9	42.7	3.0	6
Liberia	LDC; FCAS - High Institutional and Social Fragility	9.5	99.7	44.7	2.9	6
Malawi	LDC	8.9	137.9	32.2	3.2	6
Mauritius	SIDS – AIMS	9.5	127.9	71.8	N/A	6
Togo	LDC	11.0	12.2	33.3	3.2	6
Central African Republic	LDC; FCAS - High Institutional and Social Fragility	7.8	59.2	32.7	2.6	7
Comoros	LDC; SIDS - AIMS; FCAS - High Institutional and Social Fragility	14.6	89.7	16.5	2.8	7
Gabon		6.7	118.5	43.0	N/A	7
Guinea	LDC	8.7	88.0	24.6	3.2	7
Lesotho	LDC	6.9	12.2	29.2	3.3	7
São Tomé and Principe	LDC; SIDS – AIMS	2.5	103.5	58.8	3.1	7
South Africa		6.4	808.9	50.6	N/A	7
Zimbabwe	FCAS - High Institutional and Social Fragility	9.2	75.3	39.8	2.8	7

Country	LDC/SIDS/FCAS?*	World Risk Index (Climate; higher value = greater risk) (2019)	GEF benefits index for biodiversity (0 = no biodiversity potential) (2008)	External debt stocks (% of GNI) 2018	WB IDA resource allocation index (1=low to 6=high)	Ranking based on the 4 indices (1 is highest)
Burundi	LDC; FCAS - Medium-Intensity Conflict	10.3	12.7	19.2	2.9	8
Guinea-Bissau	LDC; SIDS - AIMS; FCAS - High Institutional and Social Fragility	13.3	22.1	28.9	2.5	8
Tunisia		5.7	19.4	90.0	N/A	8
Algeria		7.7	111.3	3.2	N/A	9
Morocco		5.8	135.6	42.2	N/A	9
Somalia	LDC; FCAS - High Institutional and Social Fragility	No data	237.0	39.4	1.8	9
Botswana		4.3	54.8	9.7	N/A	10
Egypt, Arab Rep.		1.8	113.5	40.4	N/A	10
Equatorial Guinea		7.5	58.7	No data	N/A	10
Eritrea	LDC; FCAS - High Institutional and Social Fragility	7.0	32.7	No data	2.0	10
Namibia		5.8	201.0	No data	N/A	10
Eswatini		6.5	5.0	10.9	N/A	11
Seychelles	SIDS – AIMS	5.2	137.3	No data	N/A	11
Libya	FCAS - High Institutional and Social Fragility	3.3	62.0	No data	N/A	12
South Sudan	LDC; FCAS - High Institutional and Social Fragility	No data	0	No data	1.5	14

*LDC: least developed country; SIDS: small island developing states; AIMS: Atlantic, Indian Ocean, Mediterranean and South China Sea; FCAS: fragile and conflict-affected situations

Annex 2

Example of a KPI Framework

EXPECTED RESULT	INDICATOR	BASELINE	TARGET	MEANS OF VERIFICATION	ASSUMPTIONS
E.g., Coastal afforestation					
Inclusive climate and nature outcomes and processes (the desired changes in biodiversity and climate parameters) e.g. improved management of coastal forest areas contributing to emissions reductions	Tons of carbon dioxide equivalent (TCO_2eq) sequestered	206.2 M tons of CO_2eq (2010 estimate)	Mid-term target: additional 12.5 million tons of CO_2eq Final target: additional 35.1 million tons of CO_2eq	Standard tier 1 and 2 REDD+ monitoring and verification	When country-wise REDD+ MRV is in place, this project will adopt it
	X square hectares of protected areas	20% forest cover	30% forest cover		
Policies commitments (political commitments) e.g. area of improved management coastal forest areas contributing to emissions reductions	Hectares of land or forests under sustainable management or improved protection and management	X hectares of land under protection	Mid-term target: additional X hectares of land under protection Final target: additional X hectares of land under protection	Protected areas management effectiveness tracking tool assessment reports	
	ACTIVITY	**DESCRIPTION**	**INPUTS**	**DESCRIPTION**	**ACTIVITY COST**
Inputs (costed activities) e.g., cost of protected areas	Strengthen and update information management and monitoring systems to detect forest cover changes, and ecological responses of forests and other systems to impacts of climate change	Update and improve monitoring systems and information management on forest cover and ecological changes as responses to climate change to enhance early management measures to prevent forest loss and degradation	Every five years (from Year 1 onwards), conduct biodiversity inventory surveys, and every ten years (next in Year 7), conduct the National Forestry Inventory in protected areas and biological corridors	Operating budget to implement National Forestry Monitoring of 1200 monitoring plots and improve monitoring systems and reporting	Estimated cost of the operating budget US$X

This table is adapted from the GCF Bhutan for Life funding proposal.[91]

Annex 3

Credit ratings across the 54 African States, as of September 2021

INCOME CLASSIFICATION	COUNTRY	MOODY'S	S&P	FITCH
Low Income	Burkina Faso		B	
	Burundi			
	Central African Republic			
	Chad			
	Congo, Dem. Rep		CCC+ (stable)	
	Eritrea			
	Ethiopia	Caa1 (UR)	B- (Neg Watch)	CCC (n/a)
	Gambia, The			
	Guinea			
	Guinea-Bissau			
	Liberia			
	Madagascar			
	Malawi			
	Mali	Caa1 (Stable)		
	Mozambique			
	Niger	B3 (Neg)		
	Rwanda	B+ (Neg)	B2 (Neg)	B+ (Neg)
	Sierra Leone			
	Somalia			
	South Sudan			
	Sudan			
	Togo	B3	B	
	Uganda	B2	B	B+ (Neg)

INCOME CLASSIFICATION	COUNTRY	MOODY'S	S&P	FITCH
Lower-Middle Income	Algeria			
	Angola	B3	CCC+	CCC
	Benin	B1 (Stable)	B+	B (Pos)
	Cabo Verde		B- (Stable)	B-
	Cameroon	B2	B-	B
	Comoros			
	Congo, Rep.		CCC+ (Stable)	
	Côte d'Ivoire	Ba3	BB-	BB-
	Djibouti			
	Egypt, Arab Rep.	B2	B	B+
	Eswatini	B3 (Stable)		
	Ghana	B3 (Neg)	B- (Stable)	B (Neg)
	Kenya	B2 (Neg)	B (Stable)	B+ (Neg)
	Lesotho			B (Neg)
	Mauritania			
	Morocco	Ba1 (Neg)	BB+ (Stable)	BB+
	Nigeria	B2 (Neg)	B-	B
	São Tomé and Principe			
	Senegal	Ba3 (Neg)	B+	
	Tanzania	B2		
	Tunisia	B3 (Neg)		B- (Neg)
	Zambia	SD	B (Neg)	RD
	Zimbabwe			
Upper-Middle Income	Botswana	A3 (Neg)	BBB+ (Neg)	
	Equatorial Guinea			
	Gabon	Caa1		B-
	Libya			
	Namibia		Ba3 (Neg)	BB (Neg)
	South Africa	Ba2 (Neg)	BB-	BB- (Neg)
High Income	Mauritius	Baa2 (Neg)		
	Seychelles			B

Source: Adaptated from APRM reports in 2020[62] and 2021[55] and Trading Economics.[92]

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- Structural policies (trade, financial sector, business regulatory environment)
- Policies for social inclusion and equity (gender equality, equity of public resource use, building human resources, social protection and labour, policies and institutions for environmental sustainability)
- Public sector management and institutions (property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilisation, quality of public administration, transparency, accountability and corruption in the public sector).

The resulting IDA Resource Allocation Index (IRAI) is based on the results of the annual CPIA exercise. It is generated by calculating an unweighted average score for each of the four clusters and then averaging those scores to produce a rating for each country on a scale of 1 (low) to 6 (high) – see figure 8. This then guides IDA resource allocation. IDA resources are allocated to a country on per capita terms based on its IDA country performance rating, portfolio performance and to a limited extent, on its per capita GNI. This is to ensure that good performers receive a higher per capita IDA allocation.

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Abbreviations and acronyms

AAAP	Africa Accelerated Adaptation Programme
AfDB	African Development Bank
AIMS	Atlantic, Indian Ocean, Mediterranean and South China Sea
AMCEN	African Ministerial Conference on the Environment
AU	African Union
CBD	Convention on Biological Diversity
CCRT	Containment and Relief Trust (CCRT)
CGIAR	Consultative Group on International Agricultural Research
CoP	Conference of the Parties
DSA	Debt Sustainability Analysis (World Bank Group & IMF)
DSSI	Debt Service Suspension Initiative (G20)
ESG	environment, social and governance
FAO	Food and Agriculture Organization of the United Nations
FCAS	fragile or conflict-affected states
GCF	Green Climate Fund
GDP	gross domestic product
GEF	Global Environment Facility
GIZ	Corporation for International Cooperation GmbH (Germany)
GNI	gross national income
HIPC	heavily indebted poor countries
IBRD	International Bank for Reconstruction and Development
ICMA	Capital Market Association
IDA	International Development Association (World Bank)
IIED	International Institute for Environment et le Development
IMF	International Monetary Fund
IPBES	Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services
IPoA	Istanbul Programme of Action
IRAI	IDA Resource Allocation Index (World Bank)
IUCN	International Union for Conservation of Nature
KPI	key performance indicator
LDC	least developed country
LIC	low-income country
LMIC	lower-middle-income country
MDB	multilateral development bank
MIC	middle-income country
MRV	monitoring, reporting, verification
NAP	national adaptation plan
NBSAPS	national biodiversity strategies and action plans
NDCs	nationally determined contributions
NGO	non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
PRGT	Poverty Reduction and Growth Trust
RST	Resilience and Sustainability Fund (IMF)
S&P	Standard and Poor's
SDSN	Sustainable Development Solutions Network (UN)
SDGs	Sustainable Development Goals
SDR	Special drawing rights
SeyCCAT	Seychelles Conservation and Climate Adaptation Trust
SIDS	small island developing state
TNC	The Nature Conservancy
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank
WDI	World Development Indicators (World Bank)

Africa is severely impacted by the triple crisis of debt, climate change and nature loss. The continent's debt now stands at more than 70% of GDP. There is potential to address these crises through 'general purpose' debt financing linked to climate and nature key performance indicators (KPIs). For severely indebted African countries this could be through debt-for-climate-and-nature conversion or swaps. For less debt distressed countries with good market access, the best instrument would be general-purpose performance bonds for climate and nature. There is growing demand for these instruments among African governments, but for this approach to succeed key African creditors including China and the private sector would need to engage, with support from the G20, UN, IMF, World Bank and African Development Bank.

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International Institute for Environment and Development
235 High Holborn, Holborn, London WC1V 7DN, UK
Tel: +44 (0)20 3463 7399
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