



Joint Ministerial Forum on Debt Sustainability



The World Bank, 1818H Street NW, Washington, DC 20433, USA
23 April 2009

DEBT RELIEF TO COMBAT CLIMATE CHANGE

**Paper prepared by
Development Finance International (DFI)***

Commonwealth Secretariat
Marlborough House
London SW1Y 5HX

April 2009

*This paper has been prepared by Development Finance International (DFI) for Government of Guyana as Chair of Commonwealth Ministerial Debt Sustainability Forum (CMDSF), funded by DfID.

DEBT RELIEF TO COMBAT CLIMATE CHANGE

Table of Contents

EXECUTIVE SUMMARY	1
I. INTRODUCTION	4
II. INTRODUCTION TO DEBT RELIEF AND CONVERSION.....	5
III. OPTIONS FOR DEBT RELIEF TO COMBAT CLIMATE CHANGE	6
IV. ELIGIBLE DEBT FOR RELIEF TO COMBAT CLIMATE CHANGE.....	9
V. NEED FOR DEBT RELIEF TO COMBAT CLIMATE CHANGE	12
VI. FEASIBILITY OF DEBT RELIEF TO COMBAT CLIMATE CHANGE	14
 TABLES	
TABLE 1: DEBT-FOR-NATURE SWAPS, 1987-1997	17
TABLE 2A: EXTERNAL DEBT STRUCTURE.....	19
TABLE 2B: EXTERNAL DEBT STRUCTURE	21
TABLE 3: PARIS CLUB DEBT	23
TABLE 4: HIPC RELIEF BY NON PARIS CLUB BILATERAL CREDITORS	25
TABLE 5: DEBT DISTRESS RISK AND CLIMATE CHANGE VULNERABILITY	27
 Annex A	 29

EXECUTIVE SUMMARY

The need for developing countries to address issues of adapting to and mitigating climate change is both urgent and evident, as the impact of climate change grows daily. Yet they have competing immediate development and poverty reduction expenditure demands, and have recently been faced with food, fuel and financial crises. To ensure adequate priority to funding the combat against climate change, they need additional financing from all possible sources.

In that context, the objective of this study is to assess the feasibility of an initiative aiming to mobilize additional financing for climate adaptation for countries participating in the Commonwealth-OIF Debt Sustainability Forum meeting, through debt relief and conversion. This requires: i) analyzing the history of debt relief and its use to fund environmental programmes; ii) identifying the debt potentially eligible for relief; iii) assessing the need for funding to combat climate change, and for relief to keep debts sustainable; and iv) analyzing potential creditor, donor and debtor interest in debt relief for climate change adaptation.

Debt Relief and Environmental Programmes

Debt relief is a tried and tested mechanism for delivering rapid, predictable and often additional development financing, and for spending ODA budgets to support priorities in national development strategies, notably through the HIPC and MDRI initiatives, but also through debt conversion programs. Debt conversion programs and (to a lesser extent) HIPC and MDRI funds have often supported environmental goals, and further relief could play a strong role in support of national strategies to combat climate change.

Options for Debt Relief to Combat Climate Change

Past experience with debt relief for environmental purposes has mainly involved swaps for nature or conservation, because little HIPC or MDRI relief has been spent on the environment. However, countries could reduce their debt burdens while increasing investment to adapt to climate change, to the benefit of their people and the global community, in the following ways:

- **Commercial Debt:** this could be purchased at a discount in the secondary market, or donated, and cancelled or converted into local currency to combat climate change.
- **Bilateral Debt:** Different mechanisms could be used for debt relief, including cancellation or conversion, for ODA and non-ODA, Paris and non-Paris club debt.
- **Multilateral Debt:** the mechanism would be a HIPC or MDRI-style cancellation funded by grants, with the liberated funds invested to combat climate change.

Eligible Debt for Debt Swaps to Combat Climate Change

Fifty-eight HIPCs, IDA-only LICs and LMICs have been analysed to determine the potential amounts and types of eligible debt that could be used to finance debtor countries' efforts to combat climate change. Commercial debt relief would be largely confined to LMICs and LICs (USD 14 billion), unless climate change conversion options are included in IDA reduction mechanisms. Paris Club bilateral debt relief would apply largely to non-HIPC LICs and LMICs (USD 40 billion, of which USD 30 billion might be convertible). Multilateral relief would apply to HIPCs, LICs and LMICs, and could reach USD 90 billion if MDRI cutoff dates were moved, more institutions participated, and multilateral relief were widened to other LICs and LMICs.

Two key principles would be needed to make relief worthwhile in terms of amounts:

- Relief would need to be provided to a group of debtor countries going beyond HIPC's
- For HIPC's, relief would need to be applied to creditors which have not (or not yet) participated in HIPC relief, or have excluded certain debts from HIPC or MDRI.

Funding Needs for Climate Change and Debt Sustainability

There are estimated global financing gaps of USD 120-200 billion for climate change adaptation and mitigation. All 58 countries examined in this study will be affected by deforestation, desertification or sea level rise, with major negative impacts on growth and poverty reduction prospects, and 49 are in the 100 most vulnerable to climate change.

In addition, 30 of the 58 countries reviewed have unsustainable debts or moderate or higher risk of debt distress, and the IMF suggests that the international financial crisis will worsen the risk for 13 countries. Although debt relief has brought down many countries' debt burden sharply, debt sustainability for many remains highly vulnerable (including to climate change). In a context where the international community is planning to provide loans to some countries to combat climate change, and is unlikely to meet its 2005 promises to increase concessional funding, debt relief for climate change might be a useful option for both reducing debt risk levels, and combating climate change.

Feasibility of Debt Relief to Combat Climate Change

- 1) **Technical Feasibility.** The technical feasibility of debt relief to combat climate change is clear. Mechanisms exist for relieving commercial, bilateral and multilateral debts; for ensuring that relief is predictable, long-term and additional; and for ensuring that the proceeds can be reliably spent on combating climate change. The key challenges are therefore political.
- 2) **Prospects for Creditor/Donor Participation.** OECD creditor countries have provided vast funds in recent years for debt relief, including cancelling or converting debts owed to them; buying back or converting commercial debts or debts owed to non-Paris Club bilateral creditors; and funding reduction of multilateral debt. Many members of the Paris Club have also converted their claims for various purposes but, in the past five years, only 6 have swapped debts. They acknowledge that, provided debt relief can be well spent by debtor governments, it is a good means of providing reliable, predictable long term aid, spending development ministries' budget allocations and reaching ODA/GNI targets. Initial consultations with creditors indicate that they fall into 3 groups of roughly equal sizes : those which would be interested in funding further debt relief (including to combat climate change) for a wider group of countries and on some debts currently excluded from HIPC/MDRI, but do not have bilateral debts owed to them which could be cancelled; those which would be interested in cancelling or converting their own bilateral debt; and those which currently appear to have "debt relief fatigue".
- 3) **Prospects for Debtor Participation.** Debtors have three key concerns: that relief must provide additional funding for development; that it must not damage their access to market-based funding; and that it must not have additional conditionality. Mechanisms such as the UK MDRI have managed to resolve all these problems, so it is recommended that any debt relief mechanism be based as much as possible on this.

Next Steps

Should Ministers wish to further explore prospects of debt relief for climate change, they could undertake to take the following 3 steps:

- *Mandate the co-Chairs of the meeting to conduct further discussions with donors and creditors which might fund debt relief, civil society organisations which support debt relief efforts and the combat against climate change, and with donor countries and international organisations which are strong funders and policy supporters of the fight against climate change;*
- *Request the Commonwealth Secretariat and/or OIF to commission further analysis to identify more precisely eligible debt, debtor countries and secondary market prices, thereby identifying more clearly the scale of debt relief and its cost;*
- *Request the finalisation of a proposal for debt relief for climate change, to be presented to the G8 meeting as well as to the Copenhagen climate change summit.*

DEBT RELIEF TO COMBAT CLIMATE CHANGE

I. INTRODUCTION

As Chair of the Commonwealth Ministerial Debt Sustainability Forum (CMDSF), the Government of Guyana has commissioned several studies to provide analytical support on key issues to be discussed at the CMDSF. This issue was considered to be appropriate for discussion at the joint Commonwealth-Organisation Internationale de la Francophonie (OIF) Ministerial Debt Sustainability Forum meeting in April 2009, given that member countries of both organisations are faced with the problem of climate change. These are funded by the Department of International Development of the United Kingdom, and include this feasibility study of Debt Relief to Combat Climate Change.

To assess feasibility, the study analyzes the external debt structure and burden of 58 countries that might be vulnerable to both climate change and unsustainable debt levels, and be potential beneficiaries of such an initiative. These countries are drawn from those classified by the World Bank as Highly Indebted Poor Countries (HIPC), other low-income countries (LICs) that are IDA only, and low middle income countries (LMICs).

The study starts from the principle that debt relief has become a tried and tested mechanism for delivering rapid and predictable development financing, and for spending ODA budgets in support of priorities determined by national development strategies, notably through the HIPC and MDRI initiatives, but also through conversion programs. It could play the same role in support of national strategies to combat climate change.

The paper also starts from the premise that the case for mobilising financing to combat climate change has been made very convincingly elsewhere. The need for developing countries to address issues of adapting to and mitigating climate change is both urgent and evident, as the impact of climate change grows daily. Adapting to and mitigating climate change are not merely environmental issues: climate changes impacts on the economic viability of national populations. Nor are they only national issues: their impact stretches beyond borders as a global public good.

Yet developing countries have competing immediate poverty reduction demands, and are constantly faced with exogenous shocks (such as the recent food, fuel and financial crises). Given the immediate needs of their people, the combat against climate change is often not the first priority for governments. It presents a formidable resource allocation challenge, which cannot be accommodated within limited national budget resources without compromising immediate needs. To ensure adequate priority to funding the combat against climate change, developing countries need additional financing from all possible sources. In that context, any debt relief must free up additional fiscal resources for expenditure against climate change: it must not involve cancelling debts which are not currently being paid, or any offsetting reduction of new concessional flows (as some debt relief provided in recent years has done). Instead it must build on the most positive recent types of debt relief, such as UK MDRI, which represented 100% additionality to debtors.

The paper is structured as follows: the second section provides a brief overview of debt relief and conversion mechanisms while the third describes the recent history of relief and conversion and, on this basis, suggests options for relief to combat climate change. The

fourth attempts to determine the types and amount of debt that might be eligible for debt relief. The fifth section analyzes debtor country needs for finance to combat climate change, and for debt relief to keep debts sustainable. The sixth summarizes the feasibility of debt relief to combat climate change, and suggests next steps.

II INTRODUCTION TO DEBT RELIEF AND CONVERSION

Debt relief mechanisms can take many forms. They can involve deferring or rescheduling of debt service so that it is paid at a later date; refinancing with new loans so as to postpone service or reduce its cost; buying back the debt using other funds so as to cancel it; converting the debt into other assets; reducing the service costs or interest rates on the debt, thereby also reducing its present value; and cancelling debt stock or service.

Box 1 describes in more detail the mechanisms for debt conversion, which until recently has been the type of debt relief most often used for environmental funding.

BOX 1 – DEBT CONVERSION MECHANISMS¹

Debt conversion programs were introduced in the 1980's as market-based mechanisms to reduce developing country debt burdens. Under these programs, debtor countries have reduced their external debt stock while increasing foreign direct investment (debt/equity swaps), or increasing financing for environmental or social sector programmes (debt for development swaps). Prominent among these have been “debt for nature” swaps.

A debt swap involves the voluntary exchange of a debt instrument by a creditor with its debtor for cash, another asset, or a new obligation with different repayment terms. As depicted in the diagram in Annex A, an investor (private entity or NGO) usually purchases the debt from the creditor, in the secondary market, at a deep discount on its face value. The investor then exchanges the debt instrument for payment in local currency either in the form of cash or assets to be invested in the local economy of the debtor country, at a price above the discounted price it has paid for the debt. The economic rationale for debt swaps is based on the willingness of a creditor to accept a discounted price, and of a debtor to pay more than the discounted price, but less than of face value. A debt swap enables the creditor to receive payment it was not receiving before, the investor to leverage its funds, and the debtor to retire the debt at a discount. In the commercial debt reductions in the IDA Facility, countries achieved 80%+ discounts.

In addition to the advantages of debt relief, debt conversion can also:

- **Facilitate foreign investment** through debt/equity swap operations, including reinforcing the country's privatisation program.
- **Increase funding for key development programmes** through debt for development swaps, for example in the health, education and environmental sectors

Its main additional disadvantage is that, if the payments to fund the projects were not previously budgeted, they will increase money supply and inflationary pressure in the economy. To avoid such risks, annual ceilings can be agreed as part of the authorised expansion of money supply, as well as in the national budget.

¹ / For further details on the functioning of debt swaps, see Melissa Moye, Overview of Debt Conversion, publication 4 at www.hipc-cbp.org.

Over recent years, “severely-indebted low-income countries”, and more recently Heavily Indebted Poor Countries (HIPCs), have received growing amounts of what was initially rescheduling and refinancing, followed by cancellation of service and stock. Middle-income countries have also received rescheduling and (notably in the cases of Egypt and Poland) considerable cancellation. Most of these mechanisms have required countries to be in “imminent default” on their debt, thereby potentially undermining their access to new financing, but some (notably bilateral cancellations and the IMF and UK Multilateral Debt Relief Initiatives) have provided debt relief to countries which are otherwise still servicing their debt on schedule.²

These relief mechanisms have provided several key advantages for debtor countries:

- **Debt reduction** through cancellation of debt stock, or when buybacks or conversions are undertaken at a discount on the face value of the debt.
- **Positive impact on balance of payments and budget** by reducing debt service if the debt was being paid, freeing funds for development programs of the debtor country..
- **Predictable development funding.** In contrast to many donor projects and even to budget support, debt relief is generally provided according to a predictable schedule and therefore provides reliable and predictable funding for development strategies.
- **Long-term development funding.** As many of the debts cancelled have payment schedules stretching over up to 40 years, relief provides long-term funding.

III. OPTIONS FOR DEBT RELIEF TO COMBAT CLIMATE CHANGE

3.1. Objectives of Debt Conversion Programs

The most important uses of debt conversion proceeds have been for:

1. equity investment. Debt/equity swaps have helped in particular MICs (such as Argentina, Brazil, Ecuador, Chile, Costa Rica, Mexico, Philippines, Poland and Peru), to retire USD 40 billion of commercial debt and increase foreign investment.
2. development. Debt-for-development swaps have totalled USD 750 million, financing environment, health, education, population and low-income housing projects. Debt-for-nature swaps (see Box 1) are most relevant to this paper because they are potentially a precursor of debt conversion to combat climate change. Other debt-for-development swaps have included a major programme by UNICEF, which obtained USD 53 million between 1989 and 1995 to finance its programmes (see Box 2).

² For further details of debt relief initiatives for HIPCs, see Implementing the Enhanced HIPC Initiative, publication 2 at www.hipc-cbp.org ; and for details of Paris Club debt relief see The Paris Club, publication 3 at www.hipc-cbp.org, and the Paris Club website at www.clubdeparis.org

Box 2 – Debt-for-Nature Swaps

A debt-for-nature swap involves cancellation of external debt, generally purchased by an environmental NGO, in exchange for using local currency for nature conservation and environmental protection. The first debt-for-nature swap was implemented in 1987 in Bolivia when Conservation International purchased USD 650,000 of debt owed to commercial creditors. In exchange for cancellation of the debt, Bolivia established a USD 250,000 fund for Management of the Beni Biosphere Reserve. Since then, they have been implemented in over 30 countries (including Bolivia, Brazil, Ecuador, Cameroon, Costa Rica, Dominican Republic, Ghana, Guatemala, Jamaica, Madagascar, Mexico, Nigeria, Panama, Peru, Philippines, Poland, and Zambia.). Between 1987 and 1997, debt for nature swaps enabled countries to cancel USD 134 million of external debt while generating USD 126 million to protect the environment (see Table 1) and biodiversity. Most of the transactions were financed by the environmental agencies' own resources. However, in a few cases, bilateral donors purchased commercial bank debt to invest in environmental funds (eg the Netherlands and Sweden in Costa Rica, Sweden, and Japan in Ecuador). In most cases, debt was bought at a deep discount (average 78%).

Box 3 – UNICEF Debt-for-Development swaps

UNICEF has been a pioneer in debt for development swaps. Between 1989 and 1995, it generated about USD 53 million in local currency while helping countries to reduce their commercial debt stock by USD 199 million. It purchased debt at an average discount of 47%, mostly financed from UNICEF own resources, but in some cases, commercial banks donated their claims. The local counterpart funds helped finance projects supporting UNICEF's mandate, particularly in primary education.

3.2. Types of Debt Converted

In most cases, conversions have involved purchase or donation of **commercial bank debt**. With the introduction of the Brady Plan, which converted commercial bank debt into bonds, the incentive for commercial creditors to use debt conversion mechanisms in middle-income countries disappeared after the mid-1990s. On the other hand, IDA-only debtor countries have continued to repurchase their commercial debt via the IDA Debt Reduction Facility. Since 1993, the World Bank has allowed debt conversion to be associated with such operations (see Box 3 below). France and Morocco have also converted **bonds** into equity through the respective country's privatization programs.

Box 4 – IDA Debt Buyback and Debt Conversion – The case of Zambia

In 1994, the Republic of Zambia repurchased about USD 408 million of commercial at a redemption price of 11% or at a deep discount of 89% through the IDA Debt Reduction Facility. The operation included a debt-for development option that allowed Non Governmental Organizations (NGO) to participate in the transaction. Under the debt-for-development swap option, NGOs exchanged the debt obtained with the government of Zambia for local currency funds to finance development projects. The Zambian authorities also agreed to provide a 50% premium in local currency.

Official bilateral creditors have also developed initiatives that allow their claims to be included in debt conversion. For example, the United States allows debt for equity and debt

for nature swaps under the Enterprise for the Americas Initiative and the Tropical Forest Conservation Act: Costa Rica, Guatemala, Madagascar, and Peru were able to cancel US bilateral debt under the Tropical Forest Conservation Act. These programs have been facilitated by a conversion clause included in Paris Club Agreed Minutes, which allows 100% of ODA-related debt and 20-30% of non-ODA debt to be converted.

Non-Paris Club bilateral creditors have also allowed their claims to be sold to other creditors as in the case of Bulgaria, Romania, or the former Yugoslavia, and to be converted for equity investment as in the case of China or Libya. However, they do not have any record of conversion for environmental purposes.

Official bilateral creditors have also embraced the financing of environmental funds to reduce air pollution and protect the ozone layer through debt conversion. The Poland EcoFund (see Box 2), which is the largest debt for nature swap, is an example.

Box 5 – Poland’s Eco-Fund

In 1991, Poland restructured its bilateral debt with its Paris Club creditors. Creditors cancelled 50% of their claims. In exchange for creditors canceling an additional 10%, Poland agreed to finance an EcoFund with an equivalent amount of hard currency, drawn down from an escrow account at the Bank of International Settlements. Five (France, Italy, Sweden, Switzerland and the United States) of the seventeen creditors participated. Total funding of USD 474 million will be disbursed until 2010. The Fund finances private projects that will: i) reduce trans-boundary air pollution, ii) reduce pollution in the Baltic Sea, iii) lower greenhouse gas emissions, and iv) protect the country’s biodiversity.

Multilateral debt has not been used for debt conversion. However, the HIPC initiative and the Multilateral Debt Reduction Initiative (MDRI) have reduced the present value of multilateral debt, with savings being invested in poverty reduction strategies. Under the HIPC Initiative, international organizations used several mechanisms to provide relief:

- IDA gave its assistance through debt service reduction of 50% or more.
- IBRD loans were repurchased through IDA grants.
- AFDB/ADF provided debt relief by reducing debt service payments by 80%.
- IADB’s assistance was delivered through forgiveness of 50% of debt service
- UE/EIB reduced debt service payments up to 100%
- IFAD canceled 100% of its debt service payments.
- Most of the Arab multilateral institutions (OPEC Fund, BADEA, IsDB) opted to reschedule or refinance their claims on highly concessional terms.
- Other sub-regional organizations such as the Caribbean, East African and West African Development Banks cancelled their debt service or stock.

Under the MDRI, IDA, IMF, AfDF, and IADB cancelled the stock of debt, each applying a cut-off date (debt disbursed before which was eligible). Countries that have reached the completion point of the HIPC initiative can qualify for the debt relief under the MDRI.

Debt Relief and Conversion Options

Debt relief to combat climate change might be implemented differently depending on the types of debt. The review of past experiences indicates options that could be used:

- **Commercial Debt:** this could be purchased at a discount in the secondary market, or donated by the creditor, and either cancelled or converted, with savings or local currency equivalents to be invested in programs to combat climate change. The debt buyback would be financed by donor grants. Debtor countries and the donor community would agree a discounted price, allowing the debtor to save debt service and the donor community to leverage its grants. For countries eligible for the IDA Debt Reduction Facility, a climate change conversion option could be included in the transaction. As in Zambia, the debtor could agree to provide a premium on payments in local currency, to indicate its strong commitment to fighting climate change.
- **Bilateral Debt:** Different types of debt relief can be envisaged for bilateral debt depending on whether the debt is due to Paris Club or non-Club creditors.
 - Paris Club creditors can convert or cancel claims at a discount, up to 100% for concessional debt and 20-30% for non-concessional debt, as part of Paris Club agreements. However, they can also cancel or convert 100% of bilateral debt even if a debtor has not received relief from the Club.
 - Non-Paris Club creditors could also cancel or convert their claims, or donors could purchase debts at a discount from them and cancel or convert the claims.

In both cases, debtors could use the savings to fund anti-climate change projects, by spending them via their budget to support the national anti-climate change strategy.

Multilateral Debt: Multilateral debt could in principle be converted, or the debtor could prepay its debt to selected multilateral creditors using donor grants, and convert it to local currency at par. However, both of these avenues seem excessively complex and would not necessarily produce any additionality for debtor development programmes. The procedures used for HIPC and MDRI would seem to be a much better model. Stock or service could be canceled in exchange for developing countries investing the savings in projects or programs to combat climate change.

IV. ELIGIBLE DEBT FOR RELIEF TO COMBAT CLIMATE CHANGE

For this study, 58 countries were examined to determine the potential amount of eligible debt that could be used to combat climate change through debt relief. These countries are classified by the World Bank as Highly Indebted Poor Countries (HIPCs)³, other low income countries (LICs) that are IDA only, and low middle income countries (LMICs).

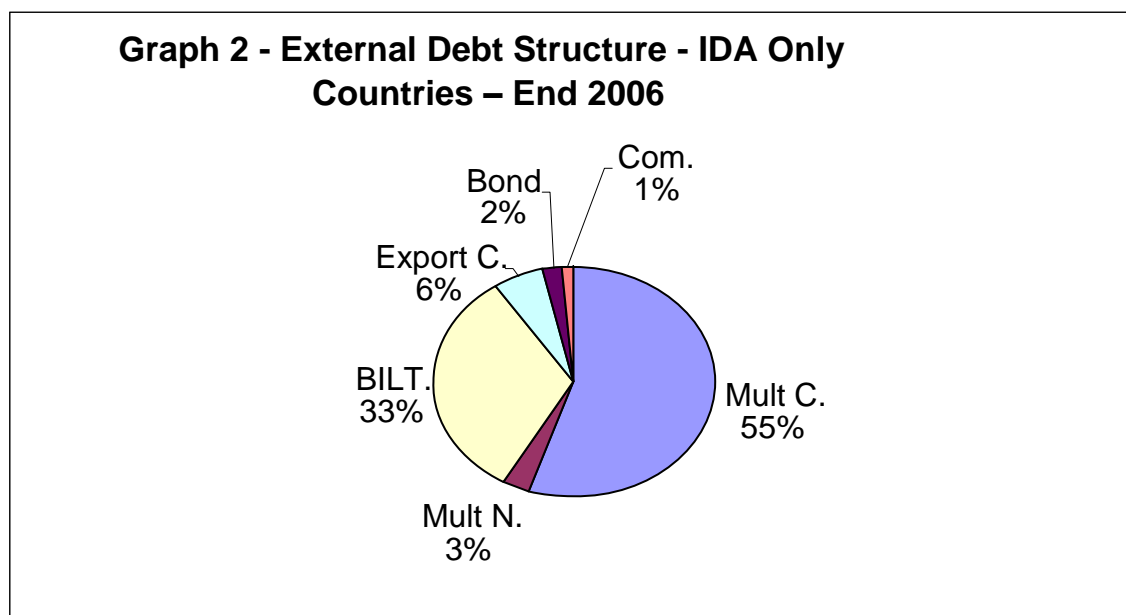
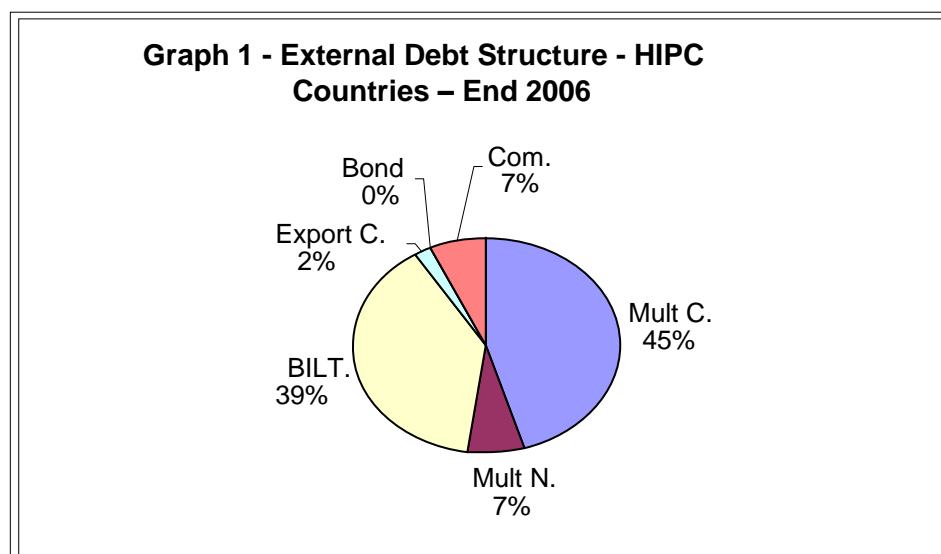
Review of the External Debt Structure of Selected Countries

The external debt structure of these countries varies by group:

- Overall, as shown in Tables 2A and 2B, 53% of public and publicly guaranteed external debt as of end 2006 was to multilateral creditors, 38% to bilateral sources, and 9% to private creditors (export credits, bonds, and commercial banks).

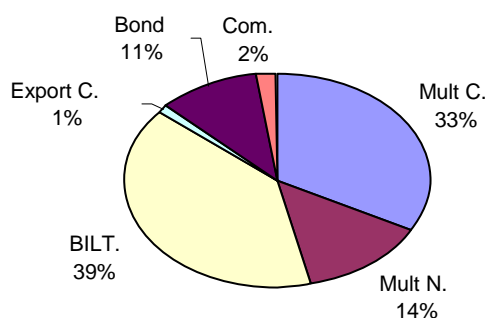
³ At end-March 2009, 24 HIPCs (Benin, Bolivia, Burkina Faso, Burundi, Cameroon, Ethiopia, the Gambia, Ghana, Guyana, Honduras, Madagascar, Malawi, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Sao Tomé e Príncipe, Senegal, Sierra Leone, Tanzania, Uganda and Zambia) are Post HIPC and have benefited from the MDRI; 11 (Afghanistan, CAR, Chad, Congo DR, Congo Rep, Cote d'Ivoire, Guinea, Guinea-Bissau, Haiti, Liberia and Togo) were in the interim phase of the Initiative; and 6 (Comoros, Eritrea, Kyrgyz Republic, Nepal, Somalia and Sudan) were still pre-decision point.

- For HIPCs, as shown in Graph 1, the debt is 52% multilateral (45% concessional and 7% non concessional), 39% bilateral and 9% private. Almost all private debt is due to commercial creditors with whom a few HIPCs have not finalized reduction.⁴
- For IDA only countries, as seen in Graph 2, multilateral creditors are owed 58% (with 55% concessional), bilaterals 33%, and private 9% (of which 6% export credits, 2% from bond markets, and 1% from commercial banks).
- Private financing represents a larger share (14%) of the external debt of LMICs, as seen in Graph 3, with 11% in bonds, 2% from commercial banks, and 1% from export credits. However, official creditors are still owed most of the debt (multilateral creditors 47, of which 33% concessional and 14 non-concesional; and 39% bilateral).



⁴ During 2007-09, 4 countries (Afghanistan, CAR, Liberia and Togo) reached decision point, and 2 (Gambia and Sao Tomé) completion point, so their debts have been further reduced since these data.

Graph 3 - External Debt Structure - Lower Middle Income Countries – End 2006



Debt Eligible for Relief and Conversion

Three types of debt could be used for debt relief to combat climate change:

- **Commercial debts** (USD 18.4 billion). HIPCs which are yet to receive commercial debt cancellation (of around USD 4.5 billion) could include climate change conversion options in their IDA debt buyback operations. Other countries could encourage repurchases of bonds or loans, if secondary market prices are low given low investor appetite for developing country debt which is perceived as higher risk. However, many countries have serviced bonds on schedule to maintain bond market creditworthiness, and want to maintain a continuous presence in the market. As a result, bonds look unlikely to be viable for relief, except in a few cases of default.⁵
- **Bilateral debts**
 - **Paris Club creditors.** As of August 2008, the selected debtor countries owed USD 60 billion to Paris Club members, of which USD 39.5 billion was ODA (see Table 3). Of this, around USD 20 billion is due to be cancelled under HIPC, leaving only USD 5 billion owed by HIPCs after relief. Under Club rules, USD 30 billion could be eligible for conversion. However, a realistic amount is lower, as many Paris Club members (such as Japan) do not convert debt.
 - **non-Paris Club creditors.** Around USD 15 billion is owed to non-Paris Club bilateral creditors. Of this, USD 2.1 billion is owed to creditors which have not provided their full share of HIPC relief (see Table 4). However, it seems unlikely that they would be any more willing to relieve debt to combat climate change than for other purposes. The remaining USD 13 billion is owed by non-HIPCs, and it also seems unlikely that non-Paris Club creditors would provide relief to them.
- **Multilateral debts.** Although most of HIPCs multilateral debt has been cancelled (IDA, AFDF, IDB, and IMF) or restructured (refinancing by Arab multilateral institutions or debt service reduction), there is still USD 30 billion outstanding, due to the application by the IFIs of cutoff dates for relief, and the non-participation of regional organisations such as the West African Development Bank (BOAD) in West Africa, or the Caribbean

⁵ It is probable that a considerable proportion of the export credits currently classified as private debt would be revealed to have been guaranteed by bilateral export credit agencies, and therefore to constitute bilateral debt, in any debt relief process.

Development Bank (CDB) in the MDRI. If an MDRI approach is implemented, cancelling multilateral debt stock to finance national programs to combat climate change, and postponing cut off dates used by certain multilateral institutions, more multilateral debt could become eligible for MDRI relief. There is also USD 60 billion of multilateral debt of non-HIPCs, which could be eligible if debt relief were widened to other LICs and LMICs.

From the above analysis, it can be concluded that, to make debt relief to combat climate change worthwhile in terms of amounts, it would be necessary to apply 2 key principles:

- Relief would need to be provided to a group of debtor countries going beyond HIPCs to include a small number of other LICs and LMICs
- For HIPCs, relief would need to be applied to bilateral or commercial creditors which have not (or not yet) participated in HIPC relief, or to multilateral creditors have excluded certain debts from HIPC or MDRI.

V. NEED FOR DEBT RELIEF TO COMBAT CLIMATE CHANGE

In order to assess whether countries potentially need debt relief and climate change financing, this section first assesses developing country needs for financing to combat climate change, and then assesses their debt sustainability.

Need for Financing to Combat Climate Change

Climate change is affecting almost all countries in this study, in 3 ways (see Annex 5):

1. rising sea levels are threatening to flood low level costal countries such as Bangladesh, India, Sri Lanka and Vietnam, threatening fishing and farming livelihoods. The phenomenon is also affecting islands such as the Solomon Islands, Tonga and Vanuatu, and the Maldives might disappear completely. Small countries such as Guinea-Bissau and The Gambia risk losing a significant part of their territory as a consequence. Senegal, Sierra Leone, and Liberia are also threatened.
2. desertification is occurring many countries such as Benin, Burkina Faso, Chad, Djibouti, Ethiopia, The Gambia, Ghana, Guinea-Bissau, Kenya, Mali, Mauritania, Niger, Nigeria, Uganda, Senegal, Sudan, Somalia, Swaziland, Tanzania, and Zimbabwe. It is also accelerating drought, notably in the Niger basin, Lake Chad, and Senegal, where water levels have decreased by 40% to 60%.
3. deforestation is also accelerating climate change, through the loss of tropical forest. Bolivia, Cameroon, Congo DR, Congo Rep, Guyana, Haiti, Papua New Guinea and Vietnam are among the countries affected by this problem.

The impact of these three factors on economic growth and poverty reduction for these countries will be devastating.⁶ Forty-nine of these countries are also part of the list of “100 countries most vulnerable to climate change” constructed by IIED based on IPCC findings.⁷ In addition, global stability could be threatened by millions of climate refugees.

The overall need for global financing to help developing countries adapt to climate change is extremely large – estimated by various sources at around USD 50 billion currently rising to USD 80 billion a year by 2020. Even the most urgent actions identified by the Least Developed Countries in their National Action Plans for Adaptation (NAPAs) will cost USD 2

⁶ For more details on the impact in Africa, see especially *Climate Change and Economic Development in Sub-Saharan Africa*, the report of the 10th AERC Senior Policy Seminar, April 2008, Nairobi.

⁷ See IIED, *Critical List: the 100 Nations Most Vulnerable to Climate Change*, December 2007.

billion a year. The financing will need to be provided predictably and over a long period of at least 15-20 years. In addition, there are similarly huge financing needs for climate change mitigation, estimated at USD 71-100 billion. The total financing needs for the combat against climate change are therefore USD 121-200 billion a year.⁸

Discussions on a new financial architecture and funding strategy for climate change have already started. Initiatives already launched include

- the Global Environment Fund, launched in 1991, which provides grants to combat loss of biodiversity, climate change, land degradation, persistent organic pollutants, degradation of international waters, and ozone depletion. GEF financing is provided through the World Bank, UNDP, UNEP, four regional development banks, FAO, IFAD, and UNIDO. The GEF has provided USD 6.2 billion in grants and generated about USD 20 billion in co-financing for 1800 projects in more than 140 countries.
- The United Nations has launched a new initiative called the UN Reduced Emissions from Deforestation and Forest Degradation (REDD) Program. The objective is to tip the economic balance in favor of sustainable management of forests so their economic, environmental and social goods benefit the countries, community and forest users and contribute to reductions in greenhouse gas emissions. The first phase is supported by a USD 35 million grant from Norway, and 9 countries (Bolivia, Democratic Republic of Congo, Indonesia, Panama, Papua New Guinea, Paraguay, Tanzania, Vietnam, and Zambia) have expressed formal interest in assistance.
- In July 2008, the Board of the World Bank approved Climate Investment Funds (CIF) to be implemented by various multilateral development banks. In September 2008, donors pledged over USD 6.1 billion to provide grants, concessional and non-concessional loans to undertake investments that achieve a country's development goals through a transition to a climate-resilient economy and a low carbon development path. In February 2009, the World Bank invited 9 countries (Bangladesh, Bolivia, Cambodia, Mozambique, Nepal, Niger Tajikistan, and Zambia) to participate in the pilot phase.

Nevertheless, these initiatives fall woefully short of the amounts of funding which will be needed for developing countries to adapt to climate change. In this context, all potential types of high-quality funding should be mobilized, including debt relief. Obviously, however, debt relief alone will not provide sufficient funds to combat climate change in most countries, so budget support would be a good supplement, as well as a principal source of funding in countries without debt sustainability problems.

In addition, some of the CIF financing will be provided as loans (on concessional or non concessional terms) which will increase a country's indebtedness. Many NGOs and others have criticized this, arguing that it is potentially creating a new debt problem. Debt relief for climate change would instead decrease the debtor countries' debt burden.

Need for Debt Relief

To assess whether debt relief might be an appropriate type of financing for countries, this paper looks at the sustainability of the countries' debt, as gauged by the LIC-DSF framework used by the Bretton Woods Institutions (see Annex 5).

- Of the 37 HIPCs surveyed, 9 (Burundi, CAR, Comoros, Congo DR, Cote d'Ivoire, Guinea, Guinea-Bissau, Liberia, and Togo) are currently in debt distress as they have not yet reached completion point; 9 are at high risk of distress (Afghanistan, Burkina Faso,

⁸ Data from European Commission, Oxfam and UNDP HDR.

Chad, Congo Rep, The Gambia, Haiti, Laos, Rwanda, and Sao Tome e Principe), of which 5 have still to reach completion point; 9 (Benin, Ethiopia, Ghana, Guyana, Malawi, Mauritania, Nicaragua, Niger, and Sierra Leone) are at moderate risk of distress; and 10 (Bolivia, Cameroon, Honduras, Madagascar, Mali, Mozambique, Senegal, Tanzania, Uganda, and Zambia) have low risk of distress.

- For the 11 IDA-only countries, 4 (Djibouti, Nepal, Solomon Islands and Tonga) are classified as high risk, 3 as moderate risk (Cambodia, Kyrgyz Republic, and Lesotho), and 4 (Bangladesh, Kenya, Nigeria, and Vietnam) as low risk.
- For other countries examined, the most recent IMF Article IV reports show that the debt of Belize, Jamaica and the Seychelles is unsustainable, Papua New Guinea and Sri Lanka are moderate risks, and the debt of Jordan, Pakistan, Swaziland and Vanuatu is sustainable. No recent assessment of the Maldives is available.

Overall, this analysis indicates that, although debt relief has sharply reduced the debt burden of many countries, for at least 30 countries public debt sustainability remains vulnerable to shocks, and further debt relief would be beneficial in reducing their debt stress risk level from high or medium to low. This is particularly true in the current international climate, where financing the attainment of the MDGs largely with grants looks increasingly unlikely for many LICs and LMICs, given the increasing likelihood that many OECD countries will not live up to earlier promises to increase grants. In addition, in analysing the potential impact of the international financial crisis, the IMF concludes that 13 low income countries could potentially move from low or moderate to high risk of external debt distress, if reductions in aid and FDI flows are replaced with new external public debt. In this context, further debt relief would be the most feasible way to avoid unsustainable debt.

VI. FEASIBILITY OF DEBT RELIEF TO COMBAT CLIMATE CHANGE

To assess the feasibility of debt relief to combat climate change, this section examines three factors: technical feasibility; and prospects for creditor and debtor participation.

5.1. Technical Feasibility

The technical feasibility of debt relief, whether by debt stock cancellation, debt service reduction, or buyback and conversion options, has already been demonstrated by the history of debt relief over the past 20 years. As a result of this experience, mechanisms exist for relieving commercial, bilateral and multilateral debts (as discussed in section 3); for ensuring that relief is provided in a predictable and long-manner term, and guarantees additional funding for debtor country development; and for ensuring that the proceeds can be reliably spent on combating climate change.

The key remaining challenges to the provision of further debt relief are therefore political, in terms of creditor participation, donor funding and debtor willingness.

5.2. Prospects for Creditor Participation

OECD creditor countries have provided vast funds in recent years for debt relief, including cancelling or converting debts owed to them; buying back or converting commercial debts or debts owed to non-Paris Club bilateral creditors; and funding reduction of multilateral debt. HIPC relief alone will ultimately exceed USD 100 billion.

In addition, Section 3 showed that Paris Club creditor countries have shown strong interest in combining debt conversion with pro-environment and development activities. In the past, Belgium, Canada, Finland, France, Germany, Italy, Russia, Spain, Sweden, Switzerland, the United Kingdom, and the United States have allowed their claims to be swapped for various purposes. However, over the past five years, only France, Germany, Italy, Russia, Spain, and the United States have been active in the debt swap markets, partly because most other bilateral creditors have cancelled debt instead.

On the other hand, a much wider range of creditors including all those in the Paris Club, and many non-Paris Club governments and commercial creditors have shown themselves willing to fund relief on their own debts for many countries, and on those of multilateral institutions for HIPCs. They have acknowledged that, provided debt relief can be well spent by debtor governments (implying reasonable levels of public financial management), it is a good means of providing reliable, predictable long term aid. In addition, some have realized that, compared to new aid projects, it is a highly reliable way to spend development ministries' budget allocations and reach ODA/GNI targets.

Nevertheless, the scale of relief promised in recent years (which will exceed USD 100 billion for HIPCs alone), together with the complexity of the processes of providing relief through HIPC and MDRI initiatives, have led some in the international financial community to "debt relief fatigue". International civil society pressure for debt relief has also waned, and with it the political will to provide further relief.

As a result, it is not possible to indicate a priori whether creditors would be prepared to provide further relief. Therefore, a brief informal survey of bilateral creditors has been conducted to see whether they might be interested in debt relief for climate change. This has revealed that they fall into three groups of roughly equal sizes:

1. those which would be interested in funding further debt relief (including to combat climate change) for a wider group of countries and on some debts currently excluded from HIPC/MDRI, but do not have bilateral debts owed to them which could be cancelled, or are not interested ;
2. those which would be interested in cancelling or converting their own bilateral debt, including extending existing debt conversion programmes to cover climate change; and
3. those which currently appear to have "debt relief fatigue" and would not wish to fund any more debt relief.

Further consultations would be needed to establish prospects for any consensus among major donors on an initiative.

5.3. Would Debtors Want Relief ?

As already found, debt relief could provide major advantages to debtors in terms of reducing debt stock and service, and increasing funding for national programs to combat climate change. However, recent experience has shown that 3 factors are crucial for debtors to want to participate in debt relief mechanisms:

- 1) **Additionality of funding.** A considerable proportion of existing debt relief has involved cancelling debts which were not being paid anyway, or has been offset by reductions (either overall or at the level of individual countries) in new financing flows. It therefore has not provided additionality of funding for reaching the MDGs and financing national development strategies. In order to provide additional funding for combating climate change, debt relief must be provided largely on debts which are currently being paid, or

by buying back or prepaying debt at a discount on face value. It must also not be offset by any reduction in new flows to the same countries.

- 2) **No damage to market access.** Debtors have been concerned that applying for or receiving debt relief could damage their financial market reputation, cutting off access to funds from export credit or commercial lenders. Evidence is already clear that relief for countries with unsustainable debt levels can only improve their access to funds. In addition, the IMF and UK Multilateral Debt Relief Initiatives and other “unilateral” relief (ie without imminent default and multilateral debt relief negotiations) has been provided without having any negative effect on market access. As a result, for those countries which are not currently receiving relief, “unilateral” relief would be preferable to avoid any risk of damage to market access.
- 3) **No additional conditionality.** Several countries which have needed debt relief (such as Kyrgyz, Nepal) have not wanted to access it due to the high level of associated conditionality. In reality, the conditionality is tied less to the relief than to the continuing need by debtors for aid and IMF/World Bank new funding. Therefore, the Kyrgyz Republic found itself rejecting relief but being subject to conditionality. However, it would be far better if relief could be provided as under the UK MDRI, based only on a criterion of a reasonable level of public financial management and ability to spend proceeds of relief well, as judged in the World Bank IRAI.

If maximum flexibility can be provided on these three issues, and accurate information on the likely effects of debt relief can be provided to debtors, they are likely to want to participate fully in any further debt relief mechanisms.

5.4. Next Steps

This study has shown that debt relief is technically feasible and is a high-quality way to provide additional aid to developing countries; that a large amount of debt is potentially eligible; that funding is needed to combat climate change and maintain debt sustainability; and that ways exist to convince creditors and debtors to participate. However, to finalise a proposal for debt relief for climate change, to present to the G8 meeting and the Copenhagen climate change summit, two further actions are necessary:

- Further discussion with donors and creditors which might fund debt relief;
- Precise identification of eligible debt, debtor countries and secondary market prices.

Subject to approval by Ministers, these steps could be undertaken rapidly.

TABLE 1 - DEBT-FOR-NATURE SWAPS, 1987-1997

(in thousands of US dollars)

YEAR	COUNTRY	FACE VALUE	COST	Funds Generated
1997	Mexico	310	238	299
1997	Mexico	266	266	243
1996	Mexico	671	440	561
1996	Mexico	496	327	443
1996	Mexico	391	192	254
1995	Mexico	488	246	337
1994	Mexico	290	248	290
1994	Mexico	480	399	480
1994	Mexico	280	236	280
1994	Madagascar	200	50	160
1993	Madagascar	3200	1600	3200
1993	Mexico	252	208	252
1993	Bolivia	n.a	n.a	397
1992	Ecuador	n.a	n.a	1000
1992	Brazil	2200	746	2200
1992	Bolivia	11500	n.a	2800
1992	Guatemala	1300	1200	1300
1992	Panama	n.a	n.a	30000
1992	Philippines	9900	5000	8800
1992	Mexico	441	355	441
1991	Ghana	1000	300	1000
1991	Jamaica	437	300	437
1991	Guatemala	100	75	90
1991	Mexico	250	n.a	250
1991	Nigeria	149	65	93
1991	Philippines	n.a	n.a	8000
1991	Mexico	250	183	250
1991	Costa Rica	600	360	540
1991	Madagascar	119	59	119
1990	Madagascar	919	446	919
1990	Philippines	900	439	900
1990	Costa Rica	10800	1900	9600
	Dominican			
1990	Rep.	582	116	582
1990	Poland	n.a	n.a	50
1989	Zambia	2300	454	2300
1989	Madagascar	2100	1100	2100
1989	Ecuador	9000	1100	9000
1989	Costa Rica	24500	3500	17100
1989	Costa Rica	5600	784	1700
1989	Philippines	390	200	390
1988	Costa Rica	33000	5000	9900
1988	Costa Rica	5400	918	5400
1987	Ecuador	1000	354	1000

1987	Bolivia	650	100	250
Total		132711	29504	125707
Sources:	Nature Conservancy, World Wildlife Fund, and Wo			

TABLE 2A - EXTERNAL DEBT STRUCTURE
in USD Million at end 2006

COUNTRY	MULT	Conc.	N. Conc.	BILT.	PRIVATE	Bond	Com.	TOTAL
AFGHANISTAN	766	766	0	995	0	0	0	1761
BENIN	413	400	13	369	0	0	0	782
BOLIVIA	2792	1996	796	390	20	0	0	3203
BURKINA FASO	780	766	14	242	0	0	0	1022
BURUNDI	1123	1107	16	167	1	0	0	1291
CAMEROON	497	331	166	1491	90	0	44	2078
CAR	605	593	12	227	30	0	0	863
CHAD	1467	1397	70	185	33	0	0	1686
COMOROS	216	207	9	44	0	0	0	260
CONGO DR	3280	2697	583	6202	367	1	1	9848
CONGO REP	1250	1023	227	1942	2136	0	2042	5328
COTE D'IVOIRE	3339	2180	1159	5053	2439	0	2439	10830
ETHIOPIA	1113	961	152	783	316	0	0	2212
GAMBIA, The	570	567	3	117	1	0	0	689
GHANA	1243	1188	55	306	342	0	289	1891
GUINEA	1809	1731	78	1143	29	0	0	2980
GUINEA-BISSAU	472	466	6	223	0	0	0	695
GUYANA	720	707	13	216	8	0	4	944
HAITI	835	835	0	199	0	0	0	1034
HONDURAS	2282	1868	414	652	52	0	43	2986
LAO PDR	1648	1632	16	543	0	0	0	2191
LIBERIA	424	205	219	493	199	0	178	1115
MADAGASCAR	887	838	49	342	6	0	5	1236
MALAWI	423	354	69	337	8	0	6	767
MALI	686	668	18	719	7	0	7	1411
MAURITANIA	741	578	163	638	22	0	22	1401
MOZAMBIQUE	1083	1022	61	1427	2	0	0	2511
NICARAGUA	2102	1972	130	1039	285	0	262	3425
NIGER	510	493	17	193	0	0	0	703
RWANDA	335	335	0	54	0	0	0	390
SAO TOME	203	198	5	133	0	0	0	336
SENEGAL	988	888	100	717	7	0	7	1712
SIERRA LEONE	876	854	22	445	2	0	0	1323
TANZANIA	1476	1346	130	1346	107	0	37	2929
TOGO	957	927	30	608	0	0	0	1565
UGANDA	858	733	125	222	26	0	2	1107
ZAMBIA	659	452	207	273	70	0	0	1003
HIPC								
COUNTRIES	40428	35281	5147	30475	6605	1	5388	77508
BANGLADESH	14985	14718	267	3380	502	0	11	18866
CAMBODIA	1168	1168	0	2150	0	0	0	3318
DJIBOUTI	320	308	12	101	6	0	6	426
KENYA	3437	3217	220	2066	305	0	230	5807
KYRGYZ	1188	1167	21	672	0	0	0	1860

LESOTHO	547	517	30	65	22	0	21	633
NEPAL	2918	2918	0	362	5	0	0	3285
NIGERIA	2852	1715	1137	275	673	0	0	3800
SOLOMON ISL.	114	112	2	36	1	0	0	151
TONGA	72	68	4	12	0	0	0	84
VIETNAM	5860	5774	86	9671	1987	1245	469	17518
IDA ONLY	33461	31682	1693	18790	3501	1245	737	55748
BELIZE	219	53	166	154	620	466	146	993
JAMAICA	1298	222	1076	733	3979	3568	375	6010
JORDAN	1961	772	1189	4754	429	188	0	7143
MALDIVES	219	184	35	45	96	0	96	360
PAKISTAN	17588	12942	4646	12609	2112	1900	34	32309
PNG	815	422	393	366	45	0	45	1225
SEYCHELLES	41	26	15	164	294	200	70	499
SRI LANKA	4914	4665	249	4583	644	65	362	10140
SWAZILAND	323	89	234	105	66	0	66	494
VANUATU	67	62	5	5	0	0	0	72
OTHERS	27445	19437	8008	23518	8285	6387	1194	59245
TOTAL	101334	86400	14848	72783	18391	7633	7319	192501

Source: World Bank – Global Development Finance, 2008

TABLE 2B - EXTERNAL DEBT STRUCTURE
in Percentage at end 2006

COUNTRY	MULT	Conc.	N. Conc.	BILT.	PRIVATE	Bond	Com.	TOTAL
AFGHANISTAN	43%	43%	0%	57%	0%	0%	0%	100%
BENIN	53%	51%	2%	47%	0%	0%	0%	100%
BOLIVIA	87%	62%	25%	12%	1%	0%	0%	100%
BURKINA FASO	76%	75%	1%	24%	0%	0%	0%	100%
BURUNDI	87%	86%	1%	13%	0%	0%	0%	100%
CAMEROON	24%	16%	8%	72%	4%	0%	2%	100%
CAR	70%	69%	1%	26%	3%	0%	0%	100%
CHAD	87%	83%	4%	11%	2%	0%	0%	100%
COMOROS	83%	80%	3%	17%	0%	0%	0%	100%
CONGO DR	33%	27%	6%	63%	4%	0%	0%	100%
CONGO REP	23%	19%	4%	36%	40%	0%	38%	100%
COTE D'IVOIRE	31%	20%	11%	47%	23%	0%	23%	100%
ETHIOPIA	50%	43%	7%	35%	14%	0%	0%	100%
GAMBIA, The	83%	82%	0%	17%	0%	0%	0%	100%
GHANA	66%	63%	3%	16%	18%	0%	15%	100%
GUINEA	61%	58%	3%	38%	1%	0%	0%	100%
GUINEA-BISSAU	68%	67%	1%	32%	0%	0%	0%	100%
GUYANA	76%	75%	1%	23%	1%	0%	0%	100%
HAITI	81%	81%	0%	19%	0%	0%	0%	100%
HONDURAS	76%	63%	14%	22%	2%	0%	1%	100%
LAO PDR	75%	74%	1%	25%	0%	0%	0%	100%
LIBERIA	38%	18%	20%	44%	18%	0%	16%	100%
MADAGASCAR	72%	68%	4%	28%	0%	0%	0%	100%
MALAWI	55%	46%	9%	44%	1%	0%	1%	100%
MALI	49%	47%	1%	51%	0%	0%	0%	100%
MAURITANIA	53%	41%	12%	46%	2%	0%	2%	100%
MOZAMBIQUE	43%	41%	2%	57%	0%	0%	0%	100%
NICARAGUA	61%	58%	4%	30%	8%	0%	8%	100%
NIGER	73%	70%	2%	27%	0%	0%	0%	100%
RWANDA	86%	86%	0%	14%	0%	0%	0%	100%
SAO TOME	60%	59%	1%	40%	0%	0%	0%	100%
SENEGAL	58%	52%	6%	42%	0%	0%	0%	100%
SIERRA LEONE	66%	65%	2%	34%	0%	0%	0%	100%
TANZANIA	50%	46%	4%	46%	4%	0%	1%	100%
TOGO	61%	59%	2%	39%	0%	0%	0%	100%
UGANDA	78%	66%	11%	20%	2%	0%	0%	100%
ZAMBIA	66%	45%	21%	27%	7%	0%	0%	100%
HIPC COUNTRIES	52%	46%	7%	39%	9%	0%	7%	100%
BANGLADESH	79%	78%	1%	18%	3%	0%	0%	100%
CAMBODIA	35%	35%	0%	65%	0%	0%	0%	100%
DJIBOUTI	75%	72%	3%	24%	1%	0%	1%	100%
KENYA	59%	55%	4%	36%	5%	0%	4%	100%
KYRGYZ	64%	63%	1%	36%	0%	0%	0%	100%
LESOTHO	86%	82%	5%	10%	3%	0%	3%	100%

NEPAL	89%	89%	0%	11%	0%	0%	0%	100%
NIGERIA	75%	45%	30%	7%	18%	0%	0%	100%
SOLOMON ISL.	75%	74%	1%	24%	1%	0%	0%	100%
TONGA	86%	81%	5%	14%	0%	0%	0%	100%
VIETNAM	33%	33%	0%	55%	11%	7%	3%	100%
IDA ONLY	60%	57%	3%	34%	6%	2%	1%	100%
BELIZE	22%	5%	17%	16%	62%	47%	15%	100%
JAMAICA	22%	4%	18%	12%	66%	59%	6%	100%
JORDAN	27%	11%	17%	67%	6%	3%	0%	100%
MALDIVES	61%	51%	10%	13%	27%	0%	27%	100%
PAKISTAN	54%	40%	14%	39%	7%	6%	0%	100%
PNG	67%	34%	32%	30%	4%	0%	4%	100%
SEYCHELLES	8%	5%	3%	33%	59%	40%	14%	100%
SRI LANKA	48%	46%	2%	45%	6%	1%	4%	100%
SWAZILAND	65%	18%	47%	21%	13%	0%	13%	100%
VANUATU	93%	86%	7%	7%	0%	0%	0%	100%
OTHERS	46%	33%	14%	40%	14%	11%	2%	100%
TOTAL	53%	45%	8%	38%	10%	4%	4%	100%

Source: World Bank – Global Development Finance, 2008

TABLE 3 - PARIS CLUB DEBT
(USD Million and Percent, end August 2008)

COUNTRY	ODA	%	NON ODA	%	TOTAL
AFGHANISTAN	97	10%	844	90%	941
BENIN	35	57%	26	43%	61
BOLIVIA	207	99%	2	1%	209
BURKINA FASO	102	100%	0	0%	102
BURUNDI	130	98%	2	2%	132
CAMEROON	1328	98%	25	2%	1353
CAR	2	4%	52	96%	54
CHAD	10	17%	49	83%	59
COMOROS	3	27%	8	73%	11
CONGO DR	2223	37%	3858	63%	6081
CONGO REP	490	17%	2464	83%	2954
COTE D'IVOIRE	3551	53%	3123	47%	6674
ETHIOPIA	275	63%	163	37%	438
GAMBIA, The	3	75%	1	25%	4
GHANA	359	99%	2	1%	361
GUINEA	295	43%	399	57%	694
GUINEA-BISSAU	10	9%	106	91%	116
GUYANA	6	100%	0	0%	6
HAITI	80	43%	108	57%	188
HONDURAS	161	98%	4	2%	165
LAO PDR	79	17%	393	83%	472
LIBERIA	143	23%	470	77%	613
MADAGASCAR	173	58%	123	42%	296
MALAWI	20	77%	6	23%	26
MALI	61	80%	15	20%	76
MAURITANIA	71	71%	29	29%	100
MOZAMBIQUE	196	53%	172	47%	368
NICARAGUA	78	36%	140	64%	218
NIGER	0	0%	4	100%	4
RWANDA	0	0%	0	0%	0
SAO TOME	1	4%	22	96%	23
SENEGAL	58	44%	74	56%	132
SIERRA LEONE	74	100%	0	0%	74
TANZANIA	253	92%	22	8%	275
TOGO	76	10%	654	90%	730
UGANDA	29	91%	3	9%	32
ZAMBIA	9	4%	228	96%	237
HIPC COUNTRIES	10688	44%	13591	56%	24279
BANGLADESH	1996	96%	78	4%	2074
CAMBODIA	551	28%	1406	72%	1957
DJIBOUTI	73	81%	17	19%	90
KENYA	1750	85%	320	15%	2070
KYRGYZ	332	62%	203	38%	535
LESOTHO	23	100%	0	0%	23

NEPAL	206	99%	2	1%	208
NIGERIA	0	0%	7	100%	7
SOLOMON ISL.	0	0%	0	0%	0
TONGA	2	100%	0	0%	2
VIETNAM	7092	87%	1064	13%	8156
IDA ONLY	12025	80%	2033	13%	15122
BELIZE	11	92%	1	8%	12
JAMAICA	453	94%	30	6%	483
JORDAN	2140	92%	181	8%	2321
MALDIVES	13	100%	0	0%	13
PAKISTAN	9331	72%	3628	28%	12959
PNG	318	100%	0	0%	318
SEYCHELLES	63	68%	29	32%	92
SRI LANKA	4338	99%	66	1%	4404
SWAZILAND	81	96%	3	4%	84
VANUATU	5	100%	0	0%	5
OTHERS	16753	81%	3938	19%	20691
TOTAL	39466	66%	19562	33%	60092

Source: Paris Club Secretariat

TABLE 4 - HIPC RELIEF BY NON PARIS CLUB BILATERAL CREDITORS

(in millions of US dollars, 2006 NPV terms)

COUNTRY	HIPC Initiative Assistance	HIPC Initiative Assistance Delivered	Percentage
Full Delivery of HIPC Relief			
Hungary	18.8	18.8	100.0%
Jamaica	0.2	0.2	100.0%
Morocco	2.8	2.8	100.0%
Korea, Rep.	7.0	7.0	100.0%
Rwanda	0.7	0.7	100.0%
South Africa	6.0	6.0	100.0%
Trinidad & Tobago	0.6	0.6	100.0%
Total	36.1	36.1	100.0%
Partial Delivery of HIPC Relief			
Algeria	240.3	12.5	5.2%
Argentina	4.9	3.0	61.2%
Brazil	8.5	6.5	76.5%
Bulgaria	107.7	93.2	86.5%
Burundi	0.2	n/a	n/a
China	283.8	140.8	49.6%
Cuba	2.0	0.2	10.0%
Former Czechoslovakia	48.9	38.9	79.6%
Former Yugoslavia	86.6	36.8	42.5%
Guatemala	470.8	464.4	98.6%
India	37.7	33.5	88.9%
Kuwait	303.4	206.1	67.9%
Libya	277.7	46.3	16.7%
Mexico	66.5	54.2	81.5%
Korea, PDR	29.6	2.1	7.1%
Poland	20.8	13.8	66.3%
Romania	38.0	33.5	88.2%
Saudi Arabia	162.3	125.9	77.6%
Tanzania	4.2	n/a	n/a
United Arab Emirates	28.2	2.6	9.2%
Venezuela	72.0	31.3	43.5%
Total	2294.1	1345.6	58.7%
No Delivery of HIPC Relief			
Angola	25.2	0	0.0%
Cape Verde	0.3	0	0.0%
Colombia	4.8	0	0.0%
Costa Rica	495.5	0	0.0%
Cote d'Ivoire	13.2	0	0.0%
Congo, DR	0.4	0	0.0%
Ecuador	0.5	0	0.0%
Egypt	0.5	0	0.0%
Honduras	127.4	0	0.0%
Iran	70.4	0	0.0%
Iraq	110.8	0	0.0%
Nigeria	0.4	0	0.0%

Nigeria	2.1	0	0.0%
Oman	1.6	0	0.0%
Pakistan	1.3	0	0.0%
Peru	9.9	0	0.0%
Portugal	7.5	0	0.0%
Taiwan	311.5	0	0.0%
Uruguay	0.7	0	0.0%
Zambia	0.2	0	0.0%
Zimbabwe	0.1	0	0.0%
Total	1184.3	0	0.0%

GRAND TOTAL	3514.5	1381.7	39.3%
--------------------	---------------	---------------	--------------

Source: IMF

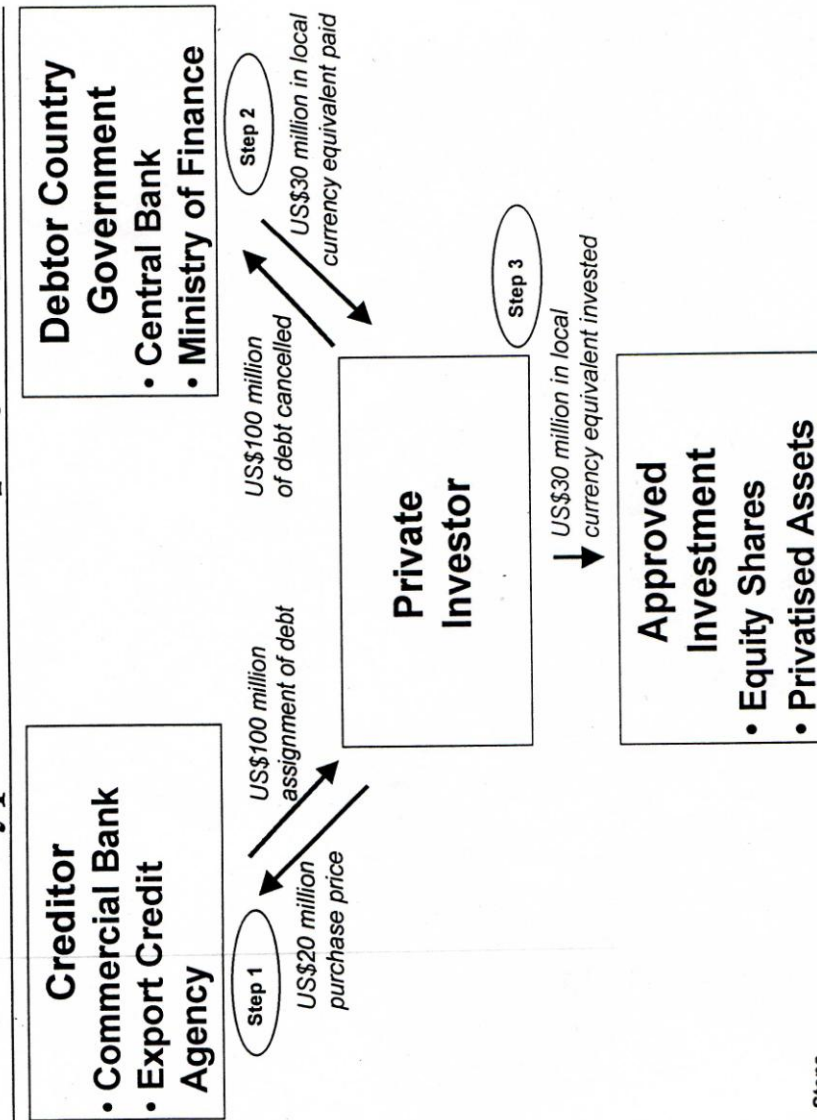
**TABLE 5 - DEBT DISTRESS RISK AND CLIMATE CHANGE
VULNERABILITY**

COUNTRY	DEBT DISTRESS RISK	CLIMATE CHANGE VULNERABILITY
HIPC COUNTRIES		
AFGHANISTAN	HIGH	DESERTIFICATION
BENIN	MODERATE	FLOODING
BOLIVIA	LOW	DEFORESTATION
BURKINA FASO	HIGH	DESERTIFICATION
BURUNDI	DEBT DISTRESS	DEFORESTATION
CAMEROON	LOW	DEFORESTATION
CAR	DEBT DISTRESS	DEFORESTATION
CHAD	HIGH	DESERTIFICATION
COMOROS	DEBT DISTRESS	FLOODING
CONGO DR	DEBT DISTRESS	DEFORESTATION
CONGO REP	HIGH	DEFORESTATION
COTE D'IVOIRE	DEBT DISTRESS	DEFORESTATION
ETHIOPIA	MODERATE	DESERTIFICATION
GAMBIA, THE	HIGH	FLOODING
GHANA	MODERATE	FLOODING
GUINEA	DEBT DISTRESS	FLOODING
GUINEA-BISSAU	DEBT DISTRESS	FLOODING
GUYANA	MODERATE	FLOODING
HAITI	HIGH	DEFORESTATION
HONDURAS	LOW	NATURAL DISASTER
LAO PDR	HIGH	DEFORESTATION
LIBERIA	DEBT DISTRESS	DESERTIFICATION
MADAGASCAR	LOW	DEFORESTATION
MALAWI	MODERATE	DESERTIFICATION
MALI	LOW	DESERTIFICATION
MAURITANIA	MODERATE	DESERTIFICATION
MOZAMBIQUE	LOW	FLOODING
NICARAGUA	MODERATE	NATURAL DISASTER
NIGER	MODERATE	DEFORESTATION
RWANDA	HIGH	DEFORESTATION
SAO TOME	HIGH	FLOODING
SENEGAL	LOW	FLOODING
SIERRA LEONE	MODERATE	FLOODING
TANZANIA	LOW	DESERTIFICATION
TOGO	DEBT DISTRESS	FLOODING
UGANDA	LOW	DEFORESTATION
ZAMBIA	LOW	DESERTIFICATION
IDA ONLY COUNTRIES		
BANGLADESH	LOW	FLOODING
CAMBODIA	MODERATE	NATURAL DISASTER
DJIBOUTI	HIGH	DESERTIFICATION
KENYA	LOW	DESERTIFICATION
KYRGYZ	MODERATE	DESERTIFICATION
LESOTHO	MODERATE	SPECIES LOSS
NEPAL	HIGH	DEFORESTATION
NIGERIA	LOW	DESERTIFICATION
SOLOMON ISL.	HIGH	FLOODING

TONGA	HIGH	FLOODING
VIETNAM	LOW	DEFORESTATION
OTHERS		
BELIZE	UNSUSTAINABLE	DEFORESTATION
JAMAICA	UNSUSTAINABLE	NATURAL DISASTER
JORDAN	SUSTAINABLE	LOWER WATER RESOURCES
MALDIVES	N/A	FLOODING
PAKISTAN	SUSTAINABLE	FLOODING
PNG	MODERATE	DEFORESTATION
SEYCHELLES	UNSUSTAINABLE	DEFORESTATION
SRI LANKA	MODERATE	FLOODING
SWAZILAND	SUSTAINABLE	DESERTIFICATION
VANUATU	SUSTAINABLE	FLOODING

Source: IMF - Article IV Agreement Reports

Typical Debt-Equity Swap



Steps

1. Investor purchases US\$100 million face value debt for US\$20 million (20% purchase price) from a creditor.
2. Investor transfers the US\$100 million debt to the debtor country government for cancellation in exchange for payment of US\$30 million equivalent in local currency (30% redemption price).
3. Investor utilizes the US\$30 million equivalent in local currency for an approved investment in the debtor country.