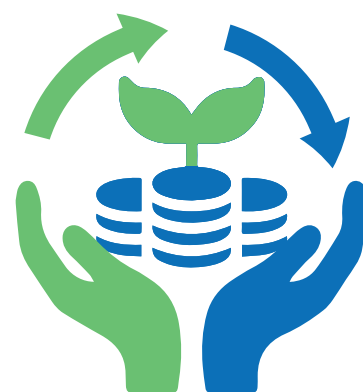




COP27

**SHARM EL-SHEIKH
EGYPT 2022**



SUSTAINABLE DEBT COALITION INITIATIVE

#JUST_AND_AMBITIOUS

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 United Nations
Economic Commission for Africa

1. Summary

Advancing from dialogue at the 2022 Egypt – International Cooperation Forum and Meeting of African Ministers (Egypt-ICF), there is a strong opportunity for the Arab Republic of Egypt to propose a global coalition of the willing on sustainable debt at COP27, including both sovereign debtor and creditor nations. This would support initiatives to increase access to affordable green finance and to facilitate refinancing of existing debt or issuance of new debt, aligned with climate key performance indicators.



The initiative would bring attention to the plight of emerging market and developing economies who are ambitious in the face of climate change but constrained by their existing debt burden, the continuing impacts of the COVID-19 pandemic, tightening monetary policy in advanced economies, higher food and energy costs, and other crises, all of which make public debt prohibitively expensive and less accessible. Without increased fiscal space, and an international forum for addressing outstanding debt issues, many nations will be unable to meet their development priorities and unable to make vital progress against their climate objectives, leading to a global failure on climate change.

2. Context

Debt, instability, and the climate

Despite holding enormous natural capital and human potential, emerging market and developing economies lack the fiscal space necessary to achieve their development and climate ambitions. 43% of African nations and 60% of all low-income countries are in or near debt distress, often driven by external factors beyond their control. The COVID-19 crisis has significantly weakened tax revenues, reduced foreign direct investment, and increased the public burden of healthcare. In combination, these factors have shrunk fiscal space, reversed progress against the 2030 Agenda and Agenda 2063, and threatened climate progress. This trend has been reinforced by tightening monetary policies of advanced economies, higher food and energy costs, strengthening of the US dollar, and other challenges. Without a significant increase in access to finance, non-Annex I nations will be unable to invest sufficiently in climate solutions, endangering planetary health and putting any safe climate pathway out of reach. The justice implications are clear: vulnerable countries and population groups will suffer disproportionately, despite contributing the least to climate change.

The high cost of debt and quantum of existing debt, coupled with low public revenue, brings two direct budgetary implications. First, a nation is forced to rely on only its own tax revenues and unpredictable official aid to finance its investments—new debt is not an option for many nations. Second, debt overhang diverts already limited resources for debt servicing and repayments at the expense of basic needs. In both cases, the existing debt burden imposes on sovereign priorities, reducing the capital available for investment in climate and reinforcing a cycle of inadequate development outcomes. Without a change to the current debt environment, climate and development will trail ambition in many emerging market and developing economies.

Sustainable debt solutions

Recent debt-for-nature investments demonstrate the potential for simultaneous progress on environmental and financial resilience objectives using new sustainable debt issuance. Debtor countries can receive cuts to their outstanding debt and interest repayments, creditors can gain more than market value on outstanding debt, and crucial environmental assets can be protected (while remaining under direct local custodianship). There is a strong opportunity for debt solutions, including swaps and other mechanisms, to address issues related to both climate change and financial stability. However, there have been relatively few such initiatives pursued in recent years. One major issue is the absence of a shared framework for sustainable debt transactions and set of accompanying indicators.

3. Coalition objectives and launch

The objectives of the Coalition are to (i) highlight the difficult fiscal position of emerging market and developing economies and its debilitating impacts on climate action and development, (ii) spur Coalition partners to align on a set of new crucial commitments to alleviate the debt burden, and (iii) launch a new track for consultations at the intersection of debt, climate, and development. The Coalition would serve the interests of all countries, with guardrails and common benchmarks to ensure that it does not advantage any individual nation, or set of bilateral relationships, above another.

The Coalition will provide diplomatic opportunity to align on the use of key performance indicators for debt issuances—whether in the context of refinancing existing debt, or for new issuances. Crucially, the Coalition does not intend to be a platform for debt refinancing efforts, rather it intends to encourage additional sustainable/green investments and address environmental challenges, therefore supporting green growth. Practically, the Coalition should:

- include creditor and debtor nations but exclude private stakeholders,
- acknowledge recent positive progress of nations on linking debt to environmental goals and targets.
- detail its relation to ongoing negotiations for the Paris Agreement and UNFCCC,
- be guided by a Declaration to be negotiated in advance of COP27 and a Governance Charter that can be developed in parallel, but need not be a part of the consultations,
- include perspectives from non-state actors, including civil society organisations, and
- launch under Egypt's patronage on Finance Day at COP27 in Sharm El Sheikh

Next Steps

To participate in the initiative, all stakeholders are kindly invited to express their interest, by filling in this [registration form](#).

For further inquiries and Interested potential partners can also reach out to the COP27 Presidency at the following email address: initiatives@cop27.eg