EURO-MEDITERRANEAN ECONOMISTS ASSOCIATION

DTP
DEBT TRANSPARENCY PLATFORM

EMEA WEBINAR

THE ROLE OF DEBT IN CLIMATE FINANCE FOR THE MEDITERRANEAN AND AFRICA

Wednesday 28th February 2024, 15:00-16:30 CET

Organised by the Euro-Mediterranean Economists Association

Date: 28th February 2024
Moderated by: Prof. Rym Ayadi, President and Founder, EMEA
Rapporteur: Paula Pazos Puig, Research Assistant, EMEA

Background

Climate change is one of the world's greatest challenges, and developing countries are those paying the highest price for its impacts with a lack of instruments to mitigate and adapt. The Mediterranean Basin is considered a "climate change hotspot", an area highly vulnerable in terms of human societies and ecosystems as well as being critically exposed to factors such as sustained high temperatures, less rainfall and continued sea level rise. Overall, Africa is one of the lowest contributors to greenhouse gas emissions causing climate change, yet key development sectors have already experienced widespread losses and damages attributable to human-induced climate change, including biodiversity loss, water shortages, reduced food production, loss of lives and reduced economic growth. These countries are also the most indebted. Many African countries are grappling with high levels of debt and elevated interest rates meanwhile a stronger dollar makes it more expensive for African countries to service dollar-denominated debt, leading to increased debt distress.

In the Mediterranean region, countries like Egypt and Tunisia are particularly at risk, with debt levels exceeding 80% of GDP in both countries, making their economies extremely sensitive to future interest rate hikes and at risk of a debt crisis, while Lebanon defaulted in 2020. The heavy indebtedness of the region hampers national capacity to build and implement adaptation and mitigation strategies. Several initiatives undertaken by the international community (i.e. Special Drawing Rights (SDRs), Debt Service Suspension Initiative (DSSI), Common Framework for debt treatment beyond the DSSI (Common Framework), (Debt Swaps), has not provided the expected results and in some cases risk to create adverse results (i.e. case of Zambia). The complexity of debt is driven by lack of transparency and lack of proper management, enforced by global finance rules based on the Bretton Woods order which are intrinsically inefficient for dealing with a Just Sustainable Transition. The next G21 could be a key turning where, as a member, the African Union (AU) could bring innovative thinking on debt relief and restructuring from an African perspective, concretely contributing for a change in the paradigm.

On February 28th, 2024, the Euro-Mediterranean Economists Association (EMEA) hosted a webinar entitled, **"The Role of Debt in Climate Finance for the Mediterranean and Africa"**. The event brought together an international group of experts across many sectors to have an in-depth discussion on the topic. The webinar was motivated by EMEA's launch in 2020 of the Debt Transparency Initiative, which aims to enhance knowledge about debt-related issues particularly in low-income countries (LICs) and low-middle-income countries (LMICs).

The moderator of the session, **Professor Rym Ayadi, President and Founder of EMEA**, opened the event by emphasising the negative impact that the staggering levels of debt faced by many nations have on a national and international level. She emphasized the critical importance of debt sustainability in enabling countries to invest in climate adaptation and mitigation, essential for tackling the mounting challenges of climate change. Prof. Ayadi highlighted the stark reality of inadequate financial resources for vulnerable countries in Africa and the Mediterranean, exacerbated by perceived risk and lower credit ratings.

Moreover, she underscored the principles of equity and justice in climate finance, cautioning against burdensome conditions accompanying debt cancellations and advocating for a fair transition approach. Despite various initiatives, the complexities involved in addressing these issues and the persistent lack of transparency in debt usage, calling for a more integrated and transparent approach in policymaking to navigate these challenges effectively.

Professor Ayadi then introduced the panellists:

- **Dr. Sandra Challita**, Research Fellow at the Euro-Mediterranean Economists Association and Associate Professor in Finance at Emylon Business School
- **Martin Kessler**, Executive Director of the Finance for Development Lab (FDL)
- **Moez Labidi**, Senior Advisor to the Arab Planning Institute
- **Dr. Maria Ron Balsera**, Interim Executive Director at the Center for Economic and Social Rights (CESR)
- **Federico Sibaja**, IMF Campaign Manager at Recourse
- **Iolanda Fresnillo**, Policy and Advocacy manager on Debt Justice at Eurodad (European Network on Debt and Development)
- **Carola Mejia Silva**, Coordinator of the area of Climate Justice, Transitions and the Amazon at the Latin American Network for Economic and Social Justice (LATINDADD)

Summary of the Discussion

Dr. Sandra Challita initiated the discussion by introducing a collaborative proposal co-authored by Prof. Rym Ayadi and Sara Ronco, centered on a 'blended financing framework for recovery & accelerated sustainable transition'. Against a backdrop of escalating government debt and an urgent call for climate change mitigation, the proposal aims to steer nations towards a sustainable path, integrating the Sustainable Development Goals (SDGs) while mitigating the threat of systemic debt crisis, which particularly affects Low-Income Countries (LICs) and Lower Middle-Income Countries (LMICs). Data underscores a stable debt level among middle-income nations, contrary to an escalating indebtedness in low-income regions like MENA and Sub-Saharan Africa. Although in these contexts the main lenders are institutional, there are other lenders such as UAE for MENA, and China and France for Sub-Saharan Africa. However, these regions experience high indebtedness and high risk, as evidenced by their elevated default scores, which indicates high levels of debt vulnerability.

The proposal advocates for innovative solutions, drawing from the framework proposed by Al Tuwaijri and Ayadi (2021), to establish a sovereign debt registration repository akin to the Debt Transparency Platform, fostering transparency. Complementarily, it calls for the creation of a public-private SDG-compliant financing plan, embedded within the post-COVID-19 global economic recovery strategy, to restructure existing debt, fuel sustainable recovery, and hasten the transition towards SDG objectives and a net-zero scenario. This initiative operationalizes through issuing Recovery, Resilience, and Sustainable Transition Bonds (RRST Bonds), with partial guarantees (ranging from 40% to 60%) provided by the Resilient and Sustainability Trust (RST), established by the IMF in 2022. These bonds afford LICs and LMICs access to long-term maturity at reduced interest rates, enabling the transformation of outstanding debt and funding post-COVID-19 recovery endeavours and sustainable transitions. Integral to this process are stringent conditions dictating fund usage, including allocating a portion of proceeds to service subsequent unpaid debt and ensuring rigorous monitoring through the OECD's debt transparency repository. This collaborative approach involving the private sector, the IMF, and nations facing financial hardship aims to foster broader access to capital markets, enhance transparency, and advance towards SDG and net-zero objectives, ultimately laying the groundwork for a more resilient and sustainable global economy.

Prof. Ayadi highlighted that it is important to lift the complex web of conditionalities on the countries with debt transparency, as it constitutes a limitation to their capacity for sustainable growth.

The next speaker, **Martin Kessler** from DFL, emphasized that while external debt is on the rise, it remains below levels seen two decades ago. However, what is alarming is the fragmentation among lenders, with bonds dominating the landscape. Although external debt service could persist at elevated levels for prolonged periods, particularly impacting Low-Income Countries (LICs) and Lower Middle-Income Countries (LMICs), even under adverse scenarios, debt levels remain reasonable. In response to this challenge, Mr. Kessler advanced the bridge proposal, which suggests that creditors, bilateral creditors, and private creditors extend the repayment timeline in exchange for increased development finance from Multilateral Development Banks (MDBs) and the IMF. Countries would commit to five-year programs aimed at fostering investment and growth, potentially focusing on climate, nature, and social protection investments. It is worth noting that while African borrowers have begun to re-enter markets in the past two months, they are doing so at notably high interest rates.

Moez Labidi, Senior Advisor to the Arab Planning Insitute in Kuwait, delved into the critical issues of debt sustainability and climate vulnerability in the Arab region. The Arab region ranks among the most highly indebted globally, and it is largely exposed to the accelerating impacts of climate change. Mr. Labidi noted the reliance on non-concessional climate finance as the primary funding mechanism, which falls short of meeting the region's needs. Moreover, governments' capacity to generate tax revenue from economic growth is limited and uncertain. The burden of high public external debt levels translates into increased expenditure on debt servicing, exacerbating climate vulnerability. Labidi emphasized the urgent need for a comprehensive and innovative approach that integrates Sustainable Development Goals (SDGs) into debt sustainability strategies, ensuring resilience to both economic and extra-economic shocks.

Mr. Labidi also addressed the challenge of attracting private sector investment in green projects due to concerns over profitability. To address this, he advocated for creating a competitive investment environment and providing incentives for investment, alongside the introduction of innovative financial instruments and bolstering the credibility of monetary authorities. The overarching objective is to mitigate the risk associated with financing green projects. Additionally, fiscal consolidation and structural reforms are key, and a multilateral approach to implementation is required.

Following this intervention **Dr. Maria Ron Balsera**, Executive Director at the Center for Economic and Social Rights (CESR), shed light on the intricate relationship between debt justice, tax justice, and climate justice. She emphasized the urgent need for significant financial resources, citing a $3 trillion shortfall in achieving the Sustainable Development Goals (SDGs) by 2030. Despite the existence of substantial funds, as evidenced by the $480 billion annually lost to global tax abuse, there's a misallocation issue. Global tax cooperation within the United Nations is crucial; the UN Framework Tax Convention negotiations that are currently taking place offer a historic opportunity to develop agreements for fair and effective resource mobilisation.

Dr. Balsera also highlighted disparities in borrowing rates between African nations and high-income countries and pointed out that over 70% of climate finance is in the form of debt, which disproportionately affects vulnerable regions. She argued for a Rights-Based Economy, enabling the realization of economic and social rights through the utilization of available resources, including those lost to illicit financial flows. Systemic economic change and reforms to combat financialization need to be established urgently, through initiatives such as debt cancellation, establishment of a UN Debt Workout Mechanism, and repurposing special drawing rights for climate finance under initiatives like the Bridgetown Initiative. These measures aim to hold private creditors accountable and support countries vulnerable to climate disasters.

Federico Sibaja, IMF Campaign Manager at Recourse, discussed the pressing issue of debt crises and macroeconomic constraints that threaten a just energy transition. Through case studies, he highlighted the intricate challenges faced by countries in transitioning to sustainable energy sources. The example of Argentina's renewable energy plan, Plan Renovar, illustrated the vulnerability of such programs to financial volatility and macroeconomic crises, and revealed the critical importance of ensuring debt and financial stability to sustain long-term energy strategies. Examining the case of Egypt and its approach to increasing tariffs, Mr. Sibaja questioned whether this strategy aligns with an effective energy transition, and he raised concerns about the IMF's role in mobilizing private climate finance in emerging markets and developing economies. He also emphasized the necessity for well-planned energy subsidies embedded within comprehensive, long-term energy transition strategies. Amidst rising debt distress, he questioned whether all countries will be able to effectively manage risks associated with increased private financial flows to navigate the challenges of transitioning to sustainable energy sources.

The next presentation was given by **Iolanda Fresnillo**, Policy and Advocacy Manager on Debt Justice at Eurodad, who provided insights into debt swaps as potential solutions amidst critical debt situations faced by 136 countries. Debt swaps entail conditional debt reduction in exchange for investments in specific areas like education, health, climate, or the environment, and have garnered increasing attention in international development and climate forums. While bilateral debt swaps have historically been prominent, more recently the focus has shifted to private intermediation debt swaps, involving debt buy-backs from bondholders. Notably, debt-for-nature swaps in Belize, Barbados, Ecuador, and Gabon aimed at marine conservation have drawn attention due to issues like transparency, high transaction costs, and lack of country ownership and community participation.

However, historical analysis reveals that debt swaps are not an effective instrument to reduce debt levels. While they can free up funds for governments with fiscal constraints and limited access to grants or concessional finance, concerns persist regarding conditionality, lack of transparency, and complex governance structures. While well-designed debt swaps may positively impact local projects, they are not a viable alternative to debt restructuring or cancellation, especially for unsustainable debt. Moreover, the distinction between traditional bilateral swaps and recent debt-for-nature swaps via debt-buy-back operations is crucial, with the latter perpetuating debt dependency and financial market reliance, potentially subsidizing private creditors. Addressing governance failures in debt swaps is essential for economic, climate, gender, and social justice, emphasizing the need for structural reforms within the international financial architecture.

Carola Mejía Silva, Coordinator of the area of Climate Justice, Transitions and the Amazon at the Latin American Network for Economic and Social Justice (LATINDADD), highlighted the significant presence of debt discussions at COP28, particularly in climate finance negotiations. Amid discussions under the New Collective Quantified Goal process on establishing a new climate finance goal to replace the unfulfilled $100 billion pledge, LATINDADD and other civil society organizations advocated for increased private grant-based funding, especially for adaptation and loss and damage. However, concerns were raised regarding the inclusion of instruments like loans in the new loss and damage fund. Some of the initiatives presented, such as the promotion of more debt-for-nature swaps, was deemed unfair by LATINDADD for not addressing structural issues and potentially benefiting the private sector.

The final decision of COP28 called for increased use of concessional financing and reforming the international financial system, echoing calls from COP27. Proposals from global North countries emphasize a stronger role for multilateral development banks (MDBs) and private sector participation in mobilizing climate finance, despite concerns regarding their continued funding of fossil fuels and reliance on loans, which contribute to the trapping of developing countries into a vicious debt circle. Looking ahead to COP29, discussions on climate finance will be crucial, with a new goal to be set and recommendations from a new group of experts expected. Civil society groups will present solutions involving both public and private creditors, access to non-debt generating resources, and reforming the global financial architecture towards increased use of accessible public grants, which could pave the way for a more democratic and fair global financial system. LATINDADD also presented a proposal for a new allocation of Special Drawing Rights (SDRs) as a new climate finance instrument, and suggested a multilateral legal framework under the UN for addressing sovereign debt crises.

Following the round of presentations, **Prof. Ayadi** opened the discussion by seeking feedback for the co-authored proposal. **Carola Mejía** underscored the necessity for profound, enduring reforms, stressing the pivotal role of the private sector and Multilateral Development Banks (MDBs) in debt-relief initiatives. **Federico Sibaja** pointed out that, from the private sector's perspective a disciplined approach to ensure climate transition plans within the financial sector is needed. He cautioned against overreliance on public funds to de-risk private finance, emphasizing that private finance is not a silver bullet. **Dr. Maria Ron Balsera** agreed with previous remarks, highlighting the limitations of increasing concessional debt. Finally, **Iolanda Fresnillo** emphasized the need for a holistic approach and a battery of proposals, in order to design and implement an effective debt restructuring mechanism. She called for transparency from all creditors, not just borrowing countries, suggesting consequences for those unwilling to disclose their actions.

Overall, the webinar generated a fruitful discussion on debt and its role in climate finance for the Mediterranean and Africa going forward. EMEA will continue these conversations through its webinars, policy papers, and participation in key international events such as COP29 in Baku.

Link to Webinar on EMEA YouTube Channel

Speaker Biographies

Prof. Rym Ayadi

President and Founder of the Euro-Mediterranean Economists Association (EMEA)

She is Founder and Director of the Euro-Mediterranean and African Network for Economic Studies (EMANES). She is Senior Advisor at the Centre for European Policy Studies (CEPS); Professor at the Bayes Business School, City University of London; and Member of the Centre for Banking Research (CBR); Academic member and Chair (2018-present) of the European Banking Authority – Banking Stakeholders Group (EBA- BSG). She is also Associated Scholar at the Centre for Relationship Banking and Economics (CERBE) at LUMSA University in Rome.

Dr. Sandra Challita

EMEA Research Fellow and Associate Professor, Emlyon Business School

Dr. Sandra Challita is an Associate Professor in Finance at Emlyon Business School, a research fellow at the Euro-Mediterranean Economists Association (EMEA) and, the coordinator of the Euro-Mediterranean and African Network for Economic Studies (EMANES).

She received her Ph.D. in Finance at the University of Montpellier. Her research focuses on financial institutions, more specifically different types of banks, their performance and impact on the real economy. She also collaborates on projects aiming to support job creation and development in the Euro-Mediterranean area.

Martin Kessler

Executive Director, Finance for Development Lab

Martin Kessler is the Executive Director of the Finance for Development Lab. Previously, he worked as an economist in the Development Cooperation Directorate of the OECD, focusing on trends of development finance for developing countries, and debt risks in particular.

Prior to this, Martin worked at the World Bank on development dynamics in East Asia and held research positions at the Brussels-based economic think-tank Bruegel and the Peterson Institute for International Economics in Washington DC. He published on the financial consequences of trade wars, hyper-globalization, and economic convergence, as well as on the internationalization of the RMB. Martin is a graduate of the Harvard Kennedy School MPA/ID programme and the Paris School of Economics.

Moez Labidi

Professor of Economics, Senior Advisor to the Arab Planning Institute (Kuwait)

Professor of Economics Faculty of Economic and Management of Mahdia, (Tunisia), Member of Associate Committee of the EU Mediterranean and African Network for Economic Studies (EMANES).

His main research interests are Monetary policy, Banking sector, Macroprudential policy, Debt sustainability, Climate change, Financial inclusion. He is also a consultant for international organizations and local institutions: Member of the Board of directors of the Central bank of Tunisia (2011-2012 and since November 2021- July 2022), member of the Council of Economic Analysis (2015 – 2016 and 2018-2020), Member of Stock Index Committee (Tunisian Stock Exchange (2016 – 2020), Member of The National Council of Competition. Advisor to the Minister of Finance (2016 – 2018), Advisor to President of Government, in Charge of Economic Issues (March - September 2020).

Dr. Maria Ron Balsera

Interim Executive Director, CESR

Dr. Maria Ron Balsera is Interim Executive Director at the Center for Economic and Social Rights. She previously served as the coordinator of the Tax and Education Alliance, a partnership of international and regional tax justice and education constituencies, which includes Actionaid, Tax Justice Network, Global Alliance for Tax Justice, Education International and the Global Campaign for Education. She has also worked at ActionAid International, the Right to Education Project, Human Rights Watch, and the Universities of Roehampton and Bielefeld. Maria holds a Ph.D. in Education and Human Development from Bielefeld University, an MSc in Human Rights from the London School of Economics, an LLM in Fundamental Rights from Universidad Carlos III, and a Diploma in Education from UC Berkeley.

Federico Sibaja

IMF Campaign Manager, Recourse

Federico Sibaja joined Recourse in 2023 as IMF Campaign Manager, leading the campaign to hold the IMF accountable for the impact of its policies in climate and development.

As an economist from the Universidad de Buenos Aires (UBA), Federico has experience working in policymaking and in civil society in Argentina and Belgium. As a former researcher in Fundación Ambiente y Recursos Naturales (FARN) in Argentina, he led the work on the link between the debt crisis and climate policy, including the IMF's role in accelerating fossil fuel extraction and the risks entailed by proposals like debt-for-climate swaps. His work also focused on the role of international public finance institutions in Vaca Muerta.

Iolanda Fresnillo

Policy and Advocacy Manager on Debt Justice, Eurodad (European Network on Debt and Development)

Over the last two decades, Iolanda has been closely involved in local, national and international social movements and has campaigned on development finance, debt, human rights, feminism, environment, peace, trade and responsible consumption.

She has worked for more than 10 years as a researcher, campaigns and communications manager at Observatori del Deute en la Globalització and as a research consultant at Eurodad, Medicos Sin Fronteras-MSF and Transnational Institute, among others. Iolanda holds a MA in Development and Cooperation and a BA in Sociology, both from the University of Barcelona.

Carola Mejía Silva

Coordinator of the area of Climate Justice, Transitions and the Amazon, Latin American Network for Economic and Social Justice (LATINDADD)

Carola Mejia is a Bolivian economist, with a master's degree in Economics of Development, specialized in Sustainable Development, with 16 years of experience as advisor, consultant and regional coordinator for public, private and international cooperation institutions and networks, with main experience in environmental projects, climate finance and sustainable development in Latin America.

She also has experience in the academic sector. She currently works as Coordinator of the area of Climate Justice, Transitions and the Amazon at the Latin American Network for Economic and Social Justice (LATINDADD).