Executive Summary

Healthy Debt on a Healthy Planet

Towards a virtuous circle of sovereign debt, nature and climate resilience

The Final Report of the Expert Review on Debt, Nature and Climate

The Expert Review on Debt, Nature and Climate

The Expert Review on Debt, Nature and Climate was established in 2023 by the governments of Colombia, Kenya, France and Germany as an independent, comprehensive assessment of the relationship between sovereign debt, nature conservation and climate action in low and middle income countries. It is an initiative of the Paris Pact for People and the Planet (4P), which gathers over 70 countries on a shared agenda to reform the international financial architecture.

The Expert Review has been led by an Independent Expert Group (IEG) co-chaired by Vera Songwe and Moritz Kraemer. Drawn from both developed and developing countries, members of the IEG have expertise and experience in borrower and creditor country governments, international financial institutions, the private sector, academia and civil society.

The Expert Review has been supported by a Secretariat drawn from four independent research institutes: the UN Economic Commission for Latin America and the Caribbean (CEPAL/ECLAC, based in Santiago, Chile), ODI Global (based in London, UK), the Finance for Development Lab (based in Paris, France), and the African Center for Economic Transformation ACET (based in Accra, Ghana).

The Expert Review was tasked with examining how the structure, volume and analysis of sovereign debt impact on the ability of low and middle income countries to conserve nature, adapt to climate change and decarbonize their economies; and how such debt can become more sustainable, both fiscally and environmentally.

The Review has consulted widely with stakeholders in this field (see Acknowledgements). Its Interim Report, *Tackling the Vicious Circle*, was published in October 2024. Both the Interim and Final Reports have been produced by the Independent Expert Group and should not be taken as reflecting the views of the sponsoring countries.

The Expert Review has been funded by the governments of Germany, France and Ireland and the Children's Investment Fund Foundation.

For more information, and to contact the Review, visit www.debtnatureclimate.org.

April 2025

Citation: Expert Review on Debt, Nature and Climate (2025). Healthy Debt on a Healthy Planet: Towards a Virtuous Circle of Sovereign Debt, Nature and Climate Resilience. Final Report. (https://debtnatureclimate.org/reports/healthy-debt-on-a-healthy-planet-towards-a-virtuous-circle-of-sovereign-debt-nature-and-climate-resilience/)

Nature loss and climate change pose an increasingly urgent threat to prosperity and wellbeing. Responding to these unfolding crises will require substantial investment in all countries, and particularly in emerging market and developing countries (EMDCs).

Yet at this crucial moment, capital has actually been flowing out of EMDCs, primarily as a result of the slowdown in growth in the advanced economies alongside persistently high inflation.

Recent months have seen a notable deterioration in the international environment of trade, investment and interest rates, and aid flows have been cut. The issues discussed in this report have therefore become even more urgent.

EMDCs will need purposeful and integrated strategies to mobilize all affordable finance sources and deploy them according to their complementary strengths. But even with stronger efforts to mobilize domestic resources and create an enabling environment, many EMDCs will not be able to unlock the investment they need without urgent action to address existing pressures on their sovereign debt. Some are facing insolvency, while many are grappling with illiquidity.

In our Interim Report, we articulated how, for a growing number of countries, the debt, climate and nature crises are coming together in a 'vicious circle'. Increasingly frequent and severe environmental shocks and stresses are forcing many countries to borrow more to finance disaster response and recovery. Those same shocks and stresses constrain economic growth and public revenues, reducing fiscal headroom to pursue sustainable development and service existing debt. Climate- and nature-related risks, higher debt burdens and slower growth all also serve to make borrowing more expensive, which in turn makes meeting the incremental costs of climate-smart and nature-positive development even harder. Debt pressures and environmental vulnerabilities are most pronounced in the poorest and most credit-constrained countries, such as least developed countries (LDCs) and small island developing states (SIDS). Yet these countries account for only a tiny fraction of the consumption and emissions driving nature loss and climate change.

> Shifting to a virtuous circle implies a profound change in both economies and societies, with transition risks and tradeoffs in key sectors.

Our Interim Report also laid out an alternative development path: a 'virtuous circle' of green and resilient economic growth. While the risks of disasters and other costs of climate change will not disappear, sustainable infrastructure investment, technological innovation, improved resource productivity and large-scale environmental conservation and restoration could nonetheless drive strong, balanced and resilient development in the face of these challenges, while sustaining the ecosystem services on which economies and societies depend. However, shifting to a virtuous circle implies a profound change in both economies and societies, with

A holistic response to the triple crisis is critical to break the vicious circle and shift to a virtuous circle of green and resilient economic growth.

transition risks and tradeoffs in key sectors. It will also demand a step change in the quantity and quality of domestic and international financing, both concessional and non-concessional. Such a step change will only be possible through concerted efforts by EMDCs themselves, their creditors and the international financial institutions.

In this Final Report, we offer a suite of recommendations to respond to the 'triple crisis' of debt pressures, nature loss and climate impacts being experienced by many countries. Our recommendations are intended to support borrowers, creditors and the multilateral processes working to unlock finance for sustainable development in this critical decade of action. These recommendations should be understood as complements to one another, rather than alternatives or substitutes. A holistic response to the triple crisis is critical to break the vicious circle and shift to a virtuous circle of green and resilient economic growth.

First, we call for the mainstreaming of nature and climate considerations into macroeconomic and fiscal analysis. Around the world, economic, fiscal and financial decision-makers are beginning to recognize how nature and climate considerations should inform their decisions. But there is more to do to properly include such considerations in the models and tools they use. Incorporating nature and climate risks and benefits into economic models is not easy, but failure to do so leads decision-makers to seriously undervalue nature- and climate-related investment. We recommend that:

- The IMF and World Bank should continue to revise their Debt Sustainability Frameworks (DSFs) to better incorporate both climate-related and nature-related risks and the economic benefits of policies and investments to reduce them. In particular we recommend that they:
  - Strengthen Debt Sustainability Analyses (DSAs) by identifying nature- and climate-risks that can become macro-critical in each country; estimate the future impacts of those risks and their potential economic and fiscal losses; and calculate the potential returns on investments to mitigate those risks.
  - Develop scenarios with different levels of resilience investment, and estimate the associated economic and fiscal impacts, to enable EMDCs and their creditors to make informed decisions about investment and lending.
- Credit ratings agencies should also incorporate climate- and nature-related risks and the economic benefits of measures to reduce them in their credit rating analysis, following the lead of the IMF and World Bank DSFs.
- The IMF and World Bank, along with governments, central banks and other financial institutions, should complement their existing macro-economic and macro-financial models with new approaches which better incorporate nature and climate factors, including through the use of stock-flow consistent models.

Second, we recommend reducing debt pressures through debt restructuring or refinancing operations that are linked to nature- and climate-related investment. The macroeconomic conditions and fiscal positions of EMDCs are very diverse. Many have low risk of debt distress. But some face a rising risk of insolvency with sharp rises in debt service costs projected in the short and medium term. Countries in or at high risk of debt distress face the challenge of improving debt sustainability under tightening conditions while securing additional resources for critical climate- and nature-related investments. In these contexts, it is possible to reduce debt pressures in a way that helps cut emissions, boost resilience and conserve and restore nature. We recommend that:

- A country undergoing debt restructuring should be able to receive additional debt relief in return for binding nature- and climate-related commitments that are expected to enhance resilience and stimulate growth, and thus prevent recurring debt crises.
- A country that has high debt levels, but is not yet in a debt crisis (i.e. is not classified by the IMF's DSA as being in debt distress), should be able to undertake debt refinancing to enable nature- and climate-related investments that are expected to enhance resilience and stimulate growth. This would be a 'class-based' debt refinancing initiative for low-income countries (LICs) or LDCs that do not have market access.

Countries in or at high risk of debt distress face the challenge of improving debt sustainability under tightening conditions while securing additional resources for critical climate and nature-related investments.

In both cases the level of debt relief and terms of refinancing provided, and the choice of investments financed through the above measures, should be informed by a nature- and climate-smart DSA conducted by the IMF and/or World Bank, and a country's own Nationally Determined Contribution (NDC), National Adaptation Plan (NAP) and National Biodiversity Strategy and Action Plan (NBSAP).

Third, we recommend scaling proven approaches that tackle debt, nature and climate together. Reducing debt pressures and enhancing domestic resource mobilization are necessary preconditions to enable nature- and climate-related investment in many EMDCs. However, there is widespread recognition that these measures will not be sufficient to enable most countries to shift on to a low-emission, climate-resilient and nature-positive economic path. Additional, affordable finance from international public and private sources will be necessary to close the investment gap. To this end, we encourage EMDCs, creditors, MDBs and donors to build upon the extensive analytical work, policy experimentation and financial innovation over the past decade.

We recommend that:

- Building on the plans set out in the G20 Roadmap Towards Bigger, Better and More Effective MDBs:
    - Shareholders should aim to recapitalize the MDB system to enable the scaling up of lending for low-carbon, climate-resilient and nature-positive development.
    - MDBs should create a new class of adequately priced non-concessional loans over longer maturities (30–40 years) for certain nature- and climate-related investments.
- EMDCs and Development Finance Institutions (DFIs) should be encouraged and supported by the IMF and MDBs to introduce simple forms of contingency to manage debt burdens and borrowing costs in the event of an external shock or stress.
- MDBs, EMDCs, donor governments and civil society organizations should work together to expand the use of debt-for-nature and debt-for-climate swaps and sustainability-linked financing, by developing standardized structures which make them easier and cheaper to transact.

Fourth, we recommend unlocking private capital via new mechanisms and instruments. Even with a concerted push on domestic resource mobilization, new initiatives to relieve debt pressures and rapid scaling of proven instruments, many EMDCs will continue to face an investment gap. Raising and steering both domestic and international private finance towards nature- and climate-related development projects will be key. Private finance is already flowing into many middle-income countries. But it is very uneven by sector and region. New mechanisms are therefore needed, accompanied by efforts by EMDCs themselves to foster an enabling investment environment. We recommend that:

- A special-purpose vehicle, the Finance Facility against Climate Change (F2C2), should be established to unlock private funds through the capital markets by issuing green bonds earmarked for climate-related investments in EMDCs, financed by future aid commitments. This could aim to provide up to $1 trillion in new lending.
- EMDCs and DFIs should work together to develop new equity-like instruments to finance resilience infrastructure, which will better align repayments with real fiscal savings.

New financing mechanisms are therefore needed, accompanied by efforts by EMDCs themselves to foster an enabling investment environment.

Fifth, we recommend equipping EMDCs to manage debt and investment more sustainably. Green restructuring or refinancing will be necessary for some EMDCs to break out of the vicious circle of debt and environmental vulnerabilities. Increasing the flows of international concessional and private finance to EMDCs will be essential to close the investment gap. But ultimately, much of the finance required for sustainable development in EMDCs will have to come from domestic public and private sources. Significant improvements in domestic resource mobilization and much more strategic use of debt instruments will therefore need to be at the heart of most EMDCs' financing strategies. We recommend that:

- EMDCs, particularly those with tax revenues at or below 15% of GDP, should prioritize enhancing domestic resource mobilization to increase the funds available for public goods, including through the phasing out of environmentally harmful subsidies, and by raising the level and expanding the scope of carbon pricing.
- MDBs, the IMF, UN agencies and regional UN economic commissions should work together to create a 'one-stop shop' or single platform for technical assistance, better data and mutual support, to enable governments and international economic institutions to improve the design and management of fiscally and environmentally sustainable debt and investment.

The recommendations proposed in the final report are collected together in the Summary Table overleaf.

Summary of Recommendations

No.	Recommendation	Corresponding report chapter and section
Mainstreaming nature and climate into macroeconomic and fiscal analysis		Chapter 2
1.	The IMF and World Bank should continue to revise their Debt Sustainability Frameworks (DSFs) to better incorporate both climate-related and nature-related risks and the economic benefits of measures to reduce them.	Section 2.1
2.	Credit ratings agencies should also incorporate climate- and nature-related risks and the economic benefits of measures to reduce them in their credit rating analysis, following the lead of the IMF and World Bank DSFs.	Section 2.1
3.	The IMF and World Bank, governments, central banks and other financial institutions should complement their existing macro-economic and macro-financial models with new approaches which better incorporate nature and climate factors, including through the use of stock-flow consistent models.	Section 2.2
Reducing debt pressures to enable nature- and climate-related investment		Chapter 3
4.	Countries undergoing debt restructuring should be able to receive additional debt relief in return for binding nature- and climate-related commitments that are expected to enhance resilience and stimulate growth and thus prevent recurring debt crises.	Section 3.1
5.	Non-market access EMDCs with high debt service obligations, but which are not yet in a debt crisis, should be able to undertake debt refinancing to enable nature- and climate-related investments	Section 3.2
Scaling proven instruments to tackle debt, nature and climate together		Chapter 4
6.	Building on the plans set out in the G20 Roadmap Towards Bigger, Better and More Effective MDBs: • Shareholders should aim to recapitalize the MDB system to enable the scaling up of lending for low-carbon, climate-resilient and nature-positive development. • MDBs should create a new class of adequately priced non-concessional loans over longer maturities (30–40 years) for certain nature- and climate-related investment.	Section 4.1

No.	Recommendation	Corresponding report chapter and section
7.	MDBs should introduce new simple forms of contingency to manage debt burdens and borrowing costs in the event of an external shock or stress.	Section 4.2
8.	MDBs, EMDCs, donor governments and civil society organizations should work together to expand the use of debt-for-nature and debt-for-climate swaps and sustainability-linked financing, by developing standardized structures which make them easier and cheaper to transact.	Section 4.3
Unlocking private capital via new mechanisms and instruments		Chapter 5
9.	A special-purpose vehicle, the Finance Facility against Climate Change (F2C2), should be established to unlock private funds through the capital markets by issuing green bonds earmarked for climate-related investments in EMDCs, financed by future aid commitments.	Section 5.1
10.	EMDCs and DFIs should work together to develop new equity-like instruments to finance resilience infrastructure, which will better align repayments with real fiscal savings.	Section 5.2
Equipping countries to manage debt and investment more sustainably		Chapter 6
11.	EMDCs, particularly those with tax revenues at or below 15% of GDP, should prioritize enhancing domestic resource mobilization to increase the funds available for public goods, including through the phasing out of environmentally harmful subsidies, and by raising the level and expanding the scope of carbon pricing.	Section 6.1
12.	MDBs, the IMF, UN agencies and regional UN economic commissions should work together to create a 'one-stop shop' or single platform for technical assistance, better data and mutual support, to enable governments and international economic institutions to improve the design and management of fiscally and environmentally sustainable debt and investment.	Section 6.2

Acknowledgements

The Independent Expert Group is grateful to the members of the Expert Review Secretariat who have contributed to the research and drafting of this Report: Gabriel Oddone, Alfonso Capurro, Francisco Rosas, Martin Pereyra (CEPAL/ECLAC consultants), Santiago Lorenzo (CEPAL/ECLAC), Sarah Colenbrander, Michael Jacobs, Emily Wilkinson, Dina Zayed (ODI Global), Sima Kammourieh, Martin Kessler and Yoan Raih (Finance for Development Lab), and John Asafu-Adjaye (ACET).

The report has been edited by Sarah Colenbrander and Michael Jacobs.

Thanks also to Catriona Foley, Cecilia Alves and Clara Canepa, and to contributions by Systemiq.

The Independent Expert Group is extremely grateful to the staff of the governments, institutions and other stakeholders which have engaged with the Review:

- International Monetary Fund
- World Bank
- Inter-American Development Bank
- Asian Development Bank
- African Development Bank
- African Union Commission
- UN Environment Programme
- UN Economic and Social Commission for Western Asia
- UN Trade and Development
- Organisation for Economic Co-operation and Development
- Group of 24
- Paris Club Secretariat
- Government of France
- Government of Germany
- Government of Kenya
- Government of Colombia
- Government of the UK
- US Treasury
- Paris Pact for People and the Planet
- Bridgetown Initiative
- Coalition of Finance Ministers for Climate Action
- Network for Greening the Financial System
- Sustainable Debt Coalition
- S&P Global
- Moody's
- Fitch
- Institute of International Finance
- Emerging Markets Investment Association
- Systemiq
- Sustainable Sovereign Debt Hub
- International Institute for Environment and Development
- The Nature Conservancy
- Debt Relief for a Green Recovery
- Debt Justice Campaign
- UN Secretary General's Expert Group on Debt
- Bretton Woods at 80 Initiative
- Vatican Commission on Sovereign Debt

Design by Creative Concern

The Independent Expert Group

Co-chairs

Vera Songwe
Founder and Chair, Liquidity and Sustainability Facility, and former Executive Secretary, United Nations Economic Commission for Africa and UN Under-Secretary-General

Moritz Kraemer
Chief Economist, LBBW Bank, and former Global Chief Ratings Officer, S&P Global (formerly Standard and Poor's)

Members

Masood Ahmed
President Emeritus, Center for Global Development

Juan-Camilo Cardenas
Professor in the Department of Economics, University of Massachusetts Amherst and Universidad de Los Andes, Colombia

Simon Cueva
Rector, Universidad Internacional del Ecuador, and former Minister of Economy and Finance, Ecuador

Kevin Gallagher
Professor of Global Development Policy and Director, Boston University Global Development Policy Center

Sandrine Gaudin
Vice-Governor (Financial Strategy), Council of Europe Development Bank

Ma Jun
Founder and President, Institute of Finance and Sustainability, Beijing

Frannie Leautier
Partner and CEO, SouthBridge Investment, and former Chief of Staff to the President and Vice President, World Bank Group

Isabelle Mateos y Lago
Group Chief Economist, BNP Paribas

Wanjira Mathai
Managing Director for Africa and Global Partnerships, World Resources Institute

Irene Monasterolo
Professor of Climate Finance, School of Economics, Utrecht University, CEPR, WU Wien

Avinash Persaud
Special Advisor on Climate Change to the President, Inter-American Development Bank

Anthony Requin
General Inspector of Finance and former Chief Executive of French debt management office (Agence France Trésor)

Brad Setser
Whitney Shepardson Senior Fellow, Council on Foreign Relations, Washington DC

Stacy Swann
Founder and CEO, Resilient Earth Capital, and former CEO, Climate Finance Advisors

Jeromin Zettelmeyer
Director, Bruegel think tank, Brussels, and former Deputy Director, Strategy and Policy Review Department, IMF

Expert
Review on
**Debt,
Nature &
Climate**