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GROUP

WASHINGTON, D.C.

JUNE 2021

- I. The Triple Threat
- II. The Carbon Conundrum
- III. Solutions
 - New money
 - Debt relief
 - Debt-for-nature conversions
 - Natural capital as sovereign asset



DEBT

- The global economic contraction of 3.4% in 2020 due to the COVID-19 pandemic was the largest in the post-war period, compared with 2.6% growth in 2019. (Fitch)
- A major blow to world's poorest countries, the pandemic caused a recession that could push more than 100 million people into extreme poverty. (IMF)
- Sovereign downgrades increased nearly three-fold in 2020, to a record 32; Emerging market (EM) sovereigns saw 26 downgrades and no upgrades during the year. (Fitch)
- 73 countries are eligible for the G20 DSSI, and since it took effect on May 1, 2020, 40 eligible countries have applied for assistance equaling more than \$5 billion. (World Bank)
- According to the IMF, half of low-income countries (LICs) (36 of 70 countries) were at high risk of debt distress or already in debt distress. Many emerging market economies were also at significant risk of debt distress.

CLIMATE

- Climate change is real and human activities, largely the release of polluting gases from burning fossil fuel (coal, oil, gas), is the main cause. (IPCC)
- To prevent warming beyond 1.5°C, we need to reduce emissions by 7.6% every year from this year to 2030. (UN EGR, 2019)
- 30% of the world's population is exposed to deadly heat waves more than 20 days a year. (UNEP)
- COP 26 in Glasgow, UK in November 2021 will be the most important intergovernmental meeting on the climate crisis since the Paris agreement was passed in 2015. (UN)

NATURE

- 75% of the Earth's land surface has been significantly altered by human actions, including for example the loss of 85% of the area of wetlands. (UN)
- 66% of the ocean area is experiencing multiple impacts from people, including from fisheries, pollution, and chemical changes from acidification. (UN)
- Conserving and restoring natural spaces, both on land and in the water, is essential for limiting carbon emissions providing one-third of the mitigation effort needed in the next decade. (UNEP)
- Since over half of global GDP has a high or moderately high dependency on nature, investing in nature-based solutions will not only limit global warming but also result in about 4 trillion dollars in revenue for businesses and over 100 million new jobs each year by 2030. (UNEP)

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- The IFIs recognized the “triple threat” at the Spring Meetings along with their commitment to support efforts to “build back better and greener”
 - This month, the G7 Finance Ministers and Central Bank Governors committed to a multi-year effort to tackle climate change and biodiversity loss and recognized:
 - ✓ The need to green the global financial system so that financial decisions take climate considerations into account
 - ✓ To help mobilize the trillions of dollars of private sector finance needed and reinforce government policy to meet net zero commitments
 - ✓ To establish the **Taskforce on Nature-related Financial Disclosures (TNFD)** in line with the Dasgupta Review on the Economics of Biodiversity and the related OECD Policy Guide on Biodiversity
 - ✓ To mobilize US\$100 billion annually for developing countries from public and private sources, in the context of meaningful mitigation actions and transparency on implementation
 - ✓ To increase and improve G7 climate finance contributions through to 2025, including increasing adaptation finance and **finance for nature-based solutions**.
 - US White House provided a refreshingly supportive statement:
 - “To fully address the climate crisis, we also must recognize and focus on the role of conservation. This is why the United States supports the **G7 goal of conserving or protecting at least 30 percent of global land and marine areas by 2030** – a commitment grounded in scientific evidence that has shown increasing conservation is critical for maintaining the health and productivity of our ecosystems for generations to come.” June 12, 2021

- The International Energy Agency (IEA) developed a model to show how the world can get to net-zero emissions by 2050 while ensuring a basic standard of living for all people.
- The model examines more than 400 artificial technologies of carbon capture and carbon sequestration.
- It found that almost half the emissions reductions between now and 2050 would come from technologies that are either still in the prototype phase or just being demonstrated.
- At the same time, we must protect our **natural carbon sinks**:
 - Soil is a carbon store and active carbon sink.
 - Terrestrial plants are carbon sinks during growing season through photosynthesis.
 - Oceans are capable of absorbing about 50% of the carbon dioxide emitted into the atmosphere via physicochemical and minor biological processes – from plankton, coral, fish, algae, and other photosynthetic bacteria.

State of technology needed for net-zero emissions by 2050

An International Energy Agency report on pathways to cut global greenhouse gas emissions to net-zero by 2050 finds that nearly half the emissions cuts come from technologies that are still under development in either demonstration or prototype phases.

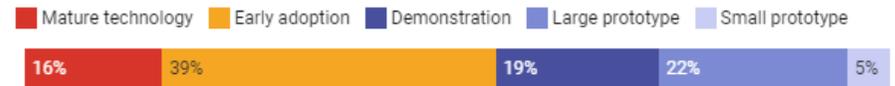


Chart: The Conversation/CC-BY-ND • Source: IEA • [Get the data](#)



<https://www.activesustainability.com/climate-change/carbon-sinks-what-are/>

A RANGE OF POSSIBLE SOLUTIONS

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1. NEW MONEY

- Middle-income countries with market access are increasingly turning to ESG and impact investors to finance green/blue projects.
- Sovereign sustainable-linked bonds (SLBs) would be for general budget purposes and are still under development.



GREEN BONDS

- Use of proceeds
- Green Bonds are any type of bond instrument where the proceeds or an equivalent amount will be exclusively applied to finance or re-finance, in part or in full, new and/or existing eligible Green Projects.



BLUE BONDS

- Use of proceeds
- The “blue” label for bonds under existing principles and frameworks allows issuers to signal sustainability strategies seeking to advance a healthy, productive and more sustainable ocean.



SOVEREIGN SLB

- Performance-linked bonds
- SLB proceeds would be primarily for the general purposes of a sovereign issuer in pursuit of identified Key Performance Indicators (KPIs) and Sustainability Performance Targets (SPTs).

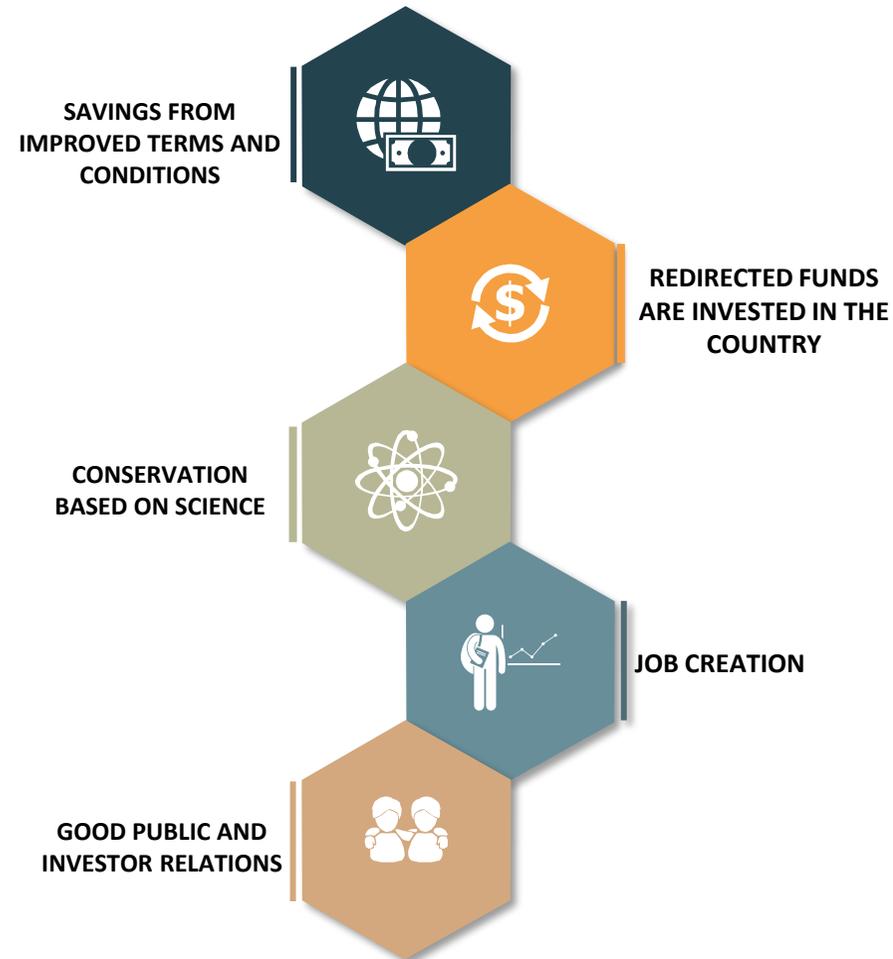
2. DEBT RELIEF

- Low-income countries were severely hit by the global pandemic, and they continue to struggle to obtain the necessary PPE and vaccines. At the same time, it is widely accepted, that climate events have a disproportionate impact on poor nations and vulnerable populations.
- The international community mobilized emergency support for low-income countries through the IMF, World Bank, and regional development banks. Under the G20, they also responded with the Debt Service Suspension Initiative and the Common Framework.
 - Expanded on practices and norms developed in the Paris Club to include a wider range of creditor countries, including China.
 - G20 recognized the need to mobilize private sector participation. Comparable treatment with private creditors is “encouraged” under the DSSI and required under the Common Framework.
 - **Paris Club agreements always included language allowing for debt conversions.** Unclear if Common Framework will encourage debt-for-nature swaps.
- Middle-income countries are currently excluded from DSSI and the Common Framework and continue to rely on an ad-hoc system of debt relief negotiations, regardless of the sovereign’s standing with the IMF.
- Some stakeholders question whether official debt relief should be granted without additional conditionalities related to SDG, i.e. “green strings attached.”

3. DEBT FOR NATURE CONVERSIONS

- The first debt-for-nature swap was agreed between Conservation International and Bolivia in 1987. Another notable example, which swapped Paris Club official debt, was the Seychelles in 2016 resulting in the creation of a USD 22 million investment in marine conservation. This was supported by The Nature Conservancy (TNC).
- Most recently, Pakistan announced in June it was set to sign agreements with Germany, Italy, Canada and the United Kingdom for “millions of dollars” in debt relief in exchange for investments in environmental conservation efforts across the country, in particular the restoration of the natural environment.
- TNC has established the Blue Bonds for Ocean Conservation program, which is a self-described “audacious plan to save the world’s ocean” by supporting island and coastal nations to restructure their distressed sovereign debt and create long-term sustainable financing for marine protections, sustainable economic development, and climate change.
- TNC Blue Bonds for Ocean Conservation program allows a country to restructure a portion of its sovereign debt in a way that reduces their debt burden and secures long-term funding for marine conservation activities, as negotiated and agreed in the Marine Spatial Plan.

Key Advantages of Debt-for-Nature Conversions

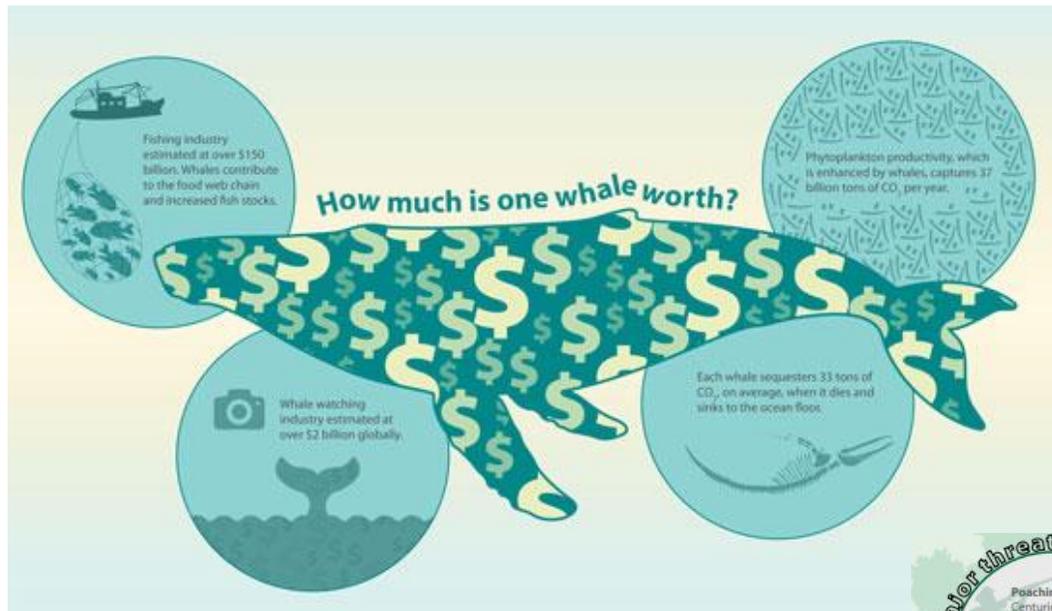


4. NATURAL CAPITAL AS SOVEREIGN ASSET

- We are used to thinking of oil, gas, and minerals as natural assets that can be monetized. In the same way, we think of forests as potential timber, elephants as ivory, fish and whales as sources of food. (Non-Renewable)
- But what about the flora and fauna when it is alive and well, living its natural life in the ecosystem?
- With the global focus on carbon and carbon offsets, we can imagine forests as national assets. But what about wetlands? coral reefs? And what about the animals?
- Recent work by scientists, conservationists, mathematicians, and importantly, a certain IMF economist named Ralph Chami, calculates the value of the services of certain key species, such as whales and elephants.
 - They calculate, for instance, that **a great whale sequesters 33 tons of CO2 on average, taking that carbon out of the atmosphere for centuries.** A tree, meanwhile, absorbs only up to 48 pounds of CO2 a year carbon.
 - In addition, thanks to whale activity, phytoplankton productivity increases and at a minimum, even a 1 percent increase would capture hundreds of millions of tons of additional CO2 a year, equivalent to the sudden appearance of 2 billion mature trees.

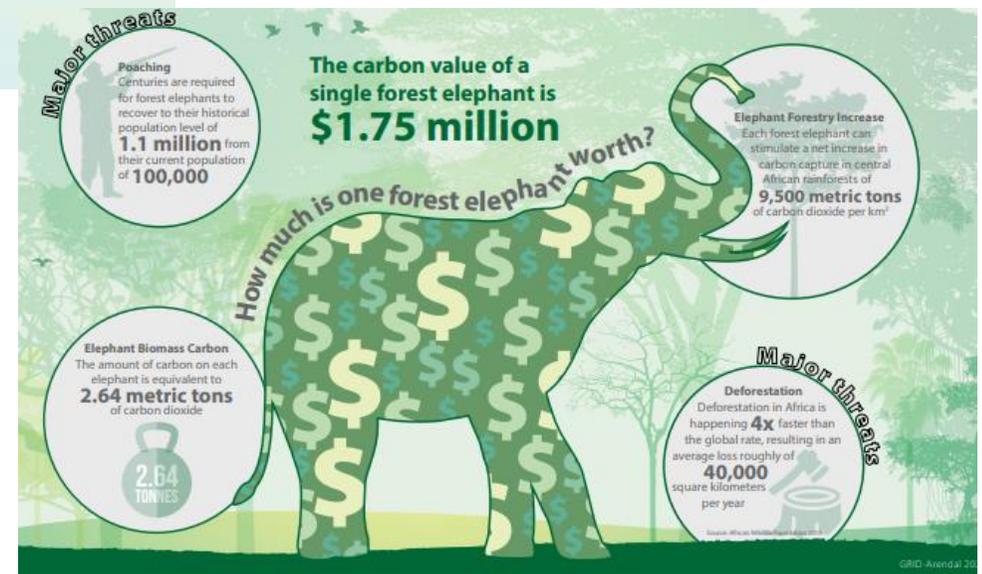
“VALUATION INSPIRES ACTION” – RALPH CHAMI

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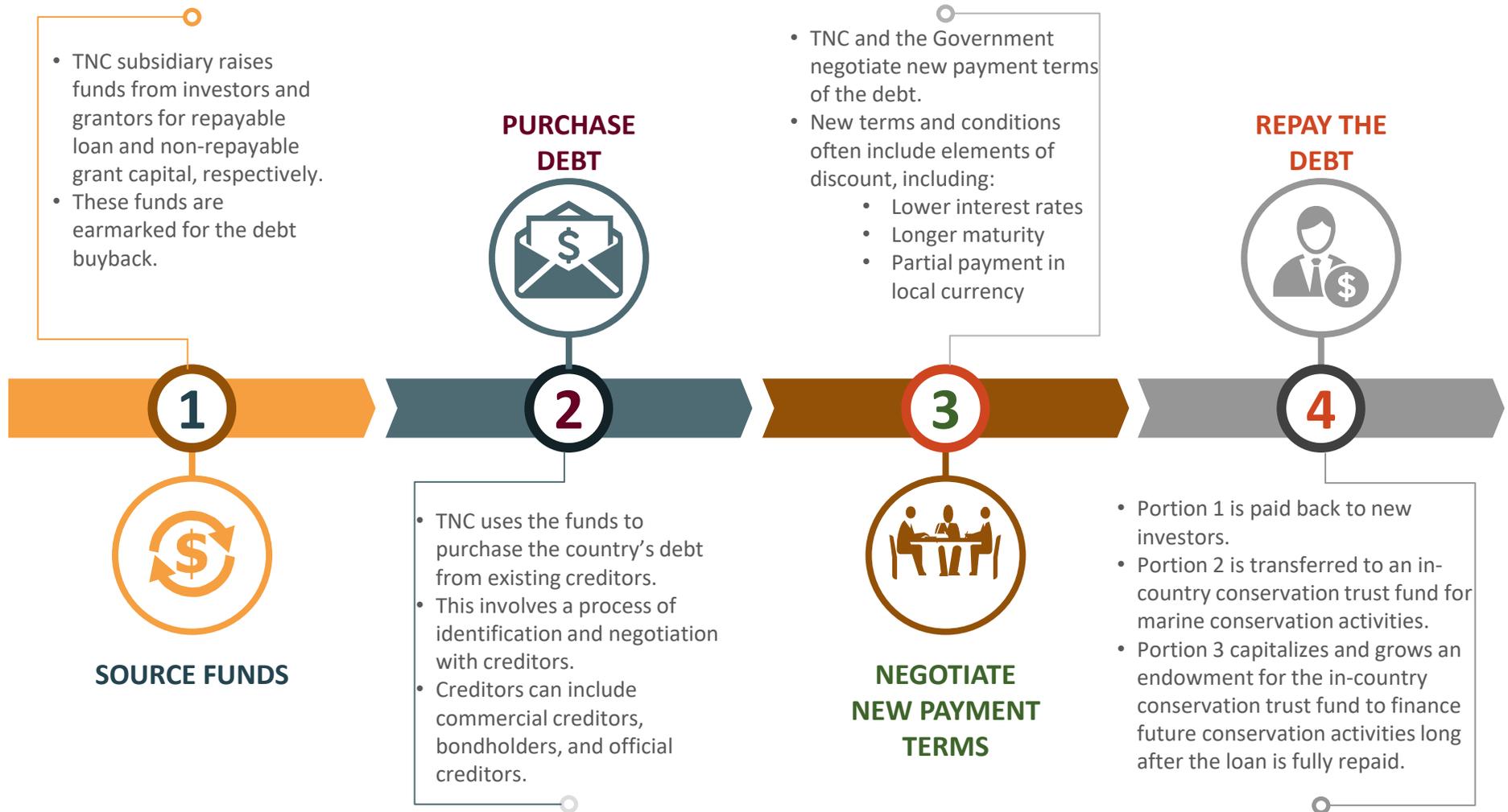
- Chami’s conservative estimates put the value of the average great whale, based on its various activities, at more than \$2 million, and easily over \$1 trillion for the current stock of great whales.
 - <https://www.imf.org/external/pubs/ft/fandd/2019/12/natures-solution-to-climate-change-chami.htm>

- In their paper, they calculated the total value of the service provided by African forest elephants and divided it by the current population, finding that each elephant is responsible for service worth more than \$1.75 million.
 - <https://www.imf.org/external/pubs/ft/fandd/2020/12/pdf/how-african-elephants-fight-climate-change-ralph-chami.pdf>



THE NATURE CONSERVANCY: DEBT CONVERSION IN FOUR STEPS

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