

Discussion of
“Climate-Just Debt Swap”
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Naples July 1st 2025
3th Conference Climate Banking & Finance

How can we finance green infrastructure in developing countries?

- Developing countries may be those where adaptation projects are most needed and mitigation projects are most effective.
- However, these countries often lack financial resources and are burdened by large amounts of debt denominated in USD.

- **Developing Country (MO):** Has a debt D denominated in USD.
- **Bank (JPM):** Holds MO's debt D .
- Market value of $D = 100$ USD.

- **Developing country (MO):** Wants to implement a 'green' infrastructure that has a cost of 100 USD
- **Developed country (ITA):** wants to spur ITA's business
- **Multinational (Enel):** Based in developed country (ITA) can deliver the 'green' infrastructure.

Players and Timing $t = 1$

- **Developed Country (ITA):** Invests 100 USD in CJDS, managed by the Multilateral Development Bank (MDB).
- **MDB:** Uses 100 USD to purchase the debt D from the Bank (JPM) and cancels it.
- **Bank (JPM):** Must lend 100 USD to the Developing Country, with repayment in local currency (MAD).
- **Developing Country (MO):** Uses the funds to purchase green infrastructure from the Multinational (Enel).
- **Multinational (Enel):** Delivers the infrastructure to the Developing Country (MO).

- The infrastructure generates revenue in the local currency.
- The Developing Country (MO) uses this revenue to repay its debt to the Bank (JPM).

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 - If market is efficient Banks is indifferent between D in USD and the new credit in MAD.
 - Developing country has incentive to devalue its currency.
 - Due to currency risk, the Bank is not necessarily better off.
 - The Bank has no collateral \Rightarrow Infrastructure ownership can be used as collateral.
 - 'Green' infrastructure must generate enough revenue to repay the debt \Rightarrow only positive NPV projects can be financed.

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 - 'Green' infrastructure must generate enough revenue to repay the debt \Rightarrow only positive NPV projects can be financed.
- Stimulating Developed Country business:
 - If the project requires local workers, training, and suppliers, a larger share of the capital provided by ITA does not return to ITA.
 - ITA would therefore require altruistic taxpayers.
- Greenness of projects need to be certified ex-ante and verified ex-post by a third independent party.