JOINT DECLARATION

Regarding Credit Enhancement of Sustainability-Linked Sovereign Financing for Nature & Climate

This Joint Declaration is by and among the following Multilateral Development Banks, Development Finance Institutions and other international organizations collectively referred to as the "Participants": **Agence Française de Développement (AFD), Asian Development Bank, African Development Bank, European Investment Bank, Green Climate Fund, Global Environment Facility, Inter-American Development Bank, and United States International Development Finance Corporation.**

WHEREAS, the Participants, building on the Joint Statement on Nature, People and Planet made by Multilateral Development Banks at COP 26, recognize the critical role of both sustainability-linked sovereign financing instruments and credit enhancement to improve incentives, strengthen commitment and impact, and mobilize resources for climate and nature goals;

WHEREAS, the Participants recognize that the elevated debt and debt service burdens facing developing countries, greatly hinder their ability to meet their global climate and nature commitments;

WHEREAS, the Participants recognize the importance of the role of climate and nature in helping developing countries to meet their sustainable development goals and combat poverty effectively;

WHEREAS, the Participants recognize that more work needs to be done to improve sustainability-linked financing efficacy by improving operational mechanisms, defining ambitious and credible targets, where appropriate and creating robust implementation strategies;

WHEREAS, the Participants acknowledge that, given the scope and scale of the challenge and the cost of borrowing of sovereigns in developing countries, credit enhancement structures will be critical to mobilize the required financing through debt capital markets at affordable terms;

WHEREAS, the Participants acknowledge the key role that credit enhancement can play in achieving climate and nature goals and the need for a coordinated and harmonized approach of Multilateral Development Banks, Development Finance Institutions and private re-/insurers, insurers and institutional investors in scaling up sustainability-linked financing for sovereigns through the use of different credit enhancement instruments;

WHEREAS, the Participants encourage other Multilateral Development Banks, Development Finance Institutions and other international organizations to be part of this Joint Declaration and support the agreed common ambitions.

NOW, THEREFORE, the Participants hereby intend to pursue on a non-binding basis, and within their respective mandates, comparative advantages and operational modalities, the following:

1. **Shared Commitment**: The Participants intend to collaborate on mobilizing credit enhancement for sustainable climate and nature-linked sovereign financing,

including green or sustainability linked bonds. For purposes of this Joint Declaration, credit enhancement refers to instruments including full or partial credit guarantees, credit insurance, political risk insurance and other mechanisms that lower or transfer credit risks faced by investors on sovereign debt instruments.

2. **Shared Objective to Increase Credit Enhancement Operations**: The Participants intend to collaborate to scale climate and nature-linked financing by sovereigns and other public sector entities by improving access and affordability of credit enhancement instruments. The Participants share the aspirational objective of increasing the volume and consolidating sustainability-linked financing as a relevant and accessible source of financing for developing country sovereigns and public sector entities and, where relevant, strive to work to leverage participation of private sector reinsurance and insurers.

3. **Task Force on Sustainability-Linked Sovereign Financing for Nature and Climate:** The Participants intend to establish, by COP28, a technical Task Force on Sustainability-Linked Sovereign Financing for Nature and Climate (the "Task Force"), composed of representatives of the Participants, to facilitate the efforts of participating Multilateral Development Banks, Development Finance Institutions and others, as required, to increase the effectiveness, efficiency, affordability, accessibility, availability, and scalability of credit enhancement at the facility, product, and process levels.

   The Task Force intends to:

   a. Consider mechanisms and prioritize activities to ensure mobilization of sufficient credit enhancement to achieve the agreed targets as described in the section above, such as the establishment of common frameworks, standardized products, and harmonized processes and other initiatives that build on existing efforts;

   b. Establish a workplan to support sustainability-linked sovereign financing for nature and climate through the following activities: (i) stocktaking of financial structures to facilitate credit enhancements through Multilateral Development Banks and Development Finance Institutions; (ii) exchange of ideas and best practices in the area of sustainability-linked financing to address knowledge gaps and improve impact, (iii) coordination of technical assistance efforts to address lack of issuer capacity in relation to sustainability-linked financing implementation strategies and barriers to access for sovereigns seeking credit enhancement, (iv) creation of mechanisms, such as a pipeline accelerator for sustainability-linked sovereign debt instruments, (v) exploring maximization of private sector support from the insurance and reinsurance sector, and (vi) exploring other products and solutions to help developing nations increase their climate and nature financing needs such as local currency borrowing;

   c. Be led by two International Financial Institutions, ideally one Multilateral Development Bank and one Development Finance Institution, with facilitation support provided by the Sustainability-linked Sovereign Debt Hub; and

   d. Hold its first meeting in January 2024, establish a periodic meeting schedule and define the roles of members.

4. Administrative and other Consideration

a. Review and Evaluation: The Participants intend to review the progress and purpose of this Joint Declaration and Task Force on an annual basis and may make necessary adjustments related to their relevance and impact.

b. Financial Obligations: Without limiting the generality of para. 4(f), nothing in this Joint Declaration is intended to obligate, or to represent an intention of any Participant to offer, mobilize or deploy any credit enhancement instruments, or to incur any other financial obligation, without such Participant having first obtained any necessary approvals in accordance with its applicable policies and procedures.

c. Independent Decision-making Autonomy: It is acknowledged that no provision of this Joint Declaration is intended to interfere in any way with any Participant's independent decision-making autonomy with regard to their own respective affairs and operations.

d. Confidentiality: The Participants intend to exchange letters or other instruments to address the confidentiality of sensitive information shared among them in accordance with applicable laws and regulations.

e. Duration and Termination: This Joint Declaration becomes operative as of December 2023 and will remain operative until terminated by the Task Force. Participants wishing to withdraw from this Joint Declaration and the Task Force would provide written notice to the other Participants.

f. Non Binding and Non Exclusive: Nothing in this Joint Declaration shall constitute a binding or legally enforceable obligation on the part of any Participant, nor shall any provision of this Joint Declaration create any liability on the part of any Participant. Any binding obligation or liability with respect to the subject matter hereof will arise solely if and when and solely to the extent such binding obligations are agreed to in a separate agreement, executed by the Participants in writing. The Joint Declaration does not restrict cooperation with any other entities, including bilaterally between Participants.

g. Financial Implications: The Participants intend to bear the costs associated with their participation in the activities under this Joint Declaration, including participation in the Task Force.