



Rapid Disbursing Debt Conversion Mechanism (RDDCM)

Innovative Financing of Humanitarian Projects

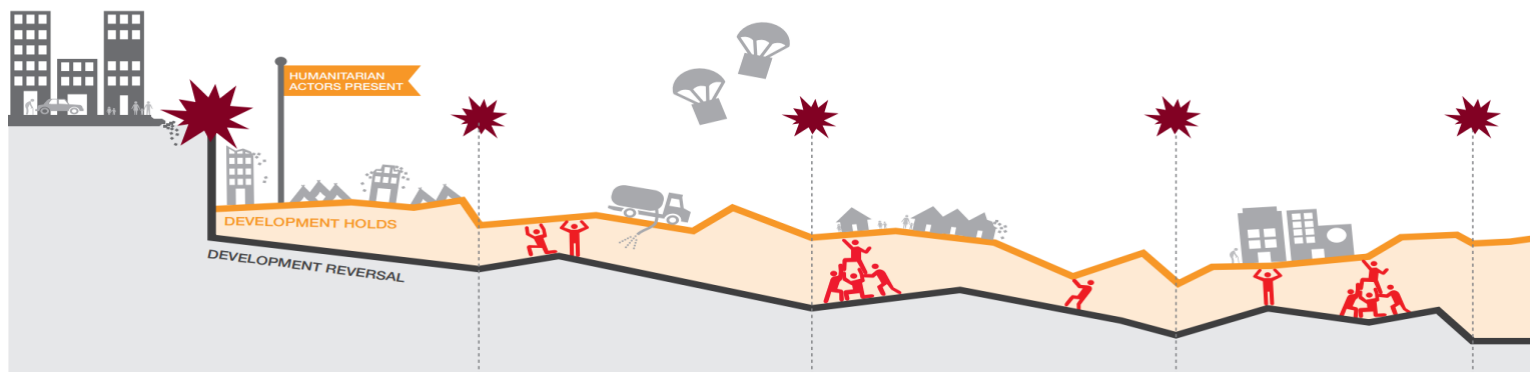
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Transforming Challenges into Opportunities

Growing humanitarian needs, mainly resulting from conflicts

By 2030, up to two-thirds of the world's extreme poor could live in fragility, conflict, and violence settings.



Protracted crisis and localisation of humanitarian response

The presence of international humanitarian actors often lasts more 30 years. Building up the capacity of local humanitarian actors is key to provide a sustainable humanitarian impact



The debt burden

60% of low-income countries in debt distress or at risk of it, many spending more on debt repayment than on healthcare or education

Innovative Mechanism for Sustainable Impact

ICRC* Rapid Disbursing Debt Conversion Mechanism (RDDCM) is an **innovative financing mechanism** responding to recurring humanitarian needs by **converting the servicing of foreign sovereign debt into the local funding of humanitarian assistance** putting **National Red Cross and Red Crescent Societies** at the center of the response



Sustainable
Humanitarian
Impact



Matching
humanitarian,
creditor and debtor
priorities



Localisation via
reinforcement of
National Red Cross
and Red Crescent
Societies' capacity



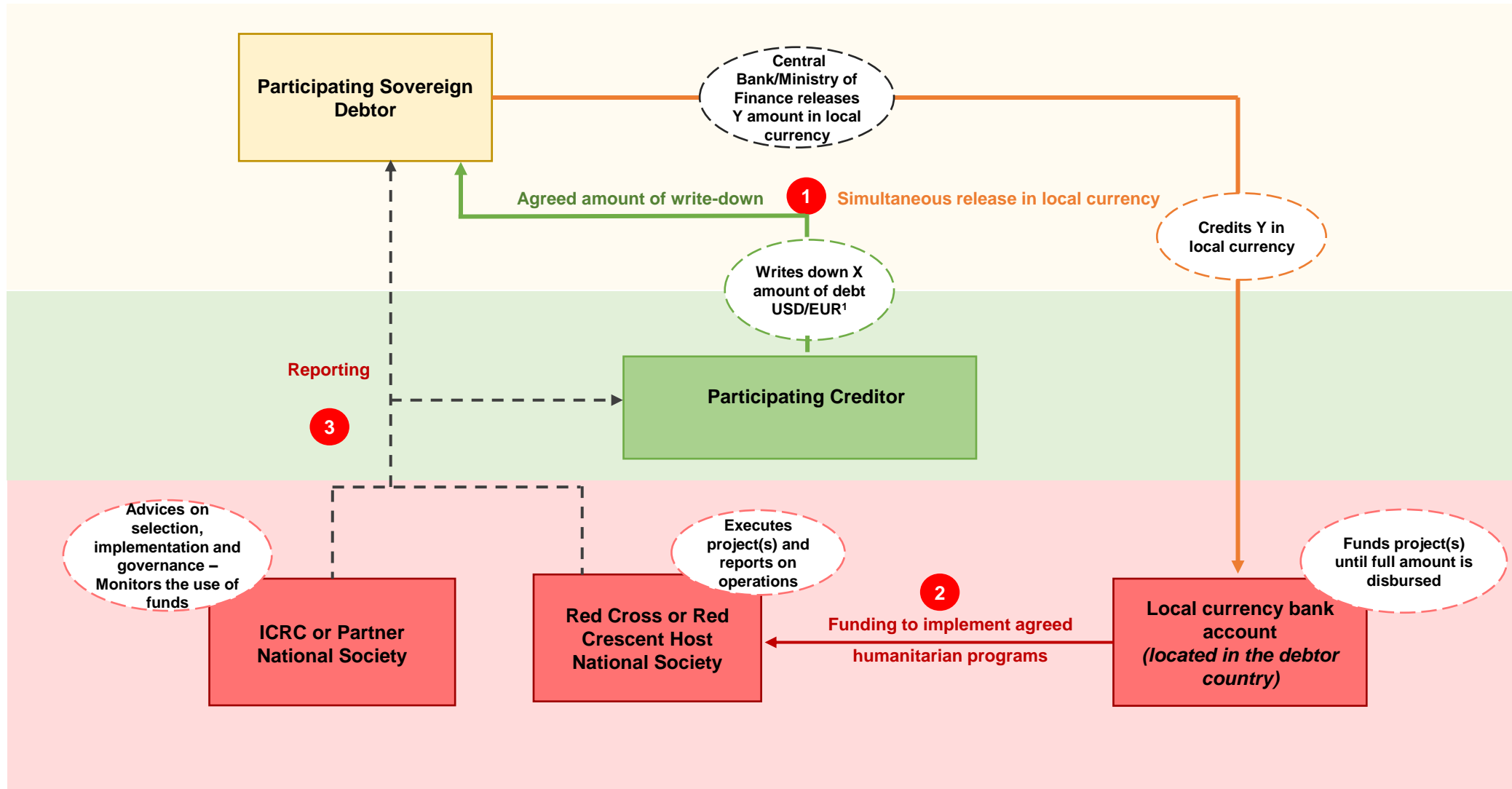
Mobilization of
new resources

*The International Committee of the Red Cross ('ICRC') is an independent and neutral humanitarian organization. It is the oldest member of the International Red Cross and Red Crescent Movement ('Movement'), which includes 192 National Red Cross and Red Crescent Societies, with a long history of collaboration between these Societies and ICRC delegations active in over 100 countries.



ICRC

RDDDCM: How it Works



RDDDCM: Key Steps

After a milestone presentation to the Paris Club members and observers in September 2022, engagement with bilateral creditors and outreach to selected debtor countries are ongoing

Before the actual debt conversion, the Mechanism involves the following steps:

- ICRC and its local partner in the debtor country — the Red Cross or Red Crescent National Society ('National Society') — identify a humanitarian project requiring local currency funding and prepare a description and proposed budget for that project
- ICRC solicits the interest of one or more bilateral creditors of the debtor country in funding the project and concurrently obtains the approval of the local financial authorities for the operation

When the parties have agreed on the terms of the debt conversion:

- The bilateral creditor writes down on its books an agreed portion of a foreign currency loan to the debtor country
- The financial authorities in the debtor country (typically, the central bank or ministry of finance) transfer an agreed amount of local currency to a bank account owned by the National Society
- The National Society draws down from that bank account to implement the approved project. ICRC provides technical assistance
- All parties receive regular and comprehensive reports on how the funds have been used. The bilateral creditor will also be given inspection rights



Advantages over Traditional Debt Swaps

The Mechanism:

- Is completely flexible: the amount of the bilateral debt conversion is a matter to be agreed between the creditor and the authorities in the debtor country. As such, it does not need to cover the entirety of a loan
- Conserves debtor's foreign exchange reserves
- Requires no transfer, issuance or amendment of existing or new debt instruments
- Requires only one money transfer (the crediting of the bank account of the National Society in local currency) and thus avoids fund transfer fees
- Permits the use of exceptionally streamlined legal documentation (a draft of which has already been prepared) and thus should not entail significant legal costs for any party
- Reduces bureaucracy for the creditor and debtor countries, with the humanitarian projects pre-selected and agreed at the time of the simultaneous debt write-down and single disbursement
- Provides all stakeholders with full transparency and monitoring of the use of proceeds for humanitarian projects

Impact: Illustration of a Concrete Proposal



Rapid Disbursing Debt Conversion Mechanism in the Republic of Malawi

*"Promote better and more equal access to
education for girls and marginalized youth"*



2023-2027 project impact objectives:

1. Addressing **gender-based barriers to education** in targeted communities
2. Securing similar chances for **girls & marginalized youth** to complete primary & secondary school

Two main indicators to measure impact for girls and marginalized youth:

- ✓ A **lower drop-out rate** reduced by 80%
- ✓ An **increased completion rate** increased by 40%.



Mid-term review of the indicators' progress and end review of the success of the project



Thank You!

- The International Committee of the Red Cross is looking to partner with bilateral creditors to assist in the funding of humanitarian projects in several countries where access to local currency funding has become a priority.
- We ask you to seriously consider this streamlined debt conversion mechanism, to provide critical humanitarian assistance, build-up the capacity of local actors and thus improve the long-term resilience of local communities.



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