ESCAP Workshop on Innovative Climate Financing, 23rd June 2021

Session 3: Innovative instruments of climate finance: Debt-for-climate swaps
Presentation outline

• Context
• Proposal
• Issues
• Examples
• Conclusion
Context

• WB/IMF 2020 DSA put Pacific SIDS at high level of debt distress
• Contraction in GDP, tight fiscal space leading to pressure on debt servicing
• Exacerbated by climate change-induced disasters and impact of COVID-19. E.g. COVID-19 led PSIDS to take on additional debt of $1.6 billion
• Options for debt relief such as the Debt Service Suspension Initiative (DSSI), rolled out by G20 and IMF Catastrophe Containment and Relief Trust (CCRT) as available to eligible PICs but not all
• Need other options to address PSIDS debt situation
Debt resilience swap (DRS)

- Forum Island Countries (Debtors)
  - Previous debt service obligations
  - Discounted debt Service payments
  - Project Finance

- Bilateral & Multilateral Creditors
  - Pacific Resilience Facility (PRF)
    - Project Grant Finance
    - Reporting Framework

- Development partners, MDBs, Climate funds & Private foundations
  - Capital contribution

- Pacific Resilience Facility (PRF)
  - Community Resilience Building Projects

- Development partners, MDBs, Climate funds & Private foundations
  - Capital contribution
Issues

• Applicable for external debts
• Bilateral, multilateral debts and climate finance providers
• Opportunity to address climate change and public debt faced by PSIDS
• Complex process and need a lot of work to put together
• Need to convince creditors to support the proposal
Examples:

• In 2012, Antigua and Barbuda negotiated an $18 million debt for climate adaptation swap with Brazil
• The Commonwealth’s Multilateral Debt Swap for Climate Action proposal was endorsed by the UN Secretary General in 2016
• The UN’s Economic Commission for Latin America and the Caribbean (ECLAC) presented a debt for climate adaptation swap proposal in 2017
• A UN conference in 2017 on debt for climate swaps secured over $1 billion in pledges for loans and debt relief for climate resilience in Caribbean countries
Conclusion

• Potential double benefit for PSIDS, as they build community resilience to climate change impacts and address their debt situation at the same time
• Need technical assistance and support to build the case for PSIDS
• Regional debt conference between PSIDS and their creditors could be the platform to negotiate the swap

Thank you