Strengthening Sri Lanka’s Economic Recovery

Exploring Innovative Financing Pathways for the SDGs

5 May 2022
Colombo, Sri Lanka
To address the current debt crisis multiple financing options are required

Ensuring social and economic outcomes
Financing considerations must be packaged and coordinated - no single measure will solve the debt challenges faced. Innovative financing tools are mid-term solutions which can enhance the impact of immediate fiscal measures by widening fiscal space. Innovative financing solutions, when paired with sound macroeconomic policies and restructuring, can catalyze financing while ensuring environmental and social outcomes.

Macroeconomic and debt sustainability measures
Immediate measures to refinance and restructure debt and tighten government monetary policies to return to sustainable levels.

Innovative financing solutions
Short to medium-term solutions which do take time to structure and negotiate. Options including debt-for-development swaps, thematic bond issuance with credit enhancement, opportunities for blended finance, potential exploration of carbon offset market, etc.
Debt-for-development swaps

Debt swaps can be designed to address a range of development challenges

<table>
<thead>
<tr>
<th>Debt-for-nature</th>
<th>Debt-for-climate</th>
<th>Debt-for-food</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traditionally used for the purpose of environmental conservation</td>
<td>Slightly nuanced from nature swaps, as the funds are used to support environmental adaptation and mitigation</td>
<td>Swap financing is used to financing SDG 2 related outcomes, such as early childhood nutrition</td>
<td>Other SDG related considerations such as health, social priorities, etc.</td>
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</tbody>
</table>
Debt-for-development swaps

Debt-for-development swaps are NOT the same as debt forgiveness

Debt swaps are

- Debt for development swaps are a **mutually beneficial agreement between the debtor and the creditor.**
- Acts as a debt restructuring tool while redirecting spending toward SDG related initiatives.
- Can support countries in advancing their climate and SDG commitments.

Debt swap considerations

- Swap is aligned and supports national plans/goals
- Assessment of the bondholders and appetite for a swap
- Timeline for negotiating the swap
- Environmental and social safeguards
- SDG focus of the swap
Two models of debt-for-climate swaps

**BILATERAL OR DIRECT SWAP**

1. Cancellation of debt
2. Local currency payment

Counts as ODA/climate finance

**THIRD-PARTY SWAP**

1. Debt title (face value)
2. Cancellation of debt
3. Local currency payment

Purchase at a discount or at the secondary market price
Commitment to fund an environmental project

National fund, environmental project(s)
Debt-for-nature swap example: Belize (2021)

- The Nature Conservancy helped the Government of Belize to raise $364m through the issuance of a 20-year blue bond with Credit Suisse as placement agent.
- The $364m were lent to the Belize Government to (a) retire a Eurobond with face value of $553m at 55c to the dollar for a value of $301m, (b) set aside $28m in reserves, (c) pre-fund a conservation endowment for $24m, and (d) pay $10m in closing costs.
- The Government committed to provide $4m/year to conserve 30% of its ocean.
- The deal was backed by political risk insurance by the U.S. International Development Finance Corporation (DFC) for $610m.
Additional Considerations and Safeguards

✓ National ownership and buy-in through aligning the deal with government objectives/plans (including NDCs and/or national planning documents)
✓ Consistent with the objectives of international conventions and agreements
✓ Appropriate pipeline of projects
✓ Transparent and effective national environmental governance
✓ Respect for the rights of indigenous peoples and members of local communities
✓ Full and effective participation of relevant stakeholders
✓ Consistent and accountable to commitments under the Paris Agreement and/or the SDGs
✓ Actions to address the risks of reversals
Leveraging catalytic financing for the SDGs

Blended and concessional financing mechanisms can mobilizing public and private financing towards development outcomes.

Develop financing can be directed to priority sectors to act as risk capital, incentivize and catalyze investments towards the SDGs. Blending to support:

✓ Guarantee
✓ Debt
✓ Equity
✓ Impact Investment

Concessional and blended financing options are one ingredient to support a mix of financing solutions
Long-term considerations: Thematic Bonds

Global sustainable bond issuance

Global Green Issuance by Regions (FY 2020)

Projections for Green Bond Issuance

Source: Climate Bonds Initiative (2020).

Opportunities, benefits and considerations

✓ Attracts new types of investors, potential to increase investor demand and diversification of investments.
✓ Adopt innovative new technologies, finance projects that provide green jobs, and promote climate resilience.
✓ Allow issuers the opportunity to brand (or re-brand) themselves as forward-thinking, innovative, and sustainable.
✓ Demonstrates commitment to the SDGs and/or addressing climate and social related issues.
✓ Overcome barriers to investment gaps in clean and green technologies and SDG-related initiatives.
✓ Secure capital to support investments that may not otherwise be available.

✗ Debt sustainability considerations are essential prior to issuance to avoid future crises.
✗ The cost of thematic issuances must be considered as the issuance requirements to ensure accountability and transparency are often higher.
✗ Important to abide by international standards to avoid ‘green washing’ and other use of proceeds risks.

Thematic bonds are a future option post debt restructuring. Credit enhancement would likely be required, and debt sustainability considerations take precedent.
Ensuring effective delivery of emergency cash transfers

Although not an innovative financing tool, emergency cash transfers are key to supporting vulnerable citizens during times of economic hardship. Innovations in how cash transfers are facilitated can ensure efficiency, enhance transparency and traceability, ensure client protection and provide access to the last mile.

Scheme already set to be deployed through Samurdhi over the next 3 months.

Ensuring poor and vulnerable households are truly included:
- Registration and approval streamlining
- Assess service gaps (digital and agent coverage)
- Enhancing and expanding payment channels
- Ensuring access and usage through literacy
Key Messages

- Debt-for-development swaps can play an important role to lift the foreign debt burden while investing in the SDGs. Creditor appetite, timeline for negotiations and safeguards must be considered.
- Thematic bond issuance with a credit enhancement is a longer-term post-restructuring option.
- Blended finance can act as an effective tool to catalyze private finance for sustainable outcomes. Blended finance can support private sector development, job creation and financial inclusion.
- Additional considerations in terms of emergency cash payment system enhancements can be considered to ensure effective coverage of the most vulnerable.
- ESCAP maintains strong partnerships and cooperation with UN and relevant development and private sector partners to advance sustainable finance. ESCAP and its partners can offer technical support.
## ESCAP works on innovative finance

<table>
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<th>Activity</th>
<th>Details</th>
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<td>Bhutan’s first sovereign bond issuance</td>
<td>ESCAP provided technical assistance to the issuance of Bhutan’s first sovereign bond</td>
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<tr>
<td>Blended finance catalyzing private capital</td>
<td>ESCAP’s innovative financing programmes have a 1:30 financial leverage ratio mobilizing private capital targeted SDG outcomes</td>
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<tr>
<td>Central bank green finance strategy</td>
<td>Supporting Cambodia on the development of a green finance strategy (including considerations on green bonds) as well as policy guidance on thematic bond issuance.</td>
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<tr>
<td>Debt-for-climate swap research and dialogues</td>
<td>Pacific regional debt conference; debt-for-climate swap regional dialogue; several studies on the potential of debt for climate swaps in SIDS</td>
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<tr>
<td>Regulator training on thematic bond issuance</td>
<td>Collaboration with key listing and SOP providers to support regulator training for thematic issuance</td>
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Opportunities for ESCAP support to Sri Lanka

**Technical assistance** on the rollout of emergency cash transfers (ECT) and associated payment system considerations and policies.

**Technical assistance and mobilizing stakeholders** to support the implementation selected policy and financing initiatives, including debt-for-climate swaps.

**Long-term assistances** to support the development the foundational elements for post crisis innovative financing tools such as thematic bond instruments.
Thank you / Bohoma istuti!

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