
Virtual meeting, Wednesday, 23 June 2021

Workshop summary

Introduction

Addressing climate change is a crucial challenge to achieving national development priorities and the 2030 Agenda for Sustainable Development in all small island developing States (SIDS) in Asia and the Pacific. Climate finance can be an important catalyst for providing and leveraging innovative sources of finance for climate change mitigation and adaptation. Besides accessing climate funds, issuing green/sustainability bonds or debt swaps for development could be a feasible approach for raising finance to cushion the immediate effects of COVID-19 in SIDS in Asia and the Pacific and support sustainable development in the long-term. Debt-for-climate swaps could be particularly beneficial to SIDS, facing rising risks of external debt distress and widening financing gaps due to the pandemic and the more frequent and severe climate-induced disasters.

Against this background, the objective of the workshop was to enhance the capacity of key stakeholders to understand the different types of innovative instruments of climate finance and how to mobilize such resources. This workshop’s outcomes will inform the discussions and deliberations at the forthcoming Pacific Islands Forum Economic Ministers’ Meeting in July 2021, the Pacific Forum on Sustainable Development in November 2021, and the ESCAP regional workshop on resource mobilization in Asia-Pacific countries in special situations in December 2021. Furthermore, the outcomes will inform global processes such as the Financing for Development in the Era of COVID-19 and Beyond Initiative. The workshop will also help ESCAP and PIFS produce relevant knowledge resources and establish a network of experts for follow-up purposes.
Key take-aways

1. Access to climate finance is critical to support a green recovery after COVID-19, as it reduces losses and damages from climate change, stimulates economic recovery, and helps to achieve resilient outcomes. Streamlining processes and reporting procedures will be important to balance both accessibility and effectiveness of financing climate in the Pacific (PIFS).

2. In 2020, the annual adaptation cost in the Pacific was between USD234-796 million, and the annual average financing gap in Pacific SIDS was USD220 million. Closing this gap is a matter of urgency. Several initiatives, such as the Pacific Resilient Facility; National Adaptation Plan; Conservation Trust Fund; Greenhouse Gas Levy, help to provide innovative mechanisms to reduce carbon emissions and climate adaptation within communities at low cost (PIFS, Cook Islands, Maldives, Republic of Marshal Islands).

3. When developing and implementing projects/initiatives with the private sector, it is important to have in mind that these initiatives should put people and society first. Also, developing a Pacific Islands private sector strategy should focus on finance mobilization and accessibility, especially for MSMEs (PIPSO).

4. It is necessary to shift the focus of climate financing, to a programmatic long-term approach and extend the tenor of concessional loans to over 50 years. Climate change is not something to be solved in the short term (Cook Islands, Maldives).

5. In Asia-Pacific SIDS, sustainability bonds are a viable option to fill the financing gap and finance climate resilient investment. However, technical capacity, regulatory frameworks and standards, and limited financial markets are recognised constraints that need to be addressed when considering raising finance through bond markets (Fiji, Maldives, IFC).

6. More engagement by international financing institutions is needed. Some institutions have conserved cash rather than invested actively during the pandemic, probably due to uncertainty. These institutions need to start actively reinvesting and sustainability-linked bonds will be a good option to support social and green projects. Additionally, domestic resource mobilisation from the public and private sector has been underutilized and can be tapped further in SIDS to complement other innovative financing measures like green or blue bonds (Fiji, Maldives, IFC).

7. It is essential to understand that investors have different investment objectives, risk appetites, and return requirements and these need to be considered when structuring any bond. In this context, it is vital to consider a blended financing
approach. Superannuation funds and governmental revenue pools could be a significant source of funding for structured bonds (Fiji).

8. Debt-for-climate swaps can enhance climate spending, boost economic recovery, and reduce external sovereign debt. Debt swaps can be considered for public external debt held bilaterally by other sovereigns and in countries where there is no imminent liquidity crisis. Similarly, Debt-for-resilience swaps could benefit SIDS as they build community resilience to climate change impacts and reduce debt stock at the same time (Climate Policy Initiative, UNECA, PIFS).

9. The key challenge in arranging debt swaps for development is to engage with relevant stakeholders and reach consensus on both supply and demand aspects of the swap. High transaction costs and complex processes will require appropriate capacity building and institutional arrangements in place in SIDS. Specialized bodies, such as the Caribbean Resilience Fund, could potentially coordinate the efforts of stakeholders, including creditors', to realize the instruments objectives (Climate Policy Initiative, ECLAC).

10. Preferably, debt-swap frameworks should: (1) provide direct support to governments; (2) reduce the cost of the debt through a variety of mechanisms, including the flexibility on the coupon price and reduction of the principal; (3) achieve the sustainable objectives with incentives of social, climate, and nature-based objectives; (4) make sure that the investments are also linked directly to job creation and improvement of natural capital. Facing volatile debt prices, participants need to be nimble, to reconfigure some of the transactional models quickly, and be prepared for multiple iterations of the models they were working with (UNECA, The Nature Conservancy).

11. Technical assistance and support to build the case of debt-swaps for Asia-Pacific SIDS is necessary (PIFS).
Policy Recommendation

1. Optimize co-benefits of climate actions, sustainable development, and COVID-19 stimulus, focusing on integrating and translating this in the NDCs.

2. Create a better balance between accessibility and effectiveness of climate finance, focusing less on the different requirements of funds and donors and more on achieving quality outcomes. As well as developing better national public financial management systems by which countries could quickly access direct funding.

3. Move away from project-based climate financing and transition to a programmatic approach, more aligned with the long-term planning needed to tackle climate change.

4. Cancel and suspend debt through debt-swaps mechanisms to allow fiscal space to finance green climate-resilient recovery plans.

5. Pursue innovative approaches to access new sources of financing. To date, too much focus has been given to a limited number of climate funds (e.g., GCF, Adaptation Fund and GEF).

6. Utilize sound internationally recognized bond frameworks before issuing green or sustainable bonds. These frameworks will ensure good governance and raise investor confidence about how the proceeds from the bond will be used.

7. Establish better synergy between Asia-Pacific SIDS and global development partners such as the World Bank Group and the UN to increase national technical capacities to access green bond markets. These partners could also potentially provide credit enhancement tools such as guarantees and reduce transaction costs.

8. Examine debt swap mechanisms such as debt-for-climate or debt-for-resilience swaps as an option that could generate much-needed fiscal space to focus on climate ambitions and economic recovery while reducing their overall debt burdens.

9. Involve directly or indirectly other parties (e.g., IMF, relevant Development Finance Institutions (DFIs), private financial groups and credit rating agencies) in the swap agreement. Also, it is important to engage other creditor nations such as China.

10. Use the regional debt conference between SIDS and their creditors as a platform to discuss the principles of a possible swap.