Outcomes from the Asia-Pacific SIDS Workshop on Innovative Climate Financing Instruments
Feasibility Study on Debt for Climate Swaps and Next Steps

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Workshop on Innovative Climate Financing Instruments

- Co-hosted by PIFS and ESCAP on 23 June 2021
- Around 100 participants from Asia-Pacific SIDS attended, including government, development partners and civil society representatives
- The objective of the workshop was to discuss different types of innovative climate finance instruments, and how to mobilize financing through such instruments

Key workshop take-aways

- Thematic bonds are a viable option to finance investments in climate mitigation and adaptation
- Technical capacity, regulatory frameworks and limited financial markets are recognized constraints in the Pacific SIDS – they need to be addressed to raise finance through bond markets
- Debt-for-climate swaps can provide funding for climate spending, boost economic recovery, and reduce external sovereign debts

Key workshop take-aways (cont'd)

- Key challenge is to reach consensus on both supply and demand aspects of a debt swap – also high transaction costs and complex processes require appropriate capacity building and institutional arrangements
- Technical assistance and support is necessary to build the case for debt swaps in the Asia-Pacific SIDS
- PIFS and ESCAP will co-host a regional debt conference to discuss debt swaps, among other topics

Feasibility study on debt for climate swaps

- Stakeholder consultations with government officials and development partners
- Interest in debtor countries on debt for climate swaps is heterogeneous, some are very keen, others do not have a major debt problem, most are unaware of this mechanism
- Good receptivity among development partners, including GCF, although there is no official policy on debt for climate swaps

Feasibility study on debt for climate swaps (Cont'd)

- There is a need to boost capacities in debtor countries for project preparation, as well as for monitoring, reporting and verification
- Two key elements of a debt for climate swap scheme in the Pacific:
- One, as a result of the heterogeneity of debt situations across countries, negotiations for a debt for climate swap need to be country specific, not multilateral
- Two, there is a need for strong technical support for project preparation, and for monitoring, reporting and verification

Feasibility study on debt for climate swaps (Cont'd)

- Preliminary recommendations:
- First, consider leveraging technical assistance for project preparation and framework for monitoring, reporting and verification framework to be embedded in the proposed Pacific Resilience Facility (PRF)
- These could be made available to individual countries pursuing a debt for climate swap deal
- This will save overhead costs and guarantee a uniform quality in these services

Feasibility study on debt for climate swaps (Cont'd)

- Second, because debt for climate swaps are complex, debtor countries will need support in the process of negotiation a deal
- To operationalize this mechanism, a term sheet for debt for climate swaps can be set up
- Term sheets are common in complex financial transactions, such as venture capital deals
- They can help simplify the negotiations so both debtor, creditor and other stakeholders know what to expect and what elements and steps need to be considered

Next steps

- The 2021 Forum Economic Ministers Meeting (FEMM) endorsed the convening of a regional debt conference between the Forum island countries (FIC) and their creditors to discuss and explore options for debt relief.
- The FEMM also directed the PIF secretariat to explore options and strategies in addressing FIC debts, including debt swap initiatives
- ESCAP is co-organizing with PIFS the regional debt conference

Thank you for your attention

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