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ST. JOHN'S, ANTIGUA AND BARBUDA

SIDS4 Conference Side Event

Climate Resilient Debt Clauses: expanding the ambition in 2024

May 28th 2024, 10am, Room 1

Organized by: France, UK, Barbados, Canada, Vanuatu, Tonga, Timor Leste, Interamerican Development Bank

SIDS are disproportionally affected by negative externalities of climate disasters on their fiscal balance and development trajectories. Due to their small size, extreme climate events can have a disproportionate effect on the economy. As climate disasters become more severe and frequent, SIDS will need a range of disaster risk finance tools and innovations to address shocks. Climate Resilient Debt Clauses (CRDCs) are a simple and effective innovation that allows countries to pause debt repayments when hit by a disaster, allowing breathing space, when countries need it the most.

CRDCs are one of the major calls of the Bridgetown Initiative launched by Prime Minister Mottley of Barbados. A year ago, a call to action, based on the substantial worked carried-out by France and the UK under the UK-led Private sector working group, was launched during the Summit for a New Global Financial pact held in Paris. 73 countries, both creditors and beneficiaries, including the Vulnerable Twenty (V20) group, have now joined this Call so that bilateral, multilateral and private sector creditors can offer Climate Resilient Debt Clauses by the end of 2025.

The event gathered a group of committed partners (Barbados, France, UK, Timor Leste, Tonga, Vanuatu, Bahamas, Canada, European Investment Bank, Inter-American Development Bank, Bahamas, World Bank, Asian Development Bank, Lazard) to focus on progress and SIDS' specific needs. They highlighted the following issues:

- Representatives from SIDS recalled that high vulnerability to external shocks is a structural impediment to the sustainable development of their countries. Climate disasters can have severe human and economic impacts, wiping out more than 200% of GDP in some cases.
- With limited access to concessional funding, SIDS are extremely reliant on external debt to finance recovery efforts. With increasingly frequent extreme weather events, many SIDS are at risk of falling into a debt spiral.
- CRDCs are an effective way to tackle this risk, and to free resources when they are most needed by local populations. The potential of CRDCs lies in their simplicity, as they can easily be rolled out.
- CRDCs are a "win-win" instrument, protecting both the debtors and the creditors. This holds especially true for multilateral development banks: in the absence of banking supervision, their rating (and therefore their capacity to raise capital on financial markets) depends largely on borrowers meeting repayment deadlines.
- A growing coalition of stakeholders has started adopting CRDCs. Bilateral creditors (UK, FR) have shown the way, alongside several multilateral development banks (IADB, EIB, CDB). The World Bank's announcement that it would introduce CRDCs in all its loans to small states and small island economies is an important milestone.

The participants also made some action-oriented recommendations:

- Building on this momentum, CDRCs should be adopted by all creditors. Further efforts are required to take the private sector onboard. It is also key to keep informing potential beneficiaries about CRDCs' benefits, in order to generate demand on their side.
- It is necessary to harmonise the parameters of these clauses (defining trigger events and thresholds, as well as the modalities of repayment pauses) to make CRDCs clearer and easier to access.
- CRDCs need to be as cost-effective as possible. They should not translate into higher borrowing costs, as this would undermine their effectiveness. For instance, the World Bank has decided that the deployment of CRDCs would be cost-free for all beneficiaries.
- CRDCs are an effective tool, but they are no silver bullet for SIDS' debt and financing issues. They need to be combined with other financing mechanisms (such as emergency financing windows for crisis response), climate change adaptation and disaster-risk reduction measures, as well as further discussions on SIDS' access to concessional financing and debt treatment.