



## **2022 PACIFIC REGIONAL DEBT CONFERENCE**

*Addressing Debt Sustainability in the Pacific in the Aftermath of COVID-19*

5 – 8 April 2022

Hybrid Meeting

### **OUTCOMES**

The Pacific Regional Debt Conference was convened from 5 – 8 April 2022 in response to a mandate from the 2021 Forum Economic Ministers' Meeting (FEMM) to convene a regional debt conference between Forum Island Countries (FICs) and their Creditors to discuss and explore options for debt relief. This document serves as a summary of the discussions, and the Programme is attached as Annex A.

2. The Conference was co-convened by Fiji, the Chair of the Pacific Islands Forum, and Tuvalu, Chair of FEMM, and co-hosted by the Pacific Islands Forum Secretariat (PIFS) and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

3. The Conference was attended by Australia, Cook Islands, the Federated States of Micronesia, French Polynesia, Fiji, Kiribati, Nauru, New Caledonia, New Zealand, Niue, Palau, Papua New Guinea, the Republic of the Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu. Also in attendance were relevant development partners and donors, as well as, representatives from the private sector, civil society, and youth organisations. The Conference was also attended by Antigua and Barbuda, Barbados, Belize, China, Indonesia, Seychelles, and the United Kingdom.

4. In the opening remarks, the devastating socioeconomic impacts of the COVID-19 pandemic on the Forum Island Countries were noted. Most FICs, especially those that rely on tourism receipts, have experienced deep economic downturns during the period 2020-2021. Recent global developments, such as policy interest rate hikes in developed countries and the Russia-Ukraine conflict, would push up financing costs making it challenging to finance widening fiscal deficits in FICs.

5. To cope with the pandemic, FICs launched sizeable fiscal stimulus packages to help the poor, vulnerable households and small businesses. However, together with lower tax revenues due to slowdown in economic activities, these support measures have resulted in shrinking fiscal space and exacerbated the pre-pandemic trend of rising public debt levels. Worryingly, almost all FICs are currently rated as having a high risk of public debt distress.

6. Stronger fiscal positions would help FICs to ensure public debt sustainability, cope with future natural disasters, and attain the Sustainable Development Goals. To this end, various policy options were highlighted, including (a) innovative policy initiatives such as debt-for-climate swaps, (b) fiscal reforms to enhance tax administration, enhance spending efficiency and streamline operations of state-owned enterprises, (c) prudent and transparent public debt management, and (d) greater use of risk-sharing disaster financing mechanisms. More broadly, as public financial management is not the sole responsibility of fiscal authorities, the adoption

of integrated national financing frameworks would help align available fiscal and financial resources with sustainable development aspirations.

7. The merits of the Common Framework for debt treatments were acknowledged. However, the participants highlighted the need for it to be strengthened to ensure timely and effective implementation, for example through broadening its coverage to include indebted middle-income countries or by instituting a debt service standstill during the negotiation process. In addition, there could be consideration of reinstating the Debt Service Suspension Initiative (DSSI) if the current global financial situation deteriorates further. The need for integrating debtor countries' vulnerability to adverse shocks into concessional loan decisions was also highlighted. Overall, FICs would benefit from more technical capacity building on fiscal and debt management issues. In addition, despite the ongoing bi-lateral support to FICs in managing debt stress vulnerability by creditors and multilateral development partners, participants noted the need to facilitate greater access to concessional finance, and easier and more coherent access to climate adaptation funds.

## **FISCAL, DEBT AND FINANCING CHALLENGES AND MEASURES**

8. The remarks and presentations provided an overview of development challenges in FICs, such as narrow and small economic bases and high transportation costs due to remoteness. Lack of domestic capital markets and limited access to international financial markets has constrained the number of options that FICs have in financing their fiscal deficits. As a result, much of the governments' external debts are owed to official creditors, especially the Asian Development Bank and China. In several FICs, debt servicing costs represent a large share of public revenues, thus hampering governments' ability to adequately provide health care services and develop infrastructure.

9. This session also highlighted the need to strengthen expenditure management (such as through rule-based procurement and multi-year spending commitments), revenue mobilization (such as by rationalizing tax incentives), and fiscal risk management (such as by reducing contingent liabilities arising from untransparent operations of state-owned enterprises and provident funds).

10. Amid rising risks of public debt distress in FICs, the discussion called for more support from creditors and multilateral development partners. Some proposals included having a clause in loan agreements that allows for debt moratorium in an event of adverse shocks and converting pandemic-induced fiscal borrowing to long-term loans. It was also noted that the United Nations principle that urges the adoption of a human rights-based approach, and the Busan Partnership for Effective Development Co-operation, inter alia, underpin the need for shared responsibility to enable more sustainable debt outcomes in FICs. It is also important to ensure that fiscal consolidation, if required, does not undermine public spending on essential social services and humanitarian needs.

## **FISCAL, DEBT AND CLIMATE VULNERABILITY RISKS**

11. FICs have suffered from significant damage and losses and sharp output volatility due to frequent and severe disasters, exacerbated due to climate change. Many countries continuously remain in a recovery phase, as new disasters strike while they are still recovering from previous ones. Going forward, recent scientific assessments suggest that FICs would face rising temperature, further rise in sea level, and more intense tropical storms. In this regard, FICs have implemented various policy initiatives to address climate shocks, such as (a)

relocation of residential and commercial buildings; (b) disaster warning systems; and (c) contingency planning for infrastructure.

12. Experiences from other developing Asia-Pacific countries suggest that fiscal policy should become more flexible during emergency situations to accommodate, for instance, budget reallocations and temporary relaxation of fiscal rules. Stronger coordination between fiscal and monetary authorities also helps augment the scale of policy responses. More broadly, it was noted that the experience of the COVID-19 pandemic presents a unique opportunity to implement structural reforms that can help FICs increase resilience to future shocks.

13. In addition to losses of lives and livelihoods, disasters induced by climate change have notably weakened fiscal positions in most FICs. In response, multilateral development partners have provided climate finance through several instruments and modalities. Examples include contingent credit lines for direct budget support, catastrophe bonds, state-contingent debt instruments, and risk-pooling facilities. In addition, FICs benefited from highly concessional loans with ten-year grace periods, interest rates below one percent, and maturities up to 40 years. Some development partners highlighted the importance of South-South cooperation, which includes understanding mutual interests, recognizing different country situations, promoting knowledge sharing, and analysing the impacts of development projects on the environment and resilience to future shocks.

14. Despite commendable efforts by FICs and their development partners to promote disaster and climate finance, several challenges remain. At a fundamental level, national disaster financing strategies are not in place in several countries. The scale of financial assistance is also inadequate for FICs to build climate-resilient infrastructure, while a large portion of it is in the form of loans rather than grants. Finally, the use of disaster insurance for public infrastructure is limited due to high premium and unavailability of products that match the type of disasters being faced.

15. To address some of these challenges, the discussion noted, at a broad level, that a holistic and forward-looking approach should be adopted. Among others, several FICs should set up dedicated national reserve funds, assess the economic impacts of reconstruction projects including their revenue-generating capacity, and consider debt sustainability when seeking financial support for reconstruction projects. The importance of rebuilding infrastructure more resilient to future disasters was emphasized. At the same time, donors and creditors should seek to make financial assistance more targeted and examine the implications of their financial assistance on public debt sustainability in debtor countries.

## **INNOVATIVE FINANCIAL INSTRUMENTS AND MECHANISMS**

16. The Pacific region is confronted with a dual challenge of fiscal sustainability risks in the short term, and financing shortfalls in critical areas, especially in the fight against climate change in the longer run, making it urgent to consider innovative financing instruments and mechanisms. In this regard, strengthened regional cooperation and coordinated advocacy by FICs at the global level would be critical for improving access to climate financing going forward. In addition to exploring innovative financing solutions, FICs could consider appropriate reforms to increase the resilience of fiscal systems and strategies. Bold ideas such as securitization of ocean resources, pooling of ocean bonds or a Pacific development bank were raised, in addition to existing initiatives and proposals.

17. Debt for climate swaps were identified as an innovative financing solution that can provide debt relief in exchange for a commitment by debtor countries to earmark savings in debt servicing to investment in climate action or ocean conservation. To implement such swaps, third party intermediaries can play a constructive role in facilitating the negotiation between a debtor and its creditors, structuring the financial transactions, and contributing technical knowhow to the implementation of the investments committed by the debtor. The recent experience of countries that implemented this mechanism has revealed its potential to provide much needed funding for climate action and ocean conservation activities. As an example, a recent debt for climate swap in the Caribbean used the proceeds of a blue bond issuance to retire USD500 million in government bond debt with private creditors at a large discount and fund national marine conservation priorities with the savings in debt repayments. However, the Caribbean context was acknowledged as being particularly suitable for debt swaps due to the elevated debt levels held by private creditors. In the Pacific context, it was noted that the implementation of debt swaps needs to be evaluated on a case-by-case basis, taking into account the technical and resource requirements. Factors for success include a thorough accountability to all relevant stakeholders, effective partnerships, national ownership of the use of proceeds, a strong commitment to implement urgent actions on climate adaptation or ocean conservation. Participants discussed the potential impact of debt swaps on a debtor country's credit ratings, noting that debt relief and swaps offered by official creditors are unlikely to constitute a sovereign default. With regards to this and other issues, such as the impact of swaps to the cost of borrowing and access to concessional resources, some participants suggested that further analysis in the Pacific context is desirable.

18. Several newly introduced financing facilities were also discussed. Within the Pacific region, the Pacific Resilience Facility, which aims to provide predictable, sustainable, accessible and accountable funding for disaster preparedness and climate risk resilience-building within vulnerable communities, has been established by the Pacific Islands Forum and will become operational once funding requirements are met. The Pacific Catastrophe Risk Insurance Company aims to provide timely financial relief from losses and damages caused by natural disasters. In the Caribbean region, the proposed Caribbean Resilience Fund aims to leverage long-term low-cost development financing while ensuring the availability of resources for investment in adaptation and mitigation initiatives. At the global level, the IMF has created the Resilience and Sustainability Trust which aims to address longer-term structural challenges, including climate change and pandemic preparedness, that entail significant macroeconomic risks, while the World Bank Group has introduced the Sustainable Development Finance Policy to promote transparent and sustainable financing and promote coordination among creditors.

19. Effective fiscal and public financial management systems remain an important enabler for implementing development priorities, particularly in post-disaster situations when tailored and urgent policy actions are needed, as well as, to build sustainable financial resilience and fiscal buffers. At the same time, investment in climate proofed infrastructure and in human capital, amongst others, can reduce disaster damage and losses in the long run. In this regard, the importance of strengthening absorptive capacities in the areas of fiscal and public financial management, and for project planning and management, including design, implementation, monitoring and evaluation, were highlighted.

#### **ADDITIONAL OPPORTUNITIES TO ADDRESS COLLECTIVE DEVELOPMENT FINANCING RISKS**

20. Participants at the Conference were informed about the deteriorating global economic situation due to the Russia-Ukraine conflict. Among other implications, significant increase in

inflation and financing costs are expected to add to the socio-economic challenges posed by the COVID-19 pandemic and cast a shadow on the incipient recovery. While the impact of the war on the supply of commodities such as oil and gas, wheat, and fertilizers is threatening to increase the cost of imports, the expected tightening of monetary policy and increases in interest rates by the major central banks are going to increase the cost of debt financing, for Governments, as well as, households and the private sector. Both impacts will exacerbate the difficulties of developing countries, including the FICs, to service their debts, and raise additional financial resources. While addressing some of these multiple challenges will require short term solutions such as emergency financing from the IMF, debt refinancing by bilateral and multilateral creditors, and central bank swap lines, systemic solutions are also needed, especially to address the global climate crisis. For this purpose, some participants noted the upcoming G20 Summit and COP27 could consider bold measures such as increasing significantly the current global commitments to provide \$100 billion per year in climate finance to developing countries, the provision of support to address loss and damages caused by natural disasters in vulnerable countries, and the use of carbon levies as an additional tool to finance climate mitigation and adaptation investments.

21. The sustainable development agenda for Small Island Developing States (SIDS), in line with the SAMOA Pathway and predecessor agreements, has recognised a “special case” for SIDS development given their array of multidimensional vulnerabilities, including small size, geographical isolation, debt sustainability concerns, susceptibility to natural disasters, and increasingly severe effects of climate change. It was noted that an analytical approach that identifies vulnerabilities and resilience gaps in SIDS is critical to unpack the “special case” and inform national planning and policies. In this regard, a United Nations General Assembly resolution in 2021 provided a mandate for a Multi-dimensional Vulnerability Index (MVI) to be finalized and adopted in 2022. The MVI will consider economic vulnerabilities, structural development limitations, and environmental vulnerabilities. Results of a pilot MVI showed that the SIDS represented the biggest share of the vulnerable countries across the world in all dimensions. It was highlighted that the MVI could be used to assess the impact of structural vulnerabilities on socio-economic outcomes and the ability of SIDS to achieve the Sustainable Development Goals. In addition, the MVI has the potential to (a) provide a strong basis for debt restructuring, (b) complement criteria for access to development cooperation including concessional financing, (c) inform multilateral and bilateral financing frameworks, and (d) inform the design of SIDS specific instruments, including climate financing.

22. While innovative financial instruments may offer an option to address debt challenges, the potential implications of the instruments and factors of successful experiences should be carefully assessed. Most FICs have depended on domestic fiscal policy measures, grant transfers from donors, and emergency financing from international financial institutions to respond to the initial challenges. Some of the larger FICs have synchronized the use of fiscal policy and central bank support to great effect. A range of financial instruments could be deployed to offer a package of solutions to the challenges of the debt burden and will need to be paced and sequenced, cognisant of capacity constraints within executing agencies in FICs. It was acknowledged that revenue restoration for FICs is an urgent issue and that the COVID-19 pandemic has highlighted the need for a renewed focus on revenue diversification efforts and broadening the economic base.

## **WAY FORWARD**

23. The Outcomes from this Conference will be tabled by PIFS at the next COVID-19 Economic Recovery Taskforce to review and consider recommendations to be presented to the 2022 Forum Economic Ministers' Meeting. The Outcomes will be conveyed to relevant meetings hosted by the United Nations system.

Suva, Fiji  
8 April 2022

## PACIFIC REGIONAL DEBT CONFERENCE

*“Addressing Debt Sustainability in the Pacific in the Aftermath of COVID-19”*

### PROVISIONAL PROGRAMME

5 - 8 April 2022

DAY 1	TUESDAY 5 APRIL 2022
<b>OPENING SESSION</b>	
<b>1.00pm</b>	<p><b>Welcome Remarks</b> Pacific Islands Forum Secretary General, <b>Mr. Henry Puna</b> ESCAP Executive Secretary, <b>Ms. Armida Salsiah Alisjahbana</b></p> <p><b>Special Remarks</b> Minister of Finance of Indonesia and Co-chair of the Coalition of Ministers of Finance for Climate Action, <b>Hon. Sri Mulyani Indrawati</b> UN Deputy Secretary-General, <b>Ms. Amina Mohammed</b></p> <p><b>Keynote Address</b> Minister of Finance, Tuvalu, Forum Economic Ministers’ Meeting Chair, <b>Hon. Seve Paeniu</b></p>
<b>SESSION 1</b>	
<b>2.00pm</b>	<p><b>Theme Question for Session 1</b> <i>What are the fiscal, debt, and financing challenges faced by Pacific Island Countries to recover from the COVID-19 pandemic, what policy measures have been implemented to create fiscal space and restructure public debts, and what additional measures need to be implemented to strengthen fiscal governance and effectiveness?</i></p> <p><b>Moderator</b> Former Minister of Finance and Governor of National Reserve Bank of Tonga, <b>Mr. Josh ‘Utoikamanu</b></p> <p><b>Keynote Speaker</b> Prime Minister and Minister for Finance, Cook Islands, <b>Hon. Mark Brown</b></p> <p><b>Background Presentations</b> Asia and Pacific Debt Developments, Chief, Pacific Islands Division, Asia &amp; Pacific Department, International Monetary Fund, <b>Mr. Todd Schneider</b> Pacific Debt Landscape, Expert in Pacific Economies, <b>Mr. Scott Roger</b></p>
<b>3.00pm</b>	<p><b>PANEL 1 – TALANOA SESSION</b></p> <p>Spokesperson and Member of the Government of New Caledonia for Budget, Finance, and Health, <b>Mr. Yannick Slamet</b> Permanent Secretary of Finance, Barbados, <b>Ms. Nancy Headley</b> Executive Director, Pacific Islands Association of Non-Governmental Organisation, <b>Ms. ‘Emeline Siale ‘Ilohahia</b> Pacific Youth Forum Against Corruption, Pacific Youth Council, <b>Mr. Josaia Tokoni</b></p> <p><i>At the end of the Panel presentations, panellists will have one last round of words, before the Moderator thanks the Ministers and esteemed panellists for the Talanoa session and opens the floor for the plenary session, for questions from participants.</i></p>

<b>4.00pm</b>	<b>PLENARY SESSION</b>  <i>After the plenary session, the Moderator will summarise the discussions and thank all participants.</i>
<b>5.00pm</b>	<b>CLOSED SESSION: MEMBER COUNTRIES</b>  <i>Proceedings will deliberate on the process to prepare the conference outcomes.</i>
<b>DAY 2</b>	<b>WEDNESDAY 6 APRIL 2022</b>
<b>SESSION 2</b>	
<b>1.00pm</b>	<b>Theme Question for Session 2</b> <i>What are the debtors and bilateral &amp; multilateral development partners perspectives and insights on fiscal, debt, and climate vulnerability risks, including loss and damage caused by natural disasters, faced by Pacific Island Countries and what measures should be implemented to reduce such risks?</i>
	<b>Moderator</b> Acting Lead Economist, Department of Foreign Affairs and Trade, Australia, <b>Mr. Clinton Pobke</b>  <b>Keynote Speakers</b> Minister of Finance, Tonga, <b>Hon. Tatafu Moeaki</b> Director General, Budget Financing and Risk Management, Government of Indonesia, Ministry of Finance, <b>Mr. Luky Alfirman</b> Director of the IDA Resource Mobilisation and IBRD Corporate Finance, Development Finance, World Bank, <b>Mr. Samuel Maimbo</b>  <b>Background Presentations</b> Debt Drivers and Climate Risks in the Pacific: Programme Adviser – Climate Finance & Team Leader Resilience, PIFS, <b>Mr. Exsley Taloiburi</b> Ensuring Public Debt Sustainability in the Pacific: Director, Macroeconomic Policy and Financing for Development Division, ESCAP, <b>Mr. Hamza Malik</b>
<b>2.30pm</b>	<b>PANEL 2 – TALANOA SESSION</b>  Minister of Economy, Fiji, <b>Hon. Aiyaz Sayed-Khaiyum</b> Director General, Pacific Department, Asian Development Bank, <b>Ms. Leah Gutierrez</b> Ambassador of the People’s Republic of China to Fiji, <b>H.E Mr. Qian Bo</b> High Commissioner, British High Commission, Fiji, <b>H.E. Mr. Brian Jones</b>  <i>At the end of the Panel presentations, the moderator will invite the panellists for one last round of words, before the Moderator thanks the Ministers and esteemed panellists for the Talanoa session and opens the floor for the plenary session, for questions from participants.</i>
<b>3.30pm</b>	<b>PLENARY SESSION</b>  <i>After the plenary session, the Moderator will summarise the discussions and thank all participants.</i>
<b>DAY 3</b>	<b>THURSDAY 7 APRIL 2022</b>
<b>SESSION 3</b>	
<b>1.00pm</b>	<b>Theme Question for Session 3</b> <i>What is the potential of innovative financial instruments and mechanisms such as the Pacific Resilience Facility, debt for climate swaps and contingent disaster financing to strengthen financial resilience to climate-related risks going forward?</i>
	<b>Moderator</b>

	<p>Senior Adviser Economics, Development Economy and Prosperity Division, Pacific and Development Group, New Zealand Ministry of Foreign Affairs &amp; Trade, <b>Ms. Chris van Hooft</b></p> <p><b>Keynote Speakers</b> Minister of Finance, Tuvalu, <b>Hon. Seve Paeniu</b> Special Advisor to the Government of Belize on Climate Finance, and former Ambassador of Belize to the United Nations, <b>Ms. Janine Felson</b></p> <p><b>Background Presentations</b> Pacific Resilience Facility, Senior Adviser Economics, PIFS, <b>Mr. Denton Rarawa</b> Debt for Climate Swaps, Acting Chief, Financing for Development Section, ESCAP, <b>Mr. Alberto Isgut</b></p>
<b>2.00pm</b>	<p><b>PANEL 3 – TALANOA SESSION</b></p> <p>Debt Manager, Ministry of Finance and Corporate Governance, Antigua and Barbuda, <b>Ms. Nadia Spencer-Henry</b> Economist, Strategy, Policy &amp; Review Department, International Monetary Fund, <b>Ms. Johanna Schauer</b> Innovation, Technology &amp; Co-funding Manager, Private Sector Facility Division, Green Climate Fund, <b>Mr. Andrey Chicherin</b> Lead Economist, IDA Mobilization and IBRD Corporate Finance, World Bank, <b>Ms. Abha Prasad</b> Chief Executive Officer, Pacific Catastrophe Risk Insurance Company, <b>Mr. ‘Aholotu Palu</b></p> <p><i>At the end of the Panel presentations, panellists will have one last round of words, before the Moderator thanks the Ministers and esteemed panellists for the Talanoa session and opens the floor for the plenary session, for questions from participants.</i></p>
<b>3.30pm</b>	<p><b>PLENARY SESSION</b></p> <p><i>After the plenary session, the Moderator will summarise the discussions and thank all participants.</i></p>
<b>5.00pm</b>	<p><b>SESSION 4</b></p> <p><b>Keynote Speaker</b> Director, Sustainable Development Solutions Network, <b>Professor Jeffrey Sachs</b></p>
<b>DAY 4</b>	<b>FRIDAY 8 APRIL 2022</b>
<b>SESSION 4</b>	
<b>1.00pm</b>	<p><b>Theme Question for Session 4</b> <i>What additional solutions are available to address the collective development financing risks faced by Pacific Island Countries, and what role can the provision of concessional finance based on a multidimensional vulnerability index (MVI) play in this regard?</i></p>
	<p><b>Moderator</b> High Commissioner of Nauru to Fiji, <b>H.E. Mr. Michael Aroi</b></p> <p><b>Keynote Speakers</b> Minister of Finance, Palau, <b>Hon. Kaleb Udui, Jr</b></p> <p><b>Background Presentation</b> UN Resident Co-ordinator, Samoa, <b>Ms. Simona Marinescu</b></p>
<b>2.00pm</b>	<b>PANEL 4 – TALANOA SESSION</b>

	<p>Former Minister of Environment, Seychelles, <b>Mr. Didier Dogley</b>  Executive Director, Jubilee Australia, <b>Mr. Luke Fletcher</b>  Associate Director, Sovereign &amp; International Public Finance Ratings, Standard &amp; Poors  Global Ratings, <b>Mr. Martin Foo</b>  Pacific Economist, Australia New Zealand Banking Group, <b>Mr. Kishti Sen</b>  Pacific Resilience Partnership (PRP) Youth and Young Climate Leaders Alliance, Papua New  Guinea, <b>Mr. Kim Allen</b></p> <p><i>At the end of the Panel presentations, panellists will have one last round of words, before the Moderator thanks the Ministers and esteemed panellists for the Talanoa session and opens the floor for the plenary session, for questions from participants.</i></p>
<b>3.00pm</b>	<p><b>PLENARY SESSION</b></p> <p><i>After the plenary session, the Moderator will ask participants for a short break to allow the Secretariat to finalise the outcomes based on Day 4 deliberations for the Co-Convenors' approval.</i></p>
<b>4.30pm</b>	<p><b>VOTE OF THANKS</b>  Acting Secretary General, Pacific Islands Forum, <b>Mr. Filimon Manoni</b>  Director, Macroeconomic Policy and Financing for Development Division, ESCAP, <b>Mr. Hamza Malik</b></p>
<b>5.30pm</b>	<p><b>CONFERENCE OUTCOMES</b></p> <p><i>The Secretariat will then proceed to the final session for the reading of the conference outcomes for Members.</i></p>