UK hosted side-event - Building a More Shock Resilient Financial System: Climate Resilient Debt Clauses

*Palais Brongniart, 22 June 2023*

UK Minister for Development and Africa Andrew Mitchell hosted an event on Climate Resilient Debt Clauses (CRDCs) during the Paris Summit for a New Global Financial Pact. The UK side-event launched:

1) a call to action on CRDCs, and
2) a tally of commitments on CRDCs.

The signatories and commitments made up to 23 June 2023 are captured below, and further signatories to the call to action and additions to the tally are welcome.

1. **The call to action**

   We (the UK, France, Barbados, Ghana, the US, Canada and Spain) call for bilateral, multilateral and private sector creditors to offer Climate-Resilient Debt Clauses **by the end of 2025**, with a group of early movers offering the clauses **by COP28**, so that borrowing nations have the necessary fiscal room to respond fully to shocks.

2. **The tally of commitments**

The event also kicked off a 'tally of commitments' on CRDCs which continues to grow:

- The **UK and France** already offer CRDCs in our direct bilateral lending to LICs and SIDS, countries who are particularly vulnerable in the wake of severe climate shocks. **UK Export Finance (UKEF)** was the first export credit agency in the world to introduce CRDCs into its loan agreements at COP27 in November 2022.
- **UK Export Finance (UKEF)** has now started discussions with **12 partner countries in Africa and the Caribbean** to add CRDCs to its new and existing loan agreements, the first of which are expected to go live in the next few months.
- **France** announced that they have decided to include CRDCs in concessional Treasury loans and the Agence Française de Développement (AFD) considers the feasibility of its implementation for its loans.
- **The US** hopes to announce by the end of the year its commitment to include CRDCs in their bilateral lending where feasible, on a transaction-by-transaction basis, consistent with their charter requirements.
- **Spain** will be introducing CRDCs in their bilateral lending, where feasible.
- **Spain** is analysing options to widen the scope of CRDCs to cover food crises and for middle income countries to be eligible.
- **Canada** is actively exploring the use of Climate Resilient Debt Instruments in official bilateral lending.
- Germany will explore options to include CRDCs in its lending Instruments of financial cooperation.
- The Inter-American Development Bank already offers CRDCs. Furthermore the President of the Inter-American Development Bank announced that it is leading the formation working group of 9 Multilateral Development Banks will meet for the first time on June 27th 2023 to explore whether they can offer CDRCs as part of their lending. The Inter-American Development Bank also announced plans to lower the costs of the CDRCs it already offers.
- The World Bank Group announced an expanded toolkit for crisis preparedness, response, and recovery, including offering a pause in debt repayments so countries can focus on what matters when a crisis or catastrophe hits, and stop worrying about the bill that comes with it. The institution will first offer its new CRDCs to the most vulnerable countries and intends to learn and work with all stakeholders to expand coverage.
- The European Investment Bank is working to include CRDCs in the finance contracts of the most vulnerable countries affected by climate and natural hazards. This will be implemented through pilot projects in Least Developed Countries and Small Island Developing States.
- A ‘model term sheet’ for private lending including CRDCs was developed and published on the International Capital Markets Association website at COP27. Members of the UK-led Private Sector Working Group on CRDCs have been considering how to offer CRDCs.

In addition:

- UK Export Finance (UKEF) has today published its CRDC, which it now offers as standard in all its loan agreements with eligible countries, to help inform the work of other official creditors in adopting similar clauses.
- France will also publish its Climate Resilient Debt Clause.
- The UK also stands ready to support further interested countries to explore CRDCs through the UK-funded Centre for Disaster Protection and Financial Sector Deepening Africa. This will include sharing best practice advice on debt clauses, innovations on climate and debt, and potential triggers, as well as quality assurance.