

## Japan launches a pilot program of the Climate Resilient Debt Clause (CRDC)

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Ministry of Foreign Affairs

Ministry of Finance

Japan International Cooperation Agency

1. The Japanese government and the Japan International Cooperation Agency (JICA) launched a pilot program of the “climate resilient debt clause” (CRDC) that will enable borrowing countries to temporarily defer debt repayments in case of certain natural disasters, in recognition of the fact that Pacific Island countries are highly vulnerable to severe threats of natural disasters, which have been worsened due to increasingly frequent and intense climate shocks.
2. Japan announced the launch of the pilot program of CRDC at the Japan-Pacific Islands Finance Ministers’ Meeting in May this year. The CRDC is also actively discussed at the G20 Finance Ministers and Central Bank Governors Meeting.
3. The CRDC of this pilot program allows countries that are vulnerable to natural disasters, including from climate change, to defer principal and interest payments for up to two years when these countries are hit by a pre-specified scale of tropical cyclones and earthquakes.\* Japan will introduce this mechanism for yen loans offered by JICA as a pilot program. Quick access to additional liquidity in the event of disasters will help affected countries accessing additional liquidity, easing fiscal constraints, and mitigating the negative impacts of natural disasters.
4. The 16 eligible countries are the Republic of Kiribati, the Independent State of Samoa, the Solomon Islands, Tuvalu, the Kingdom of Tonga, the Republic of Vanuatu, the Republic of Nauru, Niue, the Independent State of Papua New Guinea, the Republic of Palau, the Democratic Republic of Timor-Leste, the Republic of Fiji, the Republic of the Marshall Islands, the Federated States of Micronesia, the Republic of the Maldives, and the Kingdom of Bhutan.
5. The two-year pilot program will be for new concessional loans offered by JICA, and the deferred principal and interest payments will be restructured with the loan’s average maturity unchanged before and after the deferral. The principal and interest will be deferred for up to two years.

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\* The eligible disaster events are tropical cyclones and earthquakes that meet the following conditions.

Tropical cyclones: Based on reported maximum sustained wind speed of 178 km/hour (1-minute average) or 119 km/hour (10-minute average), which is equivalent to internationally used Category 3 or higher on a 5-level scale according to the speed of sustained winds. Earthquakes: Based on a reported moment magnitude of 7.0 or greater and a reported depth of 175 km or less.