UNITED NATIONS

ECLAC

COMMONWEALTH SECRETARIAT

# *Concept Note*

## Exploring solutions to the Caribbean debt challenge: Debt reduction through financing for climate adaptation swaps and a Caribbean Resilience Fund

**Side Event presented by**
**ECLAC and the Commonwealth Secretariat**
**Paris, Tuesday 8 December 2015, 1.30 – 3.00 pm**

The 21st session of the Conference of the Parties to the UNFCCC (COP21) offers an important opportunity for SIDS to press for fundamental breakthroughs in the agreed global response to climate change that will emerge at this crucial Summit. For Caribbean SIDS in particular, COP 21 represents the culmination of an important process of advocacy over the past year that began with the adoption of the SAMOA Pathway on SIDS, and was punctuated by the Addis Ababa Action Agenda for financing development in July and by the global endorsement in September of the new Sustainable Development Goals.

The Paris meeting, the next vital phase in this continuum, will afford us renewed perspective on the integrated development issues that define the economic, social and environmental vulnerability of Caribbean SIDS, with special emphasis on the significant exposure of these island and coastal states to the varied impacts of climate change.  The region is currently shouldering a serious debt burden, the proportions of which threaten to erode the gains made. Given the bleak medium term outlook for growth, there can be no doubt that something must be done.

An ECLAC assessment of the debt profile of the Caribbean subregion determined that countries can be placed into three categories, based on their debt structure: the highly indebted countries whose debt to GDP ratios range between 99% and 135% of GDP, and whose debt servicing absorbs a significant proportion of public expenditure; the moderately indebted with commitments ranging between 41% and 77 % of GDP; and those few countries whose debt averages some 31 % of GDP. Eleven Caribbean states fall in the first two categories, eight of these carrying debt to GDP ratios in excess of 60%, the level adjudged by the IMF as the threshold for unsustainable debt.

The fiscal adjustment demands on these economies have been intense, with noticeable spillovers across the region, including in the area of trade. In the case of the high and moderately indebted, the significant overhang has constrained their access to international finance despite the availability of low international interest rates. For some countries considerable efforts at adjustment have been insufficient to reduce the stubborn debt burden. There is no respite for these countries which, despite their vulnerability to climate change and extreme weather events, are categorized as middle income and, by implication, considered capable of fending for themselves.

It is in the context of these circumstances that ECLAC is offering a proposal for debt relief, which can at once help to free-up fiscal space while responding directly to the need for Caribbean SIDS to build their resilience and strengthen measures for adaptation to climate change. While Caribbean countries are entitled to climate funds, they have thus far had little success in accessing them. Consideration is now being given to leveraging such funds for debt reduction in the Caribbean.

This side event provides an opportunity to explore, from a Caribbean perspective, the possibilities for integrating the twin imperatives of pursuing climate resilience and debt reduction. It is being presented in partnership with the Commonwealth Secretariat, which has been a thought leader on the notion of climate finance swaps to provide debt relief over the past few years, thereby providing a valuable foundation on which the ECLAC proposal has been developed.