

DEBT FOR CLIMATE ADAPTATION

SWAP INITIATIVE FOR CARIBBEAN SIDS

The ECLAC Debt for Climate Adaptation Swap Initiative is a response to the two most urgent development needs facing the Caribbean: debt and vulnerability.

...DEBT STUNTS ECONOMIC GROWTH



WHY? WHY IS DEBT A CHALLENGE?

70.5% OF REGIONAL GDP



Several Caribbean countries rank among the most highly indebted in the world.

In 2018, the average Caribbean debt was 70.5% of GDP.

Without meaningful intervention, the countries of the Caribbean cannot grow their way out of the current debt crisis.



ECLAC has recognized that the debt burden has reduced the fiscal space for investment in infrastructure, climate adaptation and green industries in Caribbean countries, as well as being a drag on growth.

WHY? WHY IS VULNERABILITY A CHALLENGE?

385 CLIMATE-RELATED DISASTERS



There have been more than 385 climate-related disasters in the Caribbean since the 1990.

Since 2000, the Caribbean has suffered at least eight disasters in which the cost of damage ranged from 33% to 200% of the affected country's GDP.

Annual losses from increasingly catastrophic climatic events in the Caribbean are estimated at US\$ 3 billion.

Natural disasters have caused in excess of US\$ 40 billion in damages in the Caribbean over the past 30 years alone.



The view of the United Nations is that sustainable debt reduction cannot be divorced from a long-term, proactive climate adaptation strategy in the Caribbean.

...DISASTERS INCUR MORE DEBT

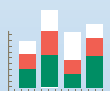


Vulnerability to climate change is directly linked to the increasing debt burden in the Caribbean.

THE INITIATIVE

ECLAC proposes a strategy to provide relief to economies overburdened by public debt while directing resources for investment in climate adaptation projects to build resilience.

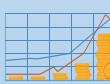
The approach to debt reduction has two dimensions:



(i) For countries with high debt from official creditors, the Green Climate Fund (GCF) will be requested to purchase multilateral and bilateral debt owed at a negotiated discount;



(ii) For countries with high debt from private creditors, a debt buyback scheme will be utilized, as well as debt for equity swaps.



Under the ECLAC initiative, debt repayment (preferably in local currency) will be placed in a Caribbean Resilience Fund (CRF) to finance green industries and mitigation and adaptation projects as agreed by the parties.

MOVING FORWARD

The ECLAC Debt for Climate Swap Initiative is ready for take-off and its implementation should be accelerated. Actions must be pursued via a two-track approach:

1. Three pilot countries ready to initiate negotiations

Three pilot countries —**Antigua and Barbuda, Saint Lucia and Saint Vincent and the Grenadines**— are ready to initiate negotiations with creditors for the debt swaps. A decrease in debt-to-GDP ratio of at least of 12.2 percentage points for each country would allow for the generation of at least one GDP point of resilient growth. A 1-GDP-point increase in growth would drive these three countries’ weighted average growth rate to pre-global-financial-crisis levels.

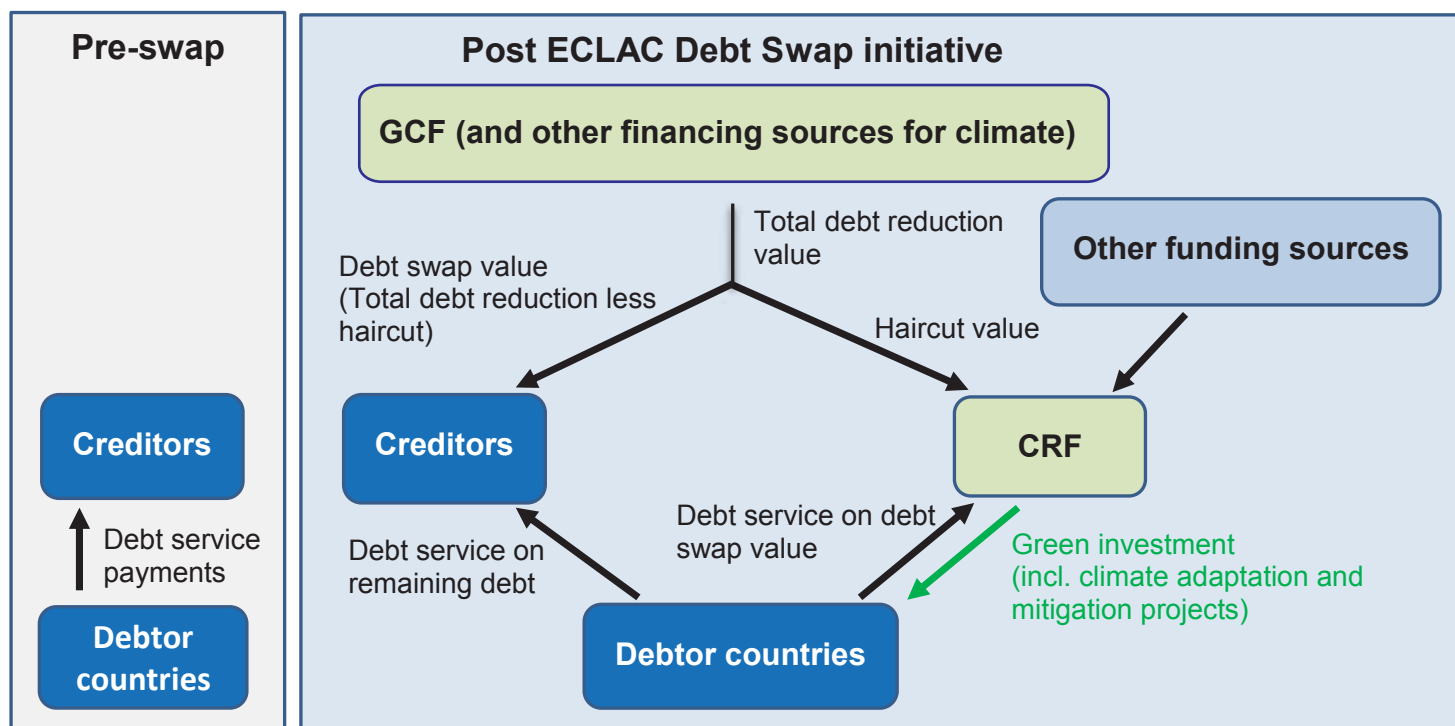
The total value of the debt reduction required to produce a 1-percentage-point gain in growth in the three countries is 1.42 billion Eastern Caribbean dollars (EC\$) (US\$ 525.9 million) and the total haircut value ranges from EC\$ 284 million (US\$ 105.2 million) for the 20% haircut scenario to EC\$ 711 million (US\$ 263.3 million) for the 50% haircut scenario.

2. The establishment of a Caribbean Resilience Fund (CRF)

It is proposed to establish a Caribbean Resilience Fund (CRF) to advance strategies for climate adaptation, green investment and resilience-building, while the negotiations on debt reduction are being pursued.

This would allow for an earlier response to the need for support in implementing **climate adaptation and green industry projects** for the three pilot countries, thus enabling immediacy of impact in respect of resilience-building, even as the negotiations on the debt swap proceed.

The CRF will be capitalized, initially, through a combination of contributions from international financial institutions, bilateral donors and the Green Climate Fund (GCF); and subsequently from the haircut values negotiated through the swap and discounted debt repayments on the part of the beneficiary Caribbean economies.



Source: Economic Commission for Latin America and the Caribbean (ECLAC).
 Note: Arrows indicate financial flows.