ECLAC's PROPOSAL ON DEBT FOR CLIMATE ADAPTATION SWAPS:

A STRATEGY FOR GROWTH AND ECONOMIC TRANSFORMATION OF CARIBBEAN ECONOMIES

UNITED NATIONS

ECLAC

CARICOM – UN HIGH LEVEL PLEDGING CONFERENCE
Building a More Climate – Resilient Community
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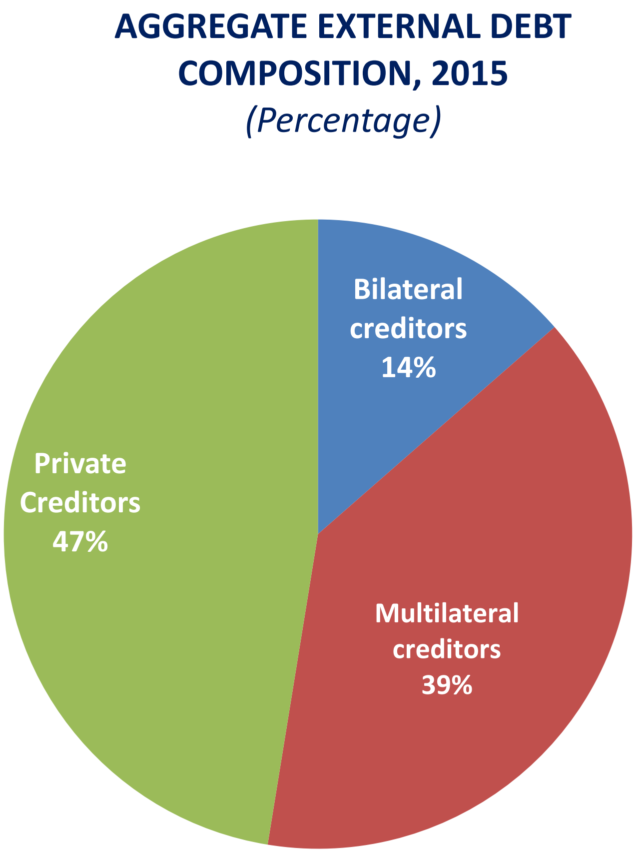
Structure of the Presentation

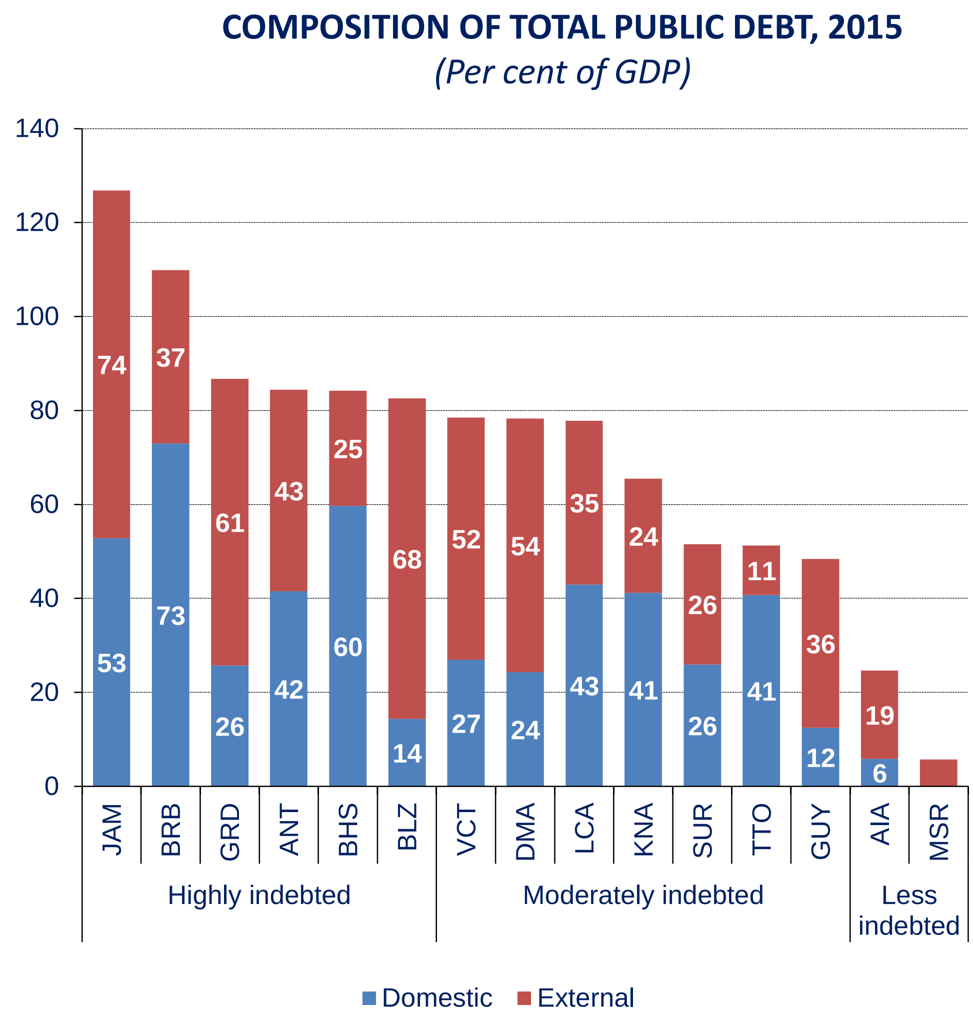
- Stylized facts
- Underlying causes of the debt burden
- A response to the Caribbean's debt challenge
- Conclusion

Caribbean Public Debt, 2015

	Domestic	External	Total	Total
		(USD millions)		*(Per cent of GDP)*
Anguilla	18.6	60.2	78.8	24.6
Antigua and Barbuda	562.8	581.1	1,143.9	84.4
Bahamas	5,284.6	2,169.3	7,453.9	84.2
Barbados	3,185.1	1,609.7	4,794.8	109.9
Belize	247.2	1,175.8	1,423.0	82.6
Dominica	125.5	279.3	404.8	78.3
Grenada	252.9	600.8	853.7	86.8
Guyana	395.6	1,143.0	1,538.6	48.4
Jamaica	7,371.5	10,331.3	17,702.9	126.8
Montserrat	0.0	3.4	3.4	5.7
Saint Kitts and Nevis	360.8	213.0	573.7	65.5
Saint Lucia	615.0	498.8	1,113.8	77.8
Saint Vincent and the Grenadines	198.8	380.3	579.1	78.5
Suriname	1,070.9	1,056.5	2,127.4	51.6
Trinidad and Tobago	9,623.4	2,490.2	12,113.6	51.2
Caribbean total	**29,312.8**	**22,592.7**	**51,905.5**	**70.4***

External debt structure



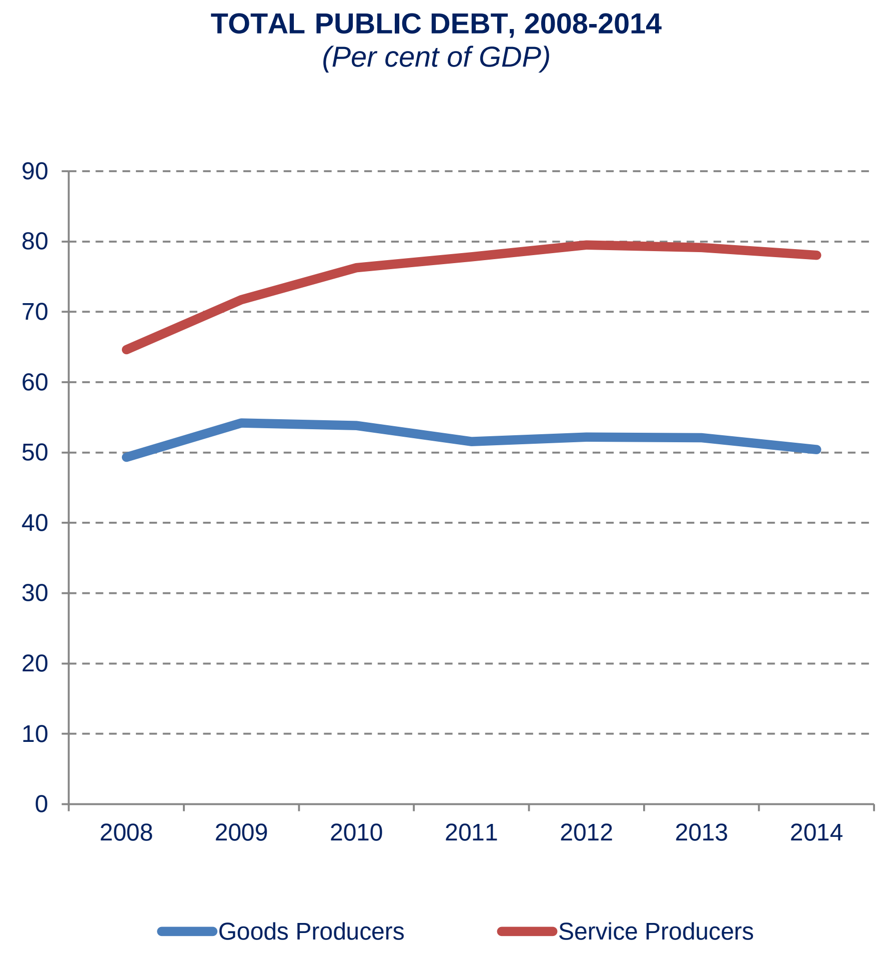


Underlying causes of the debt burden

Origins of Caribbean Debt

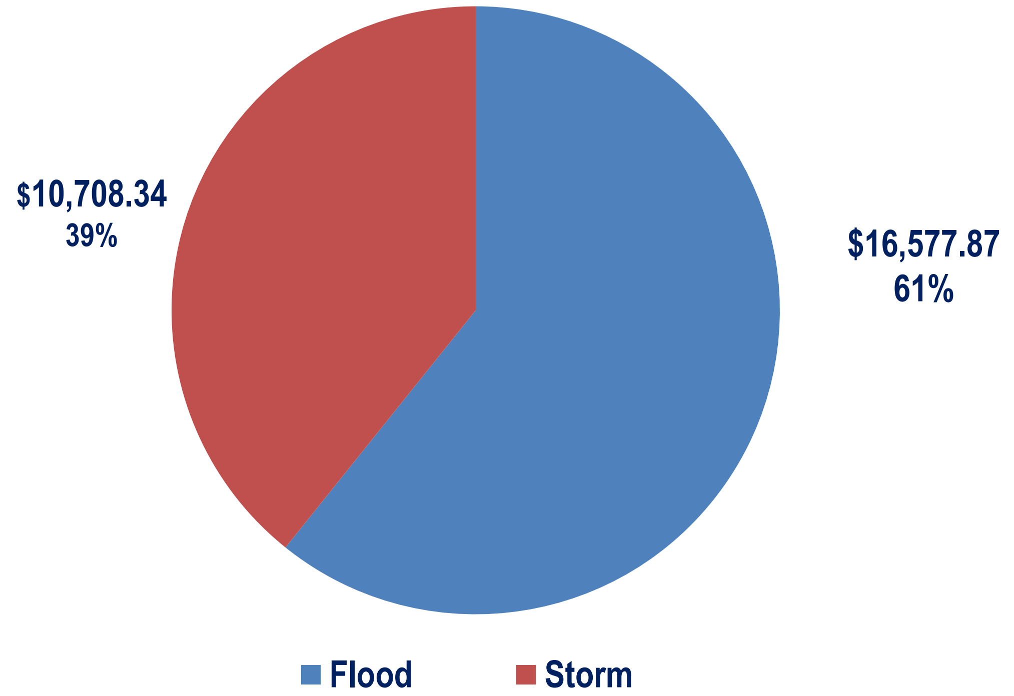
Not principally driven from policy missteps, fiscal profligacy or the international financial crisis.

Rooted in external shocks, compounded by the inherent structural weaknesses and vulnerabilities, particularly extreme weather events



Damage from Caribbean Disasters, 2000-2014 *(2013 US$ millions; percentage)*

A disaster resulting in damage and losses in excess of 5 per cent of GDP can be expected to hit any Caribbean country every few years.



Climate Change Vulnerability

- A 1.8mm annual increase in sea level has been observed in the Caribbean
- It is estimated that 70% of beaches will lose 0.25-9M of shoreline a year
- This will damage infrastructure and housing
- Coastline losses have a greater impact on the economy as a result of loss of tourism receipts

The upper middle and high income problem

The upper middle and high income classification of the majority of Caribbean countries poses a number of challenges:

- Limited access to concessional external finance
- Decline on ODA to the Caribbean
- GDP per capita criteria failures to take into account threats from natural disasters such as hurricanes as well as economic shocks

A response to the Caribbean's debt challenge

ECLAC proposal has been discussed at

- 36Th CARICOM Heads of Governments meeting July 2015
- ECLAC's Caribbean Development Roundtable held in St Kitts and Nevis during April 2016
- Heads of Government in their report to the 37^{th} CARICOM Conference, agreed that ECLAC should pursue the initiative "to the extent feasible, on behalf of the region"

The need of a debt Relief initiative for the Caribbean.

- How Caribbean economies can mitigate and adapt to the consequences of climate change while trying to reduce the debt burden, increase growth and achieve the SDGs
  - Policy measures such as fiscal consolidation; prudent management of fiscal debt; and structural reforms aimed at improving economic growth, while having some measure of success in a few economies have thus far been unable to solve the Caribbean's high debt-low growth conundrum.
  - It is important to address the Caribbean's debt dilemma in a sustainable manner while fostering structural change and economic diversification. Region's debt burden, *as well as its growth*, is closely intertwined with climate related natural disasters. Hurricanes, tropical depressions, floods, droughts, the gradual rise in sea level, etc. all impact negatively of the region's economic development.

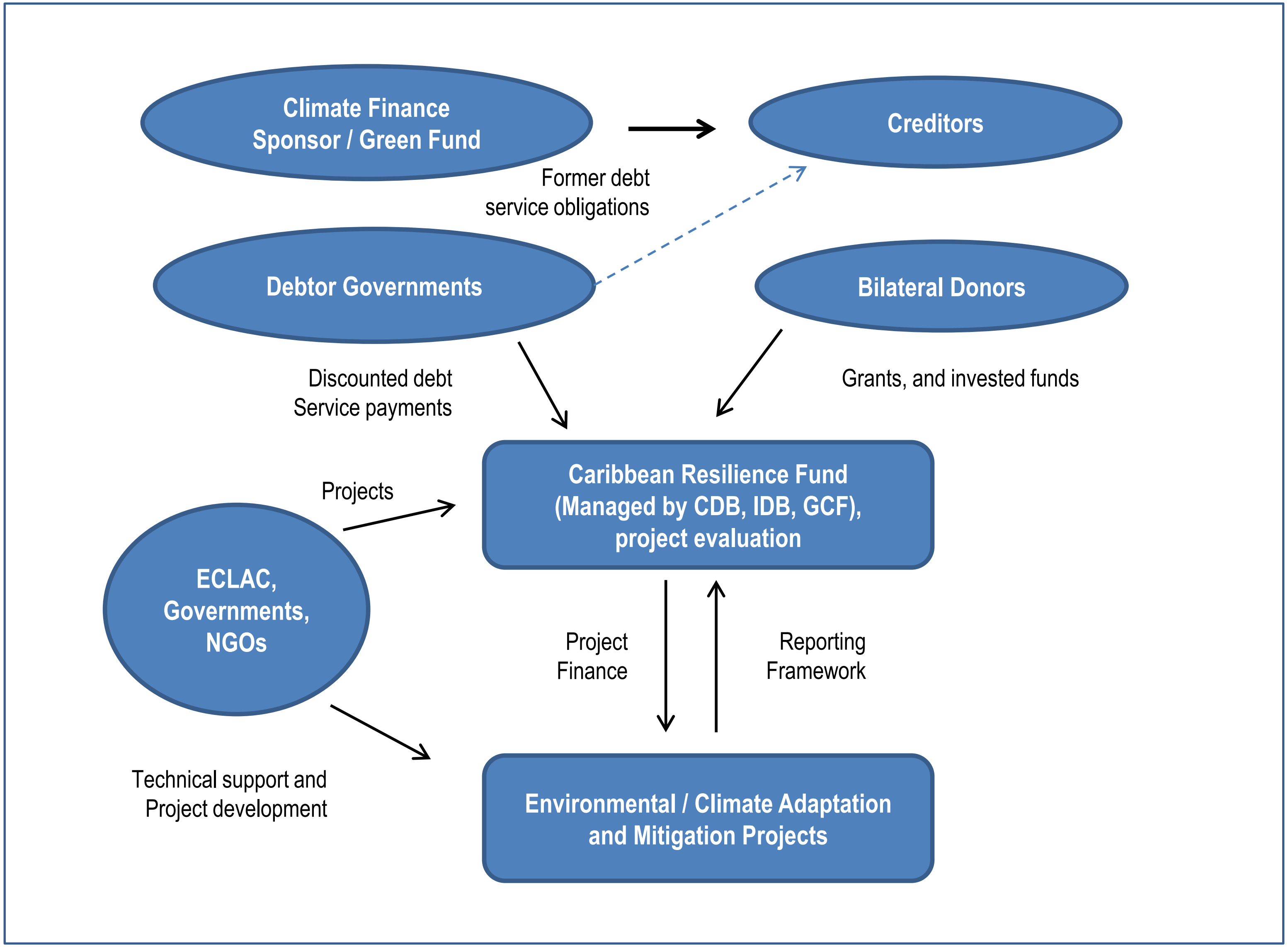
The essence of ECLAC proposal

- Channeling pledged climate funds to write down Caribbean debt through debt-for-climate-adaptation swap (in line with the Commonwealth Secretariat's proposal).
- Creation of the Caribbean Resilience Fund (CRF)
  - Would be expected to provide financing for investment in climate resilience, green growth and structural transformation in the economies of the region.
- The ECLAC approach recognises that Caribbean debt is heterogeneous; member states carry varying combinations of multilateral, bilateral and private debt which requires a menu approach.

Menu approach

- Addressing multilateral and bilateral debt
  - Pledged Green Climate Funds (GCF) would be used to finance a gradual write down of 100 per cent of the Caribbean SIDS' multilateral debt stock held at various multilateral institutions, as well as their bilateral debt. This would be contingent on debtors agreeing to make annual payments into a Caribbean Resilience Fund (CRF) in an amount equal to the discounted debt service payments (a haircut).
- Addressing debt to private creditors
  - Debt buyback scheme using the GCF, designed to reduce debt service payments and the debt stock. Such a scheme could be pursued on the basis of a discount in the secondary markets and new loan agreements by creditors at lower costs. The savings from interest would be used to fund CRF. The menu could also offer debt for equity swaps in the cases where the debt is held by domestic commercial banks.

Overview of the Logistics of the ECLAC Debt Relief and Resilience Building Initiative



Road Map for Implementing the Proposal

Phase 1

- Organize the task force
- Identify the scope of the initiative
- Develop timelines, access resources to assist the work of the task force
- Assess GCF capacity and willingness to addres the initiative.
- Establish resiliance fund management criteria

Phase 2

- International advocacy with various governments, agencies and funds
- Domestic consultation and collaboration with a member state to demonstrate feasibility of debt swap
- Outline the specificities of debt swaps strategies for one or two countries.

Phase 3

- Present the initiative and strategy of debt swaps to the GCF
- Modify the initiative to meet concerns of GCF, member states and creditors

Phase 4

- Prepare more member states for participating in the debt swap initiative
- Assess the extent to which the initial proposal can be fully implemented

Through this proposal ECLAC hopes to channel the pledged climate funds to Caribbean countries, reducing their current debt burden while at the same time providing financing for projects to reduce their vulnerability to future climate change effects.