



# **DESIGNING A DEBT-FOR-CLIMATE SWAP MECHANISM: EXPERIENCES FROM ANTIGUA AND BARBUDA**

For the Commonwealth Secretariat  
Debt-for-Climate Swap Event

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# BACKGROUND ON DEBT SWAPS

**CONCEPT:** A form of **debt restructuring for an agreed purpose** commonly undertaken when high levels of economic and/or fiscal instability undermine the ability of the debtor government to sustainably meet their debt service obligations.

**TYPICAL STAGES:** This debt restructuring normally goes through the following stages:

- Partial cancellation of eligible debt by the creditor government
- Transformation of the remaining debt into local currency
- Remaining debt directed towards an agreed purpose

**EXAMPLES OF AGREED PURPOSES:**

- debt-for-equity swaps
- debt-for-development swaps
- debt-for-nature swaps inclusive of debt-for-climate swaps

# DEBT-FOR-CLIMATE SWAPS

Debt-for-climate swaps have an **agreed purpose** for swapping the debtor government's debt obligations for an obligation **focused on its transition to a low emission, climate resilient economy** via:

- **Investment in climate adaptation and/or mitigation projects & programmes**
- **Creation of much needed fiscal space** (through reducing its debt burden) for the national response to the adverse effects of climate change and its associated loss and damage i.e. recovery and rehabilitation post-climate change related events

This agreed purpose is grounded in, and will assist in the achievement of, the financial goal of the *Paris Agreement 2015* (Article 2[1][c])

***'Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development'***

# IMPORTANCE OF DEBT-FOR-CLIMATE SWAPS IN THE CARIBBEAN

- Between 2000-2018, in the region, debt-to-GDP ratios have averaged **92%** and **interest payments averaged 19%** of government revenue.
- Government of Antigua and Barbuda (GoAB) has had consistently high levels of public debt, with an average debt-to-GDP ratio of **115.3% between 1998–2009**
- In comparison with an annual GDP growth rate of 4.9% in 2019, **2020 observed a contraction of 20.2%** (*Noting that the highest annual contraction ever recorded pre-2020 was 12% due to the 2008 financial crisis*)
- Climate change, public debt and the pandemic's economic consequences creates a triple threat to the long-term socioeconomic and environmental stability of Caribbean SIDS



# BENEFITS OF DEBT-FOR-CLIMATE SWAP

## NATIONAL DEVELOPMENT

- Ease the country's external debt obligations
- Increasing the fiscal space necessary to fund climate adaptation, mitigation and loss and damage response activities
- Strengthening the adaptive capacity for the country's inhabitants

## SDGs

- Achievement of SDGs 13 and 16 – Climate Action, and Peace, Justice and Strong Institutions among others
- Environmental, social, and economic co-benefits
- Creditor governments benefit from action on SDGs locally

## COVID-19 Response

- Redirection of finance to green recovery

# DEBT-FOR-CLIMATE SWAP IN ANTIGUA AND BARBUDA UPDATE

**Oct 2019:** Feasibility Studies & Consultations with UN-ECLAC on Debt-For-Climate Swap in the Eastern Caribbean

**Apr 2020:** Prime Minister of Antigua and Barbuda announced his intention to appeal to Paris Club creditors for debt forgiveness of over US\$100 million

**May 2020:** Further Preliminary Assessment on Antigua and Barbuda's Debt Portfolio (*Particularly USD 147 million Paris Club Debt*) and Potential for Debt-for-Climate Swap with Paris Club & Green Climate Fund ('GCF')

**Aug 2020:** Development of a three year GCF Readiness Proposal for Antigua and Barbuda 2021-2023 focusing on preparatory activities Debt-For-Climate Swap (**Currently Under Review by the GCF**) including, *inter alia*:

- Negotiations with Paris Club Creditors
- Establishment of Necessary Enabling Environment via Legal and Contractual Frameworks
- Finalization of Debt Treatment Agreements with all relevant participating institutions
- Capacity Building and Institutional Development of relevant GOAB and financial institutions
- Knowledge Sharing with UN-ECLAC and other interested Eastern Caribbean States