



Twenty-sixth session
**Caribbean Development and
Cooperation Committee (CDCC)**
Basseterre, Saint Kitts and Nevis, 22 April 2016

PROPOSAL ON DEBT-SWAPS FOR CLIMATE ADAPTATION INVESTMENT:

**A STRATEGY FOR GROWTH AND ECONOMIC
TRANSFORMATION OF CARIBBEAN ECONOMIES**



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Structure of the Presentation

- Stylized facts
- Underlying causes of the debt burden
- Current challenges to reducing the debt
- Green Industries as a Catalyst for Structural Change
- A regional response to the Caribbean's debt challenge
- Conclusion



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Stylized Facts



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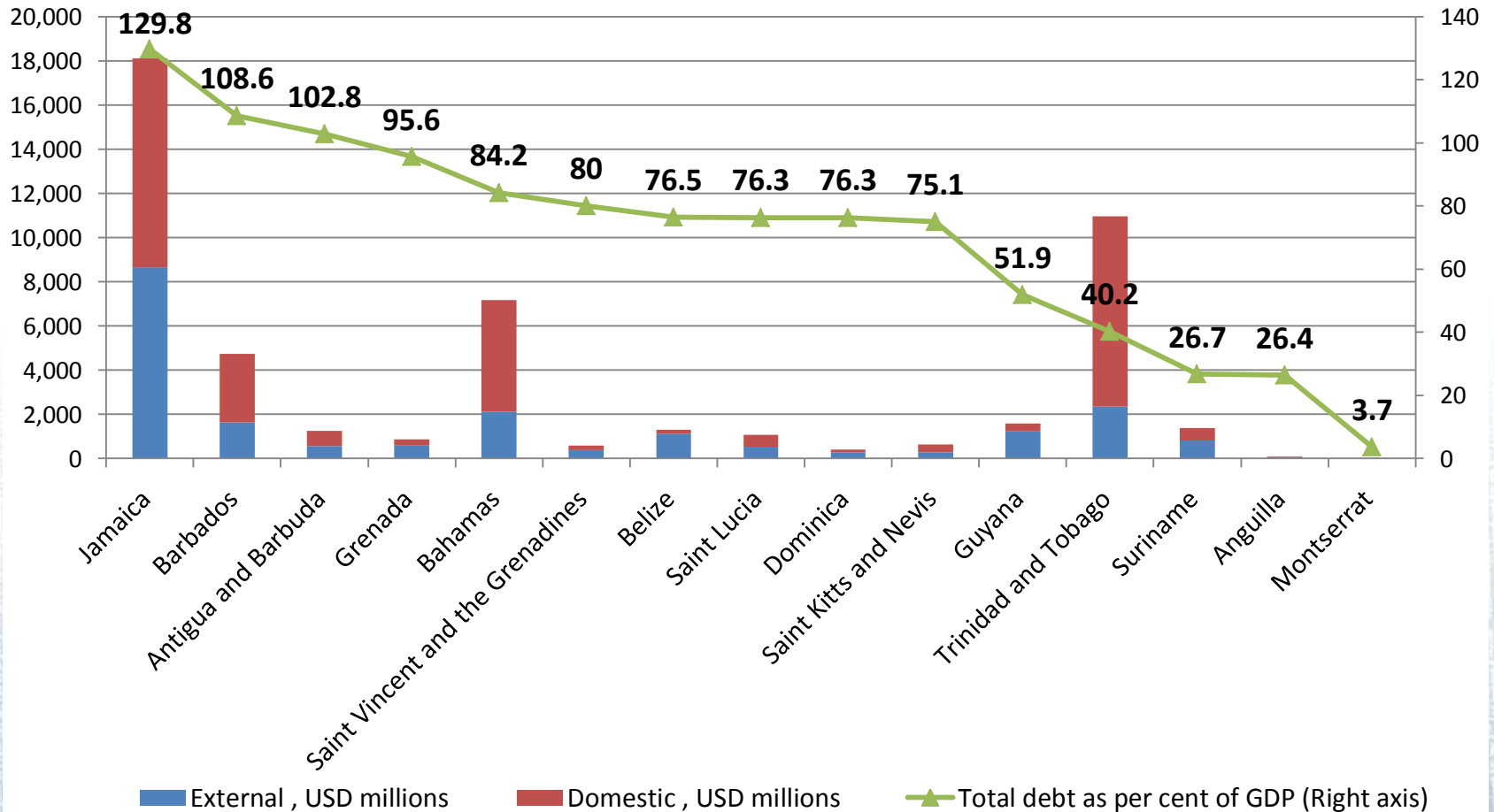
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Caribbean countries are among the most highly indebted in the world

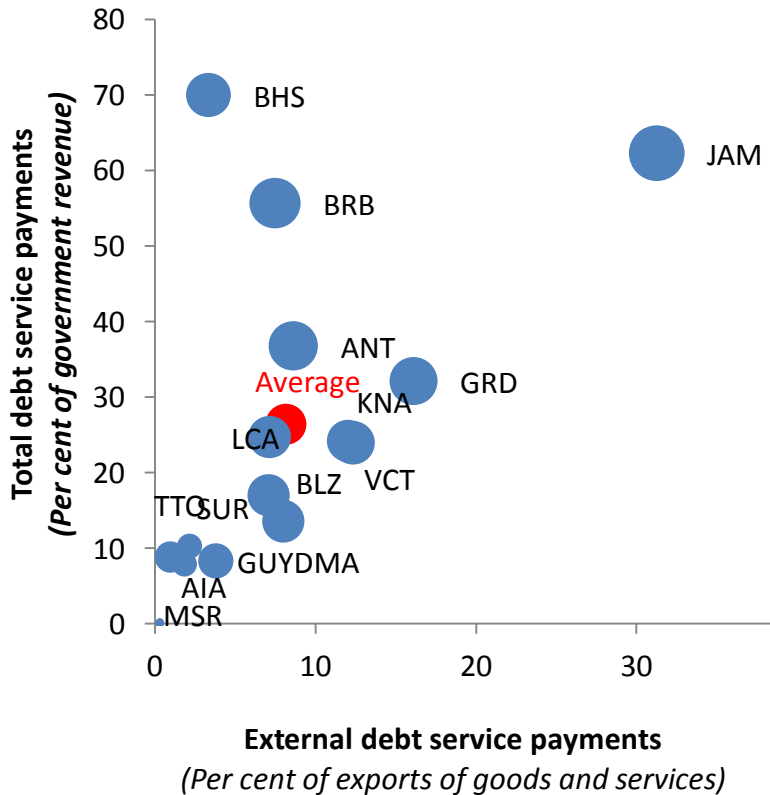
2014 DEBT BURDEN
(In USD millions and percentage of GDP)



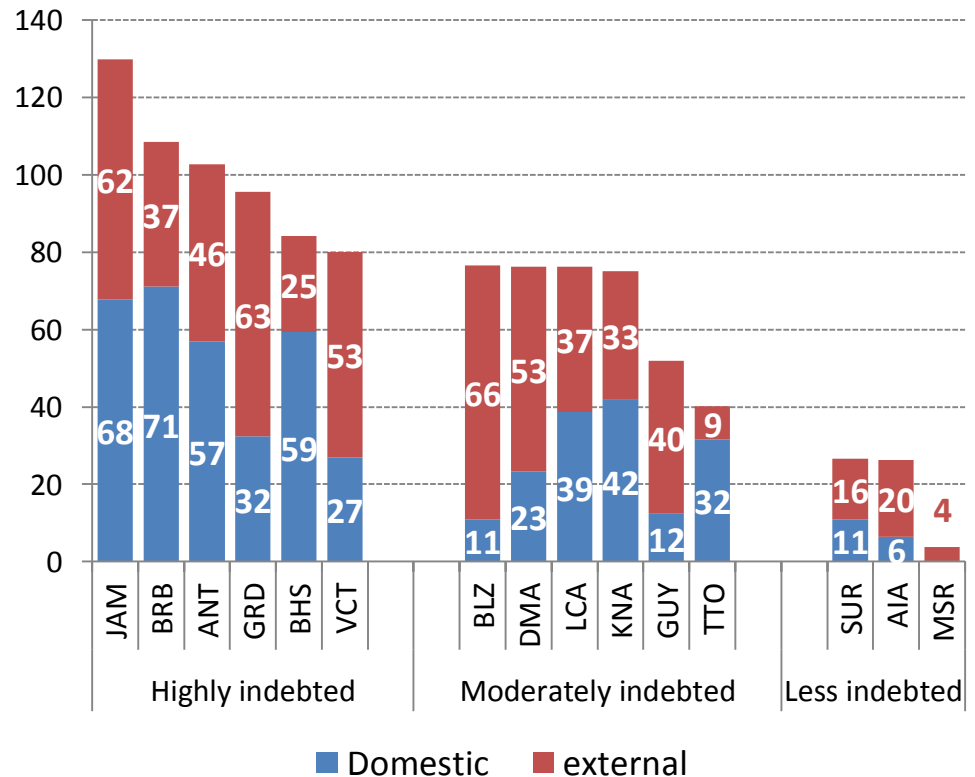


Debt service and debt composition

CARIBBEAN DEBT SERVICE BURDEN, 2014



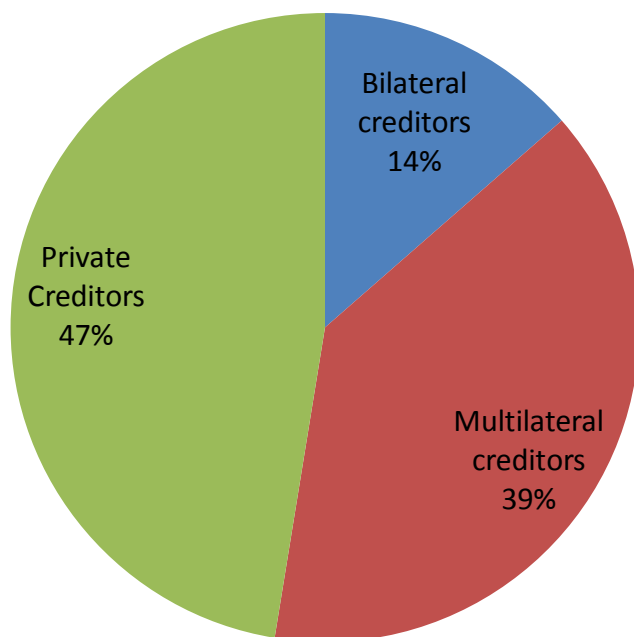
COMPOSITION OF TOTAL PUBLIC DEBT, 2014
(Per cent of GDP)





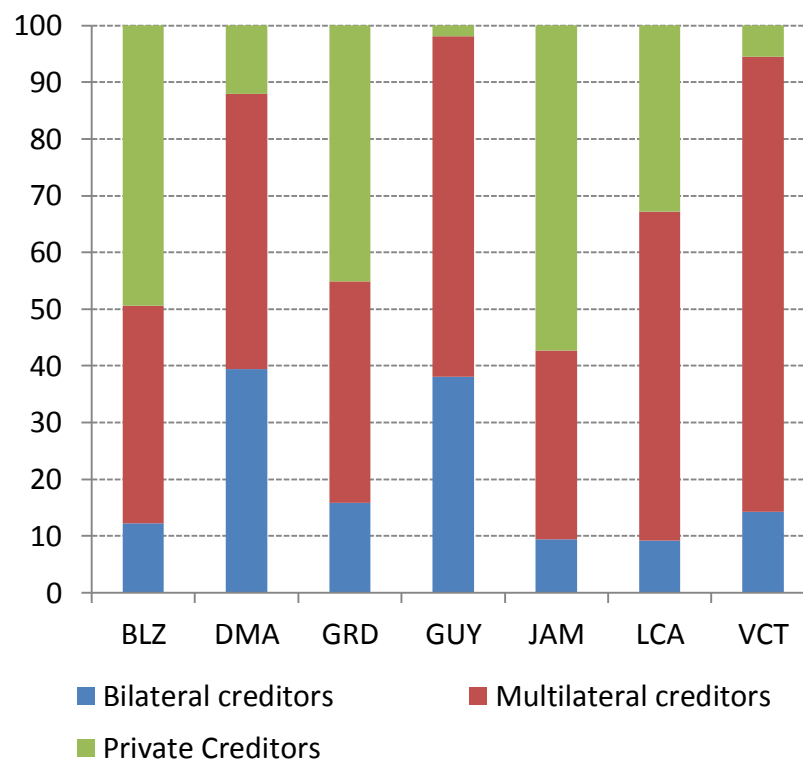
External debt structure

**AGGREGATE EXTERNAL DEBT
COMPOSITION, 2014**
(Percentage)



Source: World Bank WDI database

EXTERNAL DEBT COMPOSITION, 2014
(Percentage)



Source: World Bank WDI database



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Underlying causes of the debt burden



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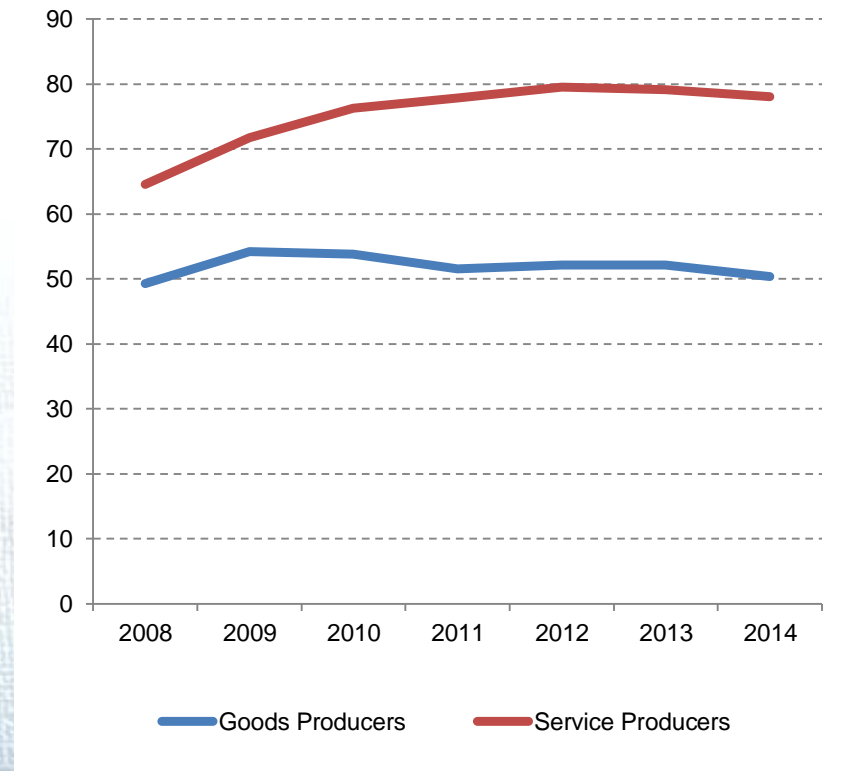
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Drivers of Caribbean debt accumulation

- Unanticipated external shocks
- Structural factors helped elevate the debt
- Extreme weather events also impact

TOTAL PUBLIC DEBT, 2008-2014
(Per cent of GDP)

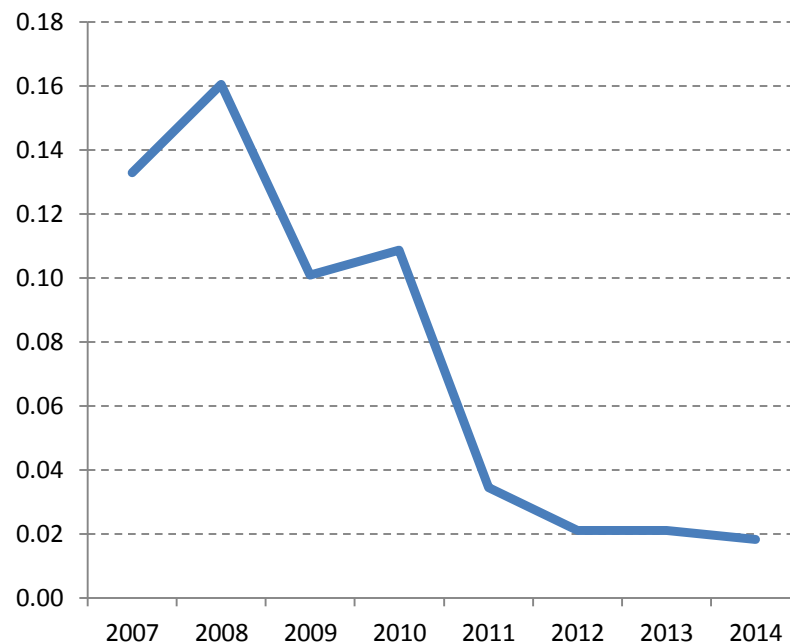




Poor Performance of the External Sector

- Limited number of exports to a few markets (failure to service existing trade agreements)
- Declining competitiveness

CARICOM EXPORTS AS A SHARE OF WORLD EXPORTS
(Per cent of World Exports)



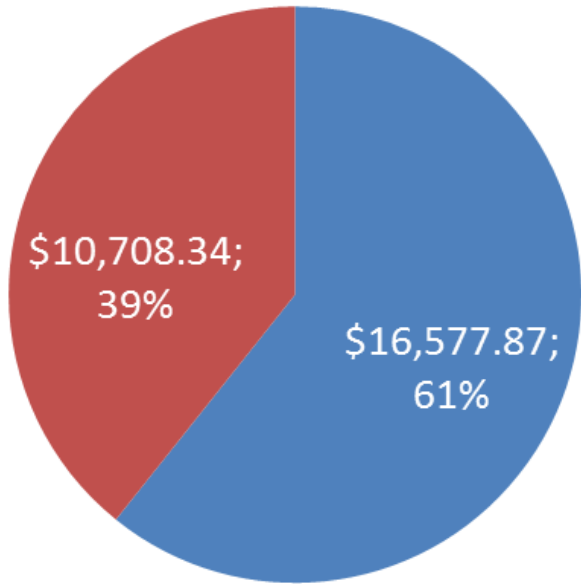
Source: Comtrade via WITS



Losses and vulnerabilities of extreme events and climate change

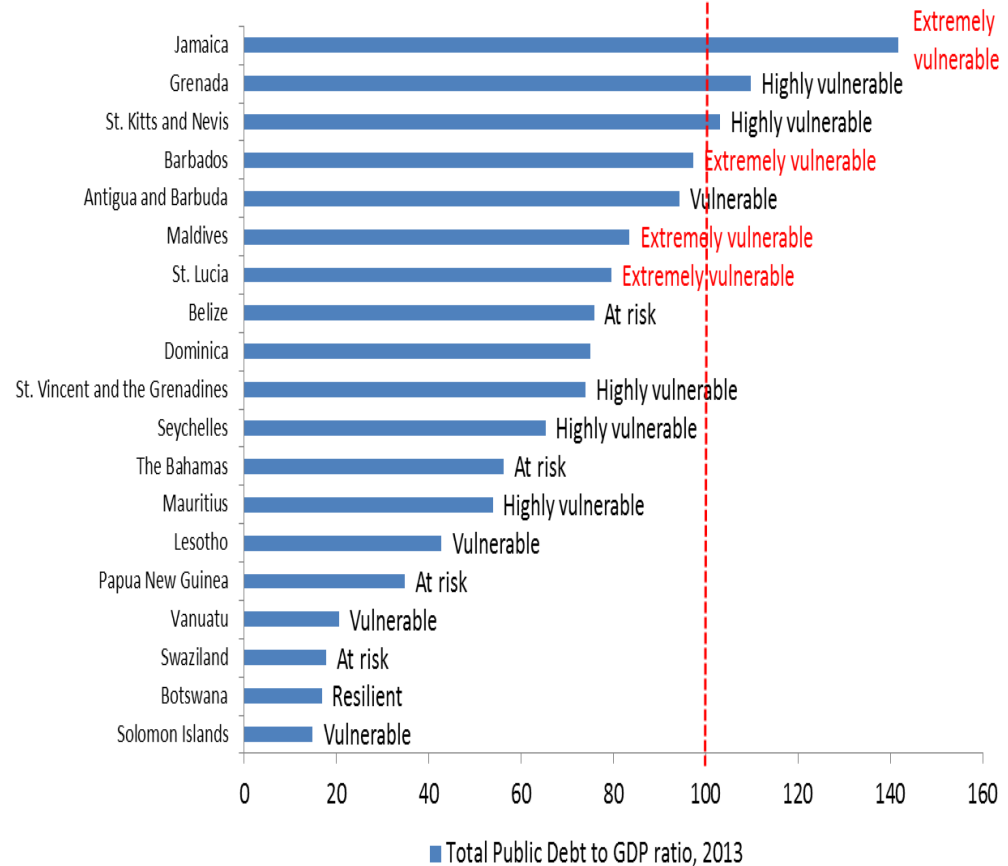
DAMAGE FROM CARIBBEAN DISASTERS, 2000-2014

(2013 US\$ millions; percentage of total damage cost)



■ Flood ■ Storm

INDEBTEDNESS AND ENVIRONMENTAL VULNERABILITY OF COMMONWEALTH SMALL STATES

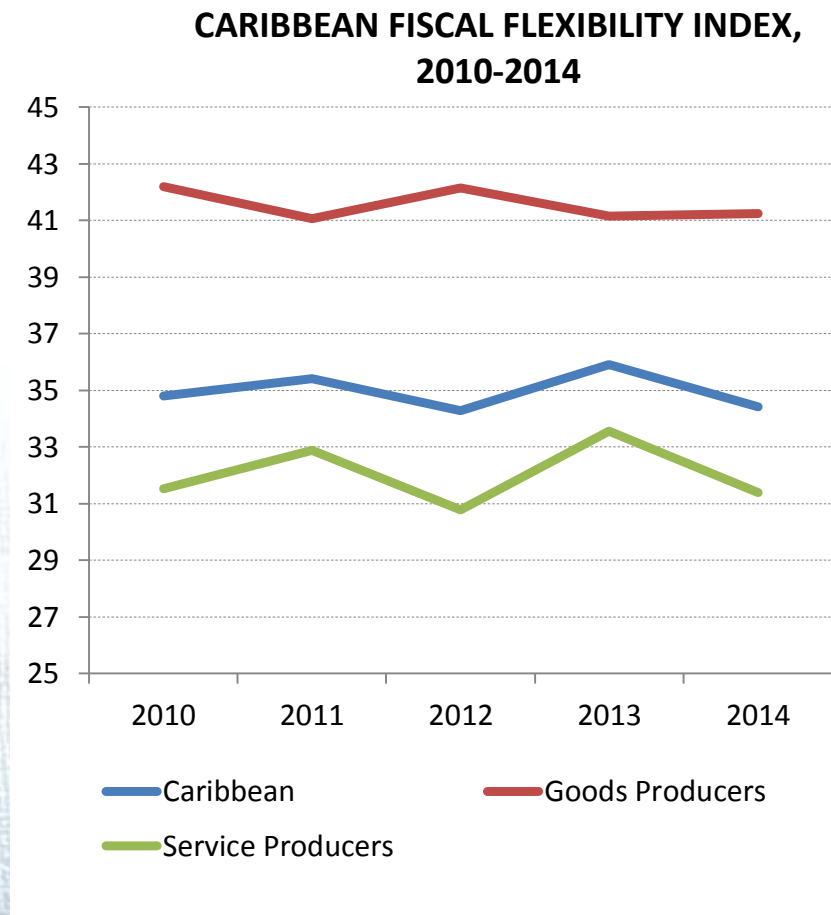


Source: IMF World Economic Outlook, UNEP Environmental Vulnerability Index 2000



Low Fiscal Flexibility

- Limited fiscal space for counter-cyclical measures
- Access to finance reduced
- Capital expenditure hit the most by adjustment





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Reasons for a new impulse to reducing the debt



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The upper middle and high income problem

Middle and high income classification of the most of Caribbean countries poses challenges:

- Limited access to concessional external finance
- Decline on ODA to the Caribbean
- Failure to take into account threats from natural disasters such as hurricanes
- Concentration of international cooperation on alleviating poverty

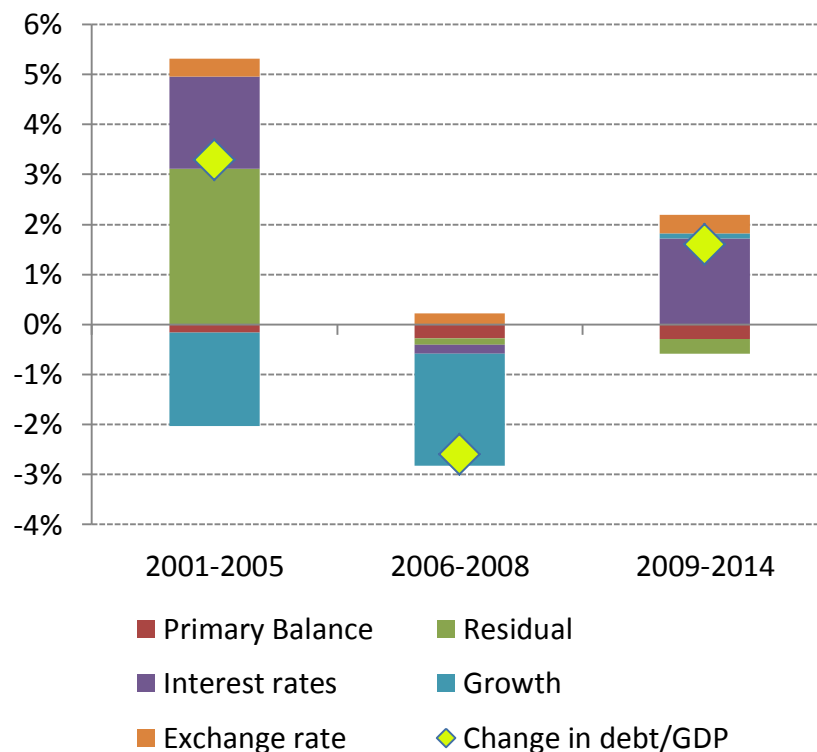


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Why is the Caribbean Debt Unsustainable?

- In the post crisis period, average debt to GDP has been increasing
- With projected low growth and increasing interest rates, debt is likely to continue increasing
- Fiscal adjustments necessary to reduce the debt are high and painful

CARIBBEAN AGGREGATE DEBT DECOMPOSITION, 2001-2014
(Per cent of GDP)





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



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Energy Security

Over-reliance on fossil fuels

- 90% of Caribbean energy needs from fossil fuels
- 2013, CARICOM's fuel import as US\$9 billion

Renewable energy potential

- Barbados solar water heaters
- Hydropower in Belize, Guyana, Jamaica, Saint Vincent and the Grenadines
- Guadeloupe has a 15MW geothermal power plant



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Progressive Structural Change needed to achieve SDGs

- Limited fiscal space to confront poverty and inequality.
- Financing trade related infrastructural gaps is a challenge
- A growing global momentum to close the windows to evasion and to tax avoidance that offer tax havens.

To achieve progressive structural change in order to incorporate more knowledge into production, ensure social inclusion and combat the negative impacts of climate change.



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Green Industries as a Catalyst for Structural Change



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Investment in Green industries

- Green industries can contribute to sustainable development and poverty reduction
- Investment in green can assist in structural transformation
- Governments face fiscal constraints
- The private sector is risk averse



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The case for development of green industries

- Growth in trade in green products and services
- Greater efficiency, productivity, competitive advantage
- Caribbean countries have prioritised self-sufficiency renewable energy
- Employment creation
- Pathway to natural disaster-resilient development



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Green Opportunities

- Green transport sector including regional connectivity
- Agriculture and critical linkages with tourism
- Waste to energy, water and waste water management
- Recycling



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A regional response to the Caribbean's debt challenge



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ECLAC proposal

- Channeling pledged climate funds to write down Caribbean debt
- Creation of the Caribbean Resilience Fund (CRF)
- Interaction between multilateral institutions, donor countries, and small states debtor counties.



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Criteria for eligibility

- Low growth
- Fiscal consolidation and reforms
- Unsustainable debt burden
- Sizable debt service payments
- Difficulties in pursuing the SDG



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How it works

Menu approach:

1. For countries with high debt from official creditors: Use the Global Climate Fund (GCF) to write-off multilateral and bilateral debt at a discount
2. For countries with high debt from private creditors: Debt buyback scheme for debt to private creditors



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How it works: For multilateral and bilateral debt

- GCF funds will be used to finance a gradual write down of 100% of the Caribbean SIDS' multilateral and bilateral debt stock
- Debtors agree to make annual payments into the CRF in an amount equal or less than the discounted debt service payments
- CRF will also be capitalized by contributions from bilateral donors and funds raised through PPPs



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How it works: For debt to private creditors

- GCF funds used to buyback debt to private creditors, but at a deep discount
- New loan agreements will have lower interest rates and longer maturities, leading to savings that can be invested in climate projects and green industries
- Debt for equity swaps can be employed in cases where much of the debt is held by domestic commercial banks



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Conclusion



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The purpose of this proposal:

- Expand fiscal space and lower the current debt burden in the Caribbean
- Provide financing for projects to reduce their vulnerability to future climate change effects
- Influence a subregion-wide approach to improved fiscal management, to limit future debt build-up



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In moving forward....

Governments , creditors and climate donors come together to negotiate the details of the arrangement

A task force to further work this proposal:
Commonwealth, World Bank, IMF, CDB and ECLAC

Engage key stakeholders and partners in develop an action plan



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Thank you!



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