DEBT FOR ADAPTATION SWAPS:

PROMOTING CLIMATE RESILIENT DEVELOPMENT OF SIDS

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What is a Debt Swap?

- Debt swaps/debt conversion: mechanism by which debt owed by a debtor, can be renegotiated with the creditor to fund activities agreed by all stakeholders involved (conservation, health, others).
Official ODA to SIDS has declined over the last decade from 3.7% to 2.8% (as % of budget)

Governments forced to borrow more
SIDS with debt in excess of 60% of GDP in 2010

Source: IMF Article IV Consultations and Review Documents.
Note: For Jamaica and Belize, 2009 data has been used.
SIDS avg. debt grew 9% between 2007-10

Increase in total public debt 2008 - 2010

Source: UNDP calculations based on IMF Article IV Consultations (multi-year)
- SIDS GDP growth est. at 1.7% for 2010, compared to 6.3% for developing countries

-SIDS will have a hard time "growing out" of debt
Policy Recommendations

Report calls for:

- *Debt conversions for climate change adaptation:* such innovative financing mechanisms could support the neediest countries to generate additional resources for climate change adaptation.
Debt-for-Adaptation Swaps and Ecosystem-Based Adaptation

What is the link?
Debt-for-Adaptation Swaps in SIDS and Ecosystem-Based Adaptation

- Marine and coastal resources provide *natural infrastructure* underpinning the tourism industry, the livelihoods of their coastal local communities, and indeed economic development in general.
Debt-for-Adaptation Swaps and Ecosystem-Based Adaptation

- Seychelles - In 2008 travel and tourism contributed 56.3% of GDP

- Mauritius - In 2008 travel and tourism contributed 30.2% of GDP

- Caribbean - 25 million tourists/yr generating $25 billion in revenues and about 25% of the region’s GDP, and supporting six million jobs
SIDS and Climate Change

- Highly vulnerable to climate change
  - Sea-level rise
  - Coral bleaching

- Lack of resources to address adaptation needs
Sample Debt-for-Adaptation Swap
Face Value of Gov’t Debt: $30M

Payable to Trust Fund

33% discount or “haircut”

New Face Value of Gov’t Debt: $20M
New Note: 20 yrs @ 5% - $1.6M/yr

$1.1M/yr for Climate Adaptation Work
$0.5M/yr for Climate Adaption Endowment

Outcomes (immediate and project life):

• Reduces Gov’t Debt by $10M
• $22M over 20 yrs for Climate Adaptation Funding
• Capitalization of Climate Adaptation Endowment w/ approx. value of $22M by 2030 –
  • Will provide $1.1M/yr for Climate Adaptation work starting in 2031
Potential Activities funded by a Climate Adaptation Debt Swaps

1. Expand and secure climate resilient marine protected area networks and replenishment no-take zones
2. Develop and/or improve fisheries, coastal zone management, marine policies
3. Coral and mangrove restoration projects that can help in fighting sea-level rise
4. Provide alternative livelihoods communities impacted by climate change
5. Reduce impacts from residential and tourism activity in the marine area
6. Raise climate change awareness and disseminate information
Conclusions - Opportunities

- Address climate adaptation within the context of the MDGs and conservation needs and goals in SIDS

- Create large, sustainable funding streams for adaptation to maintain natural resources dependent economies afloat and local livelihoods

- Real debt reduction

- Keeps payments in the local economy
Conclusions - Challenges

- Complex, time consuming mechanism, requiring multiple willing actors to negotiate and agree on terms.