

GOVERNMENT OF ANTIGUA AND BARBUDA



IMPLEMENTATION ROADMAP

DEBT-FOR-CLIMATE ADAPTATION SWAPS UNDER “THE FINANCE FOR ACTING ON CLIMATE IN THE EASTERN CARIBBEAN” (FACE) PROGRAMME

PREPARED FOR:

MINISTRY OF FINANCE, CORPORATE GOVERNANCE AND PUBLIC PRIVATE PARTNERSHIPS

AND

THE ALLIANCE OF SMALL ISLAND STATES (AOSIS)

2 November 2022

ABRIDGED VERSION

TABLE OF CONTENTS

LIST OF ACRONYMS	3
EXECUTIVE SUMMARY	5
SECTION 1: Macroeconomic Context	7
SECTION 2: Climate Vulnerabilities	13
SECTION 3: Debt Conversion Schemes	15
SECTION 4: Institutional Considerations for Implementing Debt Swaps	20
SECTION 5: Engagement and Communication Strategies	25
SECTION 6: Conclusions	28
 APPENDICES	
Appendix I: Selected References	29
Appendix II: Climate Adaptation and Mitigation Activities	30
Appendix III: Selected List of Key Stakeholders	31

LIST OF ACRONYMS

ABAA	Antigua and Barbuda Airport Authority
AOSIS	Alliance of Small Island States
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CCRIF	Caribbean Catastrophe Risk Insurance Facility
DeMPA	World Bank's Debt Management Performance Assessment
DFC	The United States' International Development Finance Corporation
DFID	UK's Department for International Development
DSA	Debt Sustainability Analysis
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
ECLAC	The United Nations Economic Commission for Latin America and the Caribbean
EIB	European Development Fund
ESG	Environmental, Social and Governance
FACE	Finance for Acting on Climate in the Eastern Caribbean
FCDO	UK's Foreign, Commonwealth & Development Office
FDI	Foreign Direct Investment
GCF	Green Climate Fund
GHG	Greenhouse Gas Emissions
GoAB	Government of Antigua and Barbuda
GDP	Gross Domestic Product
GFN	Gross Financing Needs
IBRD	International Bank for Reconstruction and Development
IDA	World Bank's International Development Association (or Agency)
IIF	Institute of International Finance
IMF	International Monetary Fund
LAC	Latin America and Caribbean region
LICs	Low Income Countries
MDG	Millennium Development Goals
MEFMI	Macroeconomic and Financial Management Institute
MTDS	Medium-Term Debt Strategy
MTFS	Medium-Term Fiscal Strategy
MOF	Ministry of Finance, Corporate Governance and Public Private Partnerships
NGOs	Non-governmental Organizations
NPV	Net Present Value
ODA	Official Development Assistance

OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
PBL	Policy Based Loan
PC	Paris Club of Creditor Countries
RGSM	Regional Government Securities Market
RST	IMF's Resilience and Sustainability Trust
PPGD	Public and Publicly Guaranteed Debt
UNSDG	United Nations' Sustainable Development Goals
SDR	Special Drawing Rights
SIDS	Small Island Developing States
SIRFF	Sustainable Island Resource Fund Facility
TA	Technical Assistance
TNC	The Nature Conservancy
UCT	IMF's Upper Credit Tranche
COP	United Nations Climate Change Conferences of the Parties
UNCTAD	United Nations Conference on Trade Agreement and Development
USD / US\$	United States Dollar
TFCF	The United States' Tropical Forest Conservation Fund
WB	World Bank
WWF	World Wild Fund for Nature
XCD / EC\$	Eastern Caribbean Dollar

EXECUTIVE SUMMARY

Antigua and Barbuda is a small island state located in the Eastern Caribbean facing significant and unprecedented economic, financial and climate adaptation risks. These risks have been intensifying over the past decade, and if left unaddressed will severely threaten the future growth prospects and social well-being of the Island State in the years ahead. Unfortunately, even though the Government of Antigua and Barbuda (**GoAB**) has been implementing comprehensive policy actions to address long-standing chronic economic imbalances and growing vulnerabilities to climate change, challenges remain. In fact, the Island State is caught in a vicious cycle that the GoAB seems unable to break – Antigua and Barbuda is highly indebted and with a weak fiscal position, which constrains efforts to address climate vulnerabilities. In turn, extreme weather-related events are further compounding debt problems and weakening fiscal accounts by adversely impacting tax bases and economic drivers as well as creating reconstruction costs.

Since obtaining its independence, the economic wellbeing of Antigua and Barbuda has grown dependent on tourism and tourism-related activities, which by nature are part of cyclical economic sectors prone to magnifying losses and downward risks during financial downturns. Repeated and more frequent financial and climate related shocks over the last few years have exacerbated massive declines in government revenues, with consequent contractions in economic activity that have worsened fiscal and balance of payments positions, and created an unsustainable build-up of public sector debt, characterised by arrears.

As a result, the GoAB, like most regional governments and Small Island Developing States (**SIDS**), finds itself ill equipped to address the complex, yet significant, financial and climate vulnerabilities that need to be confronted. Climate change is worsening environmental vulnerabilities that are already visible worldwide. Antigua and Barbuda is one of the most vulnerable SIDS, due to factors such as geographic location, exposure to invasive species, and lack of adaptive capacity. Further, the country has experienced negative climate change impacts such as the increased-intensity of hurricanes, droughts and higher temperatures, coupled with legacy economic issues like energy transition challenges, lack of financial resources, and worsening development trends.

Effectively addressing existing, growing, and anticipated environmental challenges will require the deployment of significant financial resources which demand higher fiscal capacity than the GoAB can currently allocate given its unsustainable debt position. The situation is further exacerbated by the Island State's high-income classification, which restricts access to concessional funding from multilateral stakeholders. It is critical therefore to formulate innovative solutions that may complement any potential future assistance from international stakeholders. Furthermore, effectively addressing these vulnerabilities requires building global consensus and alliances that facilitate collaborative approaches to deploy solutions.

The Alliance of Small Island States ("**AOSIS**") is supporting efforts by the GoAB to maximize synergies between potential options to re-direct fiscal resources and identify other sources of funding to address vulnerabilities as part of an innovative regional pilot programme entitled "the Finance for Acting on Climate in the Eastern Caribbean" ("**FACE**"). This strategic plan will support efforts to engage with the GoAB's creditors to normalise existing debt arrears while redirecting fiscal resources through the implementation of debt-for-climate adaptation swaps to fund action to mitigate economic and climate related vulnerabilities.

The FACE programme also aims to leverage and institutionalise debt-for-climate swaps, using the GoAB strategy as a pilot, to develop an innovative blueprint that can be replicated and scaled up for other SIDS in the Eastern Caribbean, and if appropriate globally, to facilitate the implementation of similar strategies to help address related economic and climate change adaptation and mitigation projects. FACE also aims to foment opportunities for SIDS located in the Eastern Caribbean to escape the negative feedback cycle of high indebtedness and related unsustainable debt service payments which are deterring economic activity and creating ever growing challenges to develop solutions for worsening economic imbalances and the negative impact of climate change.

Formulating and implementing a debt-for-climate adaptation swap strategy to mobilize funding for environmental vulnerabilities while tackling an unsustainable public-sector debt burden will be an ambitious and complex undertaking. The magnitude and scope of the environmental challenges and climate risks that the GoAB needs to address implies that a debt-for-climate adaptation swap strategy alone cannot provide sufficient financial resources to fully undertake a set of mitigation projects, much less help place the public sector's debt burden on a downward trajectory. The authorities will need to pursue a variety of additional strategies and financing alternatives to pool resources and collaborative efforts to mitigate the diverse set of environmental

challenges and financial vulnerabilities. Antigua and Barbuda will require further effort to assess and develop additional debt relief initiatives to restore debt sustainability over time.

The successful implementation of debt-for-climate adaptation swaps will depend on the government's continuous commitment to prioritize the country's financial and environmental challenges, the identification of climate adaptation and mitigationⁱ projects and engaging with a broad-based set of global stakeholders. In addition to the GoAB's creditors, this will include multilateral institutions, trading partners, civil society, and non-governmental organizations ("NGOs"), among others, to support efforts to implement the policy agenda and achieve long-term financial and environmental objectives. The GoAB will need to strengthen and, if required, customize institutional and legal frameworks as well as project implementation structures that can effectively provide accountability, transparency, and reporting mechanisms to support debt-for-climate adaptation swaps. These institutional arrangements may need to meet the specific requirements of different creditors and/or stakeholders willing to provide funds or relief, including good governance to support the flow of funds, efficient operations, and maximize environmental benefits from the implementation of project activities.

This Roadmap has been developed to provide the GoAB with action-oriented guidance to assist in the formulation of a strategy to engage with creditors, and other stakeholders as appropriate, to effectively negotiate debt-for-climate swaps that facilitate the re-channeling of resources to implement mitigation projects while helping normalize existing debt arrears. Negotiations for a debt swap, even in the best of circumstances, can be protracted and complex. However, this Roadmap aims to provide an analytical context to anchor negotiations and assist in the implementation of the debt swap strategies to achieve the GoAB's financial, climate and debt management objectives.

To achieve these goals, this Roadmap has been structured as follows:

1. The first section provides an overview of Antigua and Barbuda's current macroeconomic context to help frame the financial discussions for pursuing debt-for-climate adaptation swaps.
2. The second section provides a brief overview of the current environmental challenges that Antigua and Barbuda is facing to help prioritize the types of projects that may address climate vulnerabilities.
3. The third section provides an analysis of the GoAB public sector debt position and its payment capacity, to help frame the benefits for normalizing debt arrears, fomenting medium-term debt sustainability and rechanneling fiscal resources to address vulnerabilities through debt swap strategies.
4. The fourth and fifth sections outline the key issues for formulating debt conversion schemes in general, and debt-for-climate adaptation swaps specifically, to provide a framework to facilitate their implementation. These sections set out important considerations for institutional arrangements based on best practices, including robust legal frameworks and project implementation structures, that could be established and relied upon to provide accountability, transparency, and management, as well as monitoring and reporting mechanisms.
5. The final section of the Roadmap outlines strategies to identify, engage and communicate with a wide range of potential creditors and stakeholders. This section provides a framework to effectively negotiate the implementation of a debt-for-climate adaptation swap.

SECTION 1: MACROECONOMIC CONTEXT

OVERVIEW

Antigua and Barbuda is a small island in the Eastern Caribbean facing significant and complex economic, financial and climate challenges. Although classified as high-income by the World Bank (**WB**), the economy is relatively small and characterised by high levels of public sector debt including arrears on foreign currency-denominated liabilities, mostly owed to official bilateral creditors. The growth in debt arrears have been compounded by mixed results in government efforts to diversify economic activities as well as the severe impact of numerous unforeseen shocks over the past decade. Furthermore, like many other **SIDS** in the region and throughout the world, Antigua and Barbuda's economy is highly vulnerable to the adverse effects of climate-related events, placing the island's social well-being and economic future at risk.

BACKGROUND

Since obtaining its independence, the economic wellbeing of Antigua and Barbuda has increasingly grown dependent on tourism and tourism-related activities. As such, growth has been positively correlated to economic activity in the United States and, to a lesser extent, that of the United Kingdom. These economic activities have contributed on average to approximately two-thirds of gross domestic product (**GDP**), despite policy efforts to diversify economic drivers through activities that complemented and leveraged the tourism sector, including for instance, the development of offshore financial services and online gaming activities.

To stimulate economic activity and foster regional stability, eight island nation-states located in the Eastern Caribbean region, including Antigua and Barbuda, formally institutionalised the Eastern Caribbean Currency Union (**ECCU**) in 1981. A common currency was introduced in 1976, managed by an independent central bank, the Eastern Caribbean Central Bank (**ECCB**), which has successfully maintained a peg to the US dollar at an exchange rate of 2.7. The currency arrangement has effectively fomented macroeconomic stability among the ECCU member states by managing inflationary pressures and expectations as well as helping create confidence through a credible policy framework.

Until the early 1990s, regional growth rates averaged over eight (8) per cent, which led to substantial improvements in the standards of living of the country. However, since then average growth rates have slowed as economic diversification has proved a challenge, not only for Antigua and Barbuda, but also for the entire Caribbean region. While coordinated monetary policy has positively contributed to political and social stability, it has nonetheless come with added costs, as ECCU member island states have relied on fiscal policy as their main shock absorber to stimulate growth and stabilise social safety nets in times of crises. This reliance on fiscal policy has also contributed to the build-up of large public sector debt burdens, which now threaten the stability of the entire region. As a result, most regional governments have been ill equipped to deal with the economic and social consequences of numerous financial shocks, starting with the financial crisis of 2008, hurricane Irma and Maria in 2017, the Covid-19 pandemic in 2019, and most recently the Russian invasion of Ukraine which has seen global inflation soaring.

THE IMPACT OF UNFORESEEN SHOCKS

In 1995 hurricane Luis devastated the island's economy, leading to a 1.4 per cent economic contraction in real terms, but activity recovered quickly. Nonetheless, while growth proved anaemic, economic activity stabilised until 2003, when the US imposed restrictions on internet-based gaming which again negatively affected growth. Economic activity failed to recover to the average low levels of performance attained before the imposition of the United States' restriction. However, in 2007 Antigua and Barbuda co-hosted the Cricket World Cup, for which related infrastructural development contributed to the almost 14 per cent growth rate recorded in 2006.

In 2008, the global financial crisis followed with a devastating effect on Antigua and Barbuda's economy and living standards, leading to the country's worst recession in its history, with repercussions still being felt today. During the period from 2009 through 2011, the country's real GDP lost almost 23 per cent of its value as the global slowdown severely affected economic activity through contraction on tourist arrivals, lower inflows from foreign direct investment (**FDI**) and remittances, as well as a dramatic collapse in fiscal revenue. In 2009, for instance, fiscal revenues declined by 22 per cent, or close to 5 per cent of GDP, while expenditures increased by 24 per cent reflecting the need to adjust social spending and account for higher-than-projected fiscal outlays. Consequently, the primary deficit reached 11.5 per cent of GDP, pushing the overall fiscal budget to a deficit of 20 per cent of GDP.

From 2012 through 2014 economic activity slowly began to recover, with GDP expanding by 2.3 per cent in real terms during the period. Tourism and related activities experienced a boost worldwide. During the period, the GoAB undertook a series of far reaching fiscal and structural reforms, financially supported by a three-year International Monetary Fund (IMF) Programme and Policy-Based-Loans (PBLs) provided by the Caribbean Development Bank (CDB), aimed at creating a more dynamic and flexible economic environment, as well as fostering sustainable long-term economic activity. Nevertheless, in 2017 and 2018, two large-impact hurricanes (Irma and Maria) dealt another blow to economic activity, living standards and social conditions.

RECENT ECONOMIC DEVELOPMENTS

In recent years, the economy has been further adversely affected by additional global macroeconomic shocks and the effects of extreme climate-related events. The economy's reliance on tourism to generate foreign currency fiscal revenues leaves it acutely vulnerable to shifts in global macroeconomic conditions. The global policy responses to contain the impact of the Covid-19 pandemic all but halted economic activity in important drivers of growth, particularly tourism, as global travel came to a halt. Estimates by the IMF and the Ministry of Finance, Corporate Governance and Public Private Partnerships (MOF) indicate that the economy contracted again by over 20 per cent in 2020 compared with just under 7 per cent for the Latin America and Caribbean region (LAC). The economy saw a similar contraction after the 2008 global financial crisis, with growth declining by 12 per cent alone in 2009 and remaining in recession for several years afterwards. In the last decade the economy has only been on a consistent growth path from 2014 to 2019, averaging just 4.5 per cent, during which growth was driven mostly by the tourism sector. However, this period also coincided with a large accumulation of public debt and the country experiencing devastating hurricanes.

In the aftermath of the 2017 hurricanes, public finances were affected and Antigua and Barbuda continues to face structural challenges from the high costs of reconstruction. Economic activity declined drastically, the revenue base decreased as tax exemptions were introduced to help with reconstruction, and government spending increased to rebuild public infrastructure. The five-year period to 2019 was again also characterised by massive fiscal deficits, revenue pressures and the accumulation of arrears driven by widespread exemptions (estimated at 45 per cent of potential fiscal revenues) and lower tax compliance which eroded the revenue base.¹ The MOF and the IMF estimate that the combined value of damaged or destroyed assets and disruptions in the production of goods was equivalent to 9 per cent of GDP.²

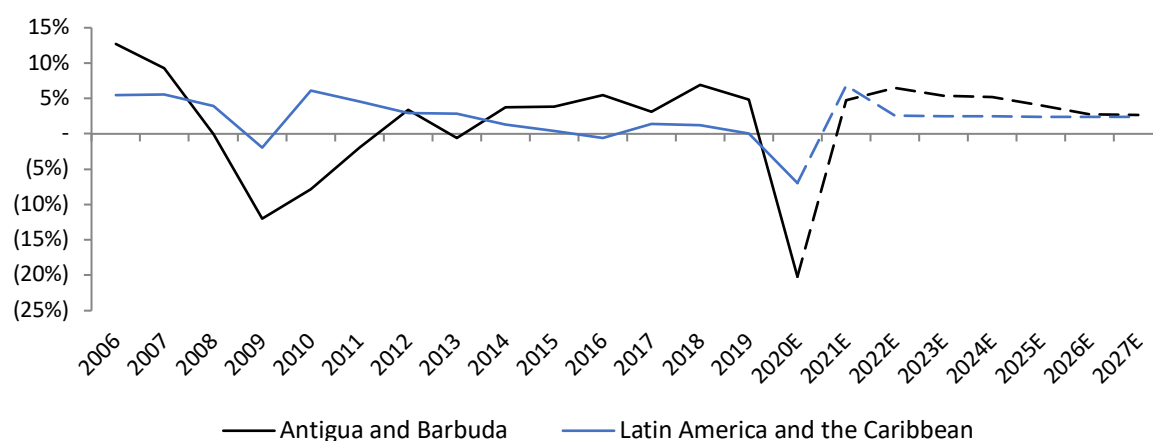
Antigua and Barbuda is only now slowly beginning to recover from the adverse macroeconomic impact of the Covid-19 pandemic as economic activity has rebounded in the tourism sector. However, the fiscal pressures resulting from the pandemic increased public debt and gross financing needs (GFNs), leading to the accumulation of further arrears. Critically, public sector debt is now assessed as unsustainable by the IMF.

As outlined in the country's Medium-Term Fiscal Strategy (MTFS) the Government aims to, *inter alia*, formulate a set of strategies to restore debt sustainability and eventually clear the external and domestic arrears by focusing on domestic revenue mobilization and targeted spending. However, despite the economic rebound following the pandemic, significant near- and medium-term risks remain. The economic consequences from Russia's invasion of Ukraine, including slower growth and significant inflationary pressures, are likely to impact the recovery and future efforts to foster viable and inclusive economic activity.

¹ Ministry of Finance and Corporate Governance (Government of Antigua and Barbuda), *Medium Term Fiscal Strategy 2021-2023*, 2020.

² Government of Antigua and Barbuda, *Hurricane Irma Needs Assessment*, 2018.

GRAPH 1: GDP GROWTH (PER CENT)



Source: IMF, ECCB

Note: Latin America and the Caribbean data includes Antigua and Barbuda

CLIMATE AND MACROECONOMIC STABILITY

The adverse effects of rapidly increasing and more extreme climate-related events will continue to pose a systemic risk to macroeconomic and financial stability in Antigua and Barbuda. The estimated damage caused by hurricanes from 2008 to 2017 amounted to over US\$200 million, with hurricanes Irma and Maria in 2017 damaging or destroying 95 per cent³ of the housing stock on the island of Barbuda and leading to the evacuation of over 1,600 people.⁴ These costs are expected to increase in the coming years.

In addition to the cost of the damages themselves, the GoAB has had to divert scarce fiscal resources towards mitigating measures to reduce financial exposure and other vulnerabilities such as the annual insurance premium to the Caribbean Catastrophe Risk Insurance Facility (CCRIF). Unfortunately, given Antigua and Barbuda's World Bank income classification, the island state has not qualify for any of the post Covid-19 debt service relief initiatives sponsored by the group of twenty G-20 and the main multilateral lenders such as the IMF and the WB. This has had the effect of compounding challenges in other areas where funding is required, the further build-up in debt arrears, as well as a further increase in the public sector's debt stock.

The impact of the various financial crises and climate related events of the past decade have weighted heavily on living standards on the island state. Income per capita has declined significantly since 2008, while Important social programmes and social safety net initiatives funded through employment contributions and other fiscal resources have been eliminated, cut and/or significantly impaired. With little fiscal room to manoeuvre and an unsustainable debt position, there is growing concern that the country's standards of living will continue to deteriorate while vulnerabilities to climate change worsen over the medium-term without immediate assistance from the international community.

TABLE 1. SELECTED ECONOMIC INDICATORS

Real Economy	2007	2008	2009	2010	2011	2012	2015	2018	2020	2021	2022
GDP (Market Prices)	3,417.0	3,416.0	3,008.0	2,772.0	2,718.0	2,809.0	3,009.0	3,500.0	2,929.0	3,068.0	3,268.0
Real GDP Growth	9.32%	-0.01%	-11.96%	-7.84%	-1.96%	3.37%	3.82%	6.88%	-20.19%	4.76%	6.49%
GDP per Capita (EC\$)	41,804	41,329	35,967	32,756	31,760	32,367	33,157	36,835	29,919	30,889	32,426
Inflation Rate (EoP)	5.23%	0.73%	2.40%	2.93%	4.04%	1.84%	0.90%	1.74%	2.78%	1.22%	5.40%
Balance of Payments (in EC\$ million)											
Total Tourist Expenditure	1,563.7	1,576.7	1,412.4	1,391.7	1,466.7	1,503.0	1,592.5	1,730.7	945.2	1,318.4	
Current Account Balance (% of GDP)							2.19%	(14.55%)	(18.36%)	(19.65%)	(23.61%)
Public Debt (in EC\$ million)											
General Government Gross Debt	2,757.0	2,811.0	3,337.0	2,783.0	2,820.0	2,835.0	3,576.0	3,803.0	3,754.0	4,027.0	4,149.0
Public Debt (% of GDP)											
General Government Gross Debt	77.78%	75.99%	100.63%	89.74%	91.80%	87.49%	99.07%	87.70%	101.48%	102.23%	94.81%

Source: Ministry of Finance, IMF, Eastern Caribbean Central Bank

Note: Data contains forecasts and/or preliminary estimates.

³ Government of Antigua and Barbuda, *Hurricane Irma Needs Assessment*, 2018.⁴ Ministry of Finance and Corporate Governance of the Government of Antigua and Barbuda, *Medium Term Fiscal Strategy 2021-2023*.

PUBLIC SECTOR DEBT POSITION

Antigua and Barbuda's public sector debt position was assessed as unsustainable by the IMF in the latest Article IV report, which was completed in 2021, on the basis of the results of a comprehensive Debt Sustainability Analysis (DSA). The elevated public sector's current debt stock, combined with the existing level of arrears (defined as the accumulated backlog of principal and/or contractual interest that have not been made and continue to build up over time), further restricts the Government's precarious fiscal position, its ability to service debt, and curbs capital raising capacity, desperately needed to finance critically important infrastructure initiatives and climate-related projects to address existing vulnerabilities. Furthermore, Antigua and Barbuda's high-income classification by the WB limits the Government's ability to raise concessional multilateral financing, thereby increasing the cost of borrowing, that can be destined for development and social spending.

PUBLIC SECTOR DEBT STOCK OVERVIEW

At the end of February 2022, the stock of public sector debt totalled approximately XCD3.62 billion (or roughly US\$1.34 billion), equivalent to just over 90 per cent of GDP. Arrears accumulated on the public sector's debt stock currently total XCD576 million (or US\$214 million), which means that approximately 16 per cent of the stock of debt needs to be normalised. It is important to note that normalisation of arrears, in the absence of real debt relief initiatives, would significantly raise debt service requirements as a percentage of revenues.

Nonetheless, despite the repeated impact of devastating unforeseen financial shocks over the last decade, the Covid-19 pandemic, and extreme climate related events, the GoAB has managed to contain the level of debt and the further accumulation of arrears. This compares to the situation in 2009, when following the global financial crisis, total public sector debt was well over 103 per cent of GDP and approximately half of the total public sector debt stock was in arrears. To put the situation in perspective, the stock of arrears was equivalent to 190 per cent of Government revenues at that time. While the situation remains dire for Antigua and Barbuda, the debt position could have been much worse.

The breakdown between liabilities denominated in Eastern Caribbean dollars and foreign currencies (mostly US dollar) is roughly the same, or approximately XCD 1.8 billion, respectively. However, most of the arrears, or approximately XCD496 million (14 per cent of the total debt stock) has been accumulated on foreign currency liabilities. These arrears are largely owed to official bilateral creditors, which creates challenges for normalising debt relations in the absence of an IMF sponsored Programme. This, in addition to the fact that external debt accounts for almost 50 per cent of the total debt stock, a level well above what the IMF considers prudent for countries with external financing problems and prone to unforeseen shocks, exposes Antigua and Barbuda to significant portfolio risks that urgently need to be addressed.

PUBLIC SECTOR DEBT DYNAMICS

Over the past three decades, economic growth in Antigua and Barbuda has been driven by tourism activities, supported by investments and physical infrastructure developments for the sector, which in turn led to a rapid rise in economic standards and improved living conditions. Unfortunately, much of Antigua and Barbuda's economic progress was financed through the accumulation of significant public debt to finance critical social and economic infrastructure. However, Antigua and Barbuda has been hit by successive global and regional shocks, which have severely impacted the GoAB's ability to service existing liabilities, leading to the accumulation of arrears as the Authorities have been required to prioritise fiscal spending to ensure climate resilience as well as provide vital social support domestically, among other key areas.

Between 1998 and 2009, debt-to-GDP averaged 117 percent. The ratio peaked at 147 per cent in 2004, but efforts to implement reforms allowed the key indebtedness ratio to fall to 88% by June 2008. A newly elected administration in 2004 introduced a series of measures upon taking office to gradually increase revenues, pay down arrears and limit new borrowing. These efforts were reversed because of the 2008 Global Financial Crisis, which again pushed the ratio to 107% of GDP at the end of 2009. The implementation of new fiscal adjustment measures under an IMF Programme and with the support of the CDB, once again allowed the debt ratio to decrease to 103% by the end of June 2010.

In 2010, as a consequence of the 2008 Global Financial Crisis, the GoAB attempted to normalise arrears and debt relations with both Paris Club and non-Paris Club external creditors. In November of 2010, the GoAB signed an agreement with Paris Club creditors to restructure outstanding debts, in support of a comprehensive debt

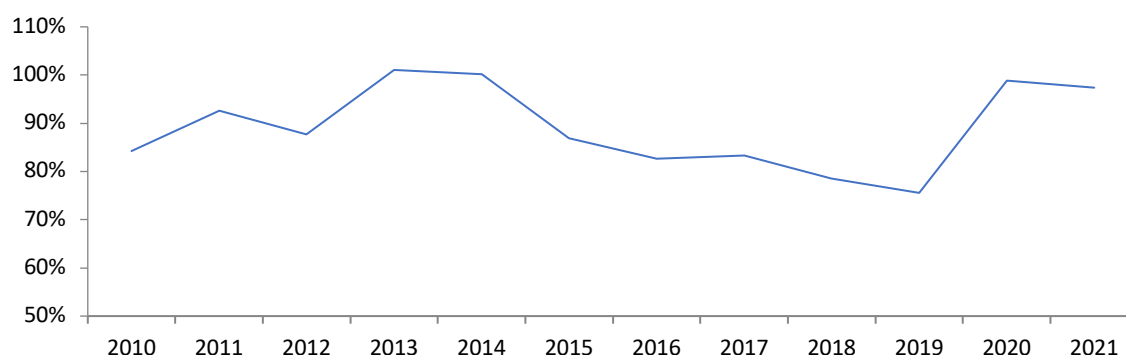
strategy that aimed to place the public sector debt on a downward sustainable path. This agreement rescheduled outstanding arrears and certain maturities over 12 years with a 5-year grace period.

Unfortunately, growth and fiscal revenues failed to recover as expected under the IMF Programme and the GoAB was unable to maintain payments as agreed in the bilateral rescheduling agreements. On the debt side, the further economic impact of hurricanes Irma and Maria in 2017 have been significant, due to reduced economic activity and tax exemptions associated with reconstruction to rebuild public infrastructure and provide support to those affected. There have also been significant financial implications of the ongoing drought and other climate related events, which put significant additional pressure on the GoAB's finances and debt servicing capacity.

The Covid-19 pandemic sharply reversed the gains achieved in 2010 with respect to the public sector's debt position, and once again the GoAB experienced a further accumulation of external arrears, as tourism revenues contracted steeply, affecting hotels and restaurants, wholesale and retail, transportation, storage and communication sectors as well as the necessary additional expenditures required to provide essential social assistance and support the fragile banking system as the economic impact of the pandemic has affected businesses and the population as a whole.

Fiscal consolidation efforts are currently underway as detailed in the Government's comprehensive Medium-Term Fiscal Strategy (MTFS). Among the key policy initiatives under consideration are efforts to clear outstanding arrears and gradually bring public debt on a downward trajectory, with a target debt-to-GDP ratio of 70 per cent by 2030. Despite all these measures, however, Antigua and Barbuda remains in arrears to all official bilateral creditors.

GRAPH 2: EVOLUTION OF PUBLIC SECTOR DEBT (% OF GDP)

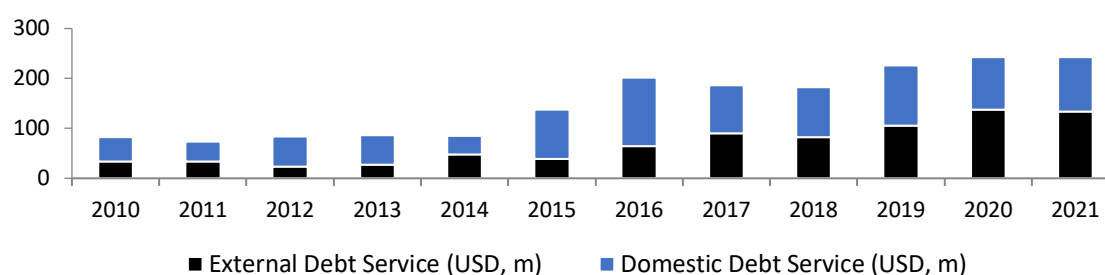


Source: IMF

FINANCING AND PAYMENT CAPACITY ANALYSIS

The macroeconomic projections produced in conjunction with the IMF as part of the MTFS indicate that considerable financing shortfalls will persist in the fiscal and balance of payments accounts over the medium-term. This is on account of the public sector's onerous debt position and means that the public sector's overall debt service obligations vastly exceed its payment capacity. Graph 3 below provides an overview of contractual debt service excluding arrears.

GRAPH 3: EVOLUTION OF PUBLIC SECTOR DEBT SERVICE REQUIREMENTS



The nature of Antigua and Barbuda's economic structure means that current account deficits have been persistent and closing external financing gaps has been dependent on inflows of FDI (from tourism related activities) and remittances. Contractual interest as a percentage of revenues was estimated to have absorbed almost 30% of revenues in 2021, while total contractual debt service, as a percentage of revenues, could have required almost two third of fiscal revenues. The challenge confronting the Government is that these ratios do not take into account any amortisation or any interest payable in respect of the arrears. The situation is clearly not sustainable without comprehensive and concerted debt relief from international stakeholders.

SECTION 2: CLIMATE VULNERABILITIES

Antigua and Barbuda is one of the most vulnerable SIDS to the adverse effects of extreme climate-related events, with the entire population and land area exposed to multiple climate hazards.⁵ These effects are likely to be compounded over the coming years as climate-related events increase in frequency and intensity in the form of more damaging hurricanes, droughts, higher temperatures and rising sea levels. The potential real impact on economic activity is difficult to quantify at this time, but without a doubt will affect access to potable water, food security and health, worsening already declining health and living standards.

Considering these challenges, the GoAB has prioritised and made significant progress in advancing the nation's climate goals since the Paris Climate Accord in 2015. The authorities remain committed to transitioning to a green and fossil-free economy and intend to create a framework towards the complete usage and reliance on renewable energy within the next two decades. This is expected to be complemented with investment in the protection of critical infrastructure to mitigate future extreme climate events. The estimated damage from extreme hurricane related events alone in Antigua and Barbuda amounted to approximately 8.4 per cent on average in the period 1950 to 2014, compared with 5.7 per cent of GDP for the region.⁶ By some estimates, an annual average of 3 per cent of the total budget for 2014 to 2017 was climate-related expenditure (equivalent to approximately US\$10.7 million).⁷

HURRICANES

The islands of Antigua and Barbuda are in what meteorologists have denominated the 'Hurricane Belt', an area highly susceptible to hurricanes and other extreme climate-related events. During the period between 1851 to 2011, Antigua and Barbuda catalogued 93 storm systems of which 44 developed into hurricanes. In 2017 the country experienced its first Category 5 hurricane (according to the Saffir-Simpson Hurricane Wind Scale) as Hurricane Irma hit Barbuda with winds exceeding 180mph and destroyed over 90 per cent of the island's infrastructure. Hurricane Maria, although lower in intensity, followed shortly thereafter. The total cost of damages or destroyed physical assets attributed to hurricanes Irma and Maria in 2017 amounted to US\$136 million while estimated losses amounted to a further US\$19 million. The MoF estimates recovery needs and costs relating to reconstruction and climate risk management, to already exceed US\$220 million.⁸

TABLE 2: ESTIMATED FINANCIAL IMPACT OF HURRICANE IRMA (IN US\$ MILLIONS)

Sector	Damage	Losses	Total	per cent
Infrastructure	20.5	0.6	21.1	13%
Transport	16.2	0.3	16.5	10.6%
Electricity	3.3	0.3	3.6	2.3%
Water and Sanitation	0.3	0.0	0.3	0.2%
Telecom	0.7	0.0	0.7	0.5%
Social	54.2	2.7	56.9	36.7%
Housing	49.8	2.4	52.2	33.7%
Health	1.8	0.1	1.8	1.2%
Education	2.6	0.3	2.9	1.9%
Productive	59.5	14.1	73.6	47.4%
Tourism	59.0	13.6	72.6	46.8%
Agriculture	0.1	0.4	0.5	0.3%
Fisheries	0.3	0.2	0.5	0.3%
Cross-cutting	2.0	1.5	3.5	2.2%
Governance	0.8	0.8	1.6	1.0%

⁵ World Bank, *Disaster Risk Management in Latin America and the Caribbean Region: GFDRR Country Notes*, Report 64260, 2012.

⁶ Sebastian Acevedo, *Gone with the Wind: Estimating Hurricane and Climate Change Costs in the Caribbean*, IMF Working Paper WP/16/199, 2016.

⁷ Charlene Watson, Michai Robertson, Ameera Ramdin and Courtnae Bailey, *Assessment and Overview of Climate Finance Flows: Antigua and Barbuda 2014-2017*, United Nations Framework Convention on Climate Change, 2020.

⁸ Government of Antigua and Barbuda, *Hurricane Irma Needs Assessment*, 2018.

Culture	1.2	0.8	1.9	1.2%
Environment	-	-	-	-
DRM	-	-	-	-
Total	136.1	19.0	155.1	100%

Source: Government of Antigua and Barbuda

Note: Data converted to USD from XCD at the prevailing exchange rate of 2.7. Damage refers to damaged or destroyed physical assets; losses refer to changes in economic flows due to the hurricanes including loss of income, higher operational costs and exceptional expenditures necessary to address the immediate impacts.

DROUGHTS AND FLOODING

Antigua and Barbuda's location in an area of climate variability leaves it prone to prolonged droughts and water shortages. On current trends, the Island State could experience at least one severe drought every decade. Climate experts project between 30 per cent to 50 per cent less average annual rainfall by 2090 compared to late-20th century trends.⁹ In fact, Antigua and Barbuda experienced the worst drought on record from 2013 to 2016, placing considerable stress on an already-strained water supply. The percentage of water generated by desalination increased from 40 per cent to 80 per cent, and the additional costs associated with operating desalination facilities amounted to around US\$10 million. However, demand was not met despite these efforts placing stringent conservation requirements on a population already suffering from acute water shortages.

During situations of intense drought, desalination can account for up to 90 per cent of the country's freshwater supply, and the increased intensity of extreme climate-related events could further strain the country's freshwater sources and availability. Saline intrusion because of sea level rises also threaten to affect inland freshwater resources, while climate variability also affects the frequency and severity of storms and rainfall levels which carries substantial flooding risks. The GoAB estimates that the infrastructure damage from rainfall and flash floods in 2020 resulted in damage amounting to over US\$100 million. Unfortunately, the increase in rainfall intensity of storms, while less frequent, is expected to compound significantly over the coming years further threatening the ability of the island state's potable freshwater reserves to replenish themselves.

RISING SEA LEVELS

Antigua and Barbuda faces additional acute and severe challenges from coastal erosion as a result of rising sea levels, like many other SIDS in the Caribbean region. Since the 1950s sea levels have increased from 1.6mm to 2mm per year.¹⁰ This is of increasing concern, given that tourism is heavily reliant and dependent on the beauty and quality of Antigua and Barbuda's beaches.

Antigua and Barbuda is only 440 square kilometers and a large proportion of the existing infrastructure is located either on or near the coast, including key infrastructure for government, health, commercial and transportation facilities, agricultural lands, port capacity as well as residential and tourism related properties. Current stress-testing scenarios prepared by the GoAB indicate that around 10 per cent of Antigua and Barbuda's tourism infrastructure, 2 per cent of the 1,160km road network and all the seaports would be impacted by a one-meter rise in sea level. A two-meter rise in sea level would place around 18 per cent of the tourism infrastructure at risk, while negatively affecting all of the tourism-dependent country's two airports. As aforementioned the twin risks of coastal erosion and sea level rises threaten to exacerbate freshwater scarcity.

⁹ United Nations Framework Convention on Climate Change, *Antigua and Barbuda's First Biennial Update Report*, 2020.

¹⁰ Bindoff et al, *Observations: Oceanic climate change and sea level*. in *Climate Change 2007: The Physical Science Basis. Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, 2007; Church et al, *A 20th century acceleration in global Sea-level rise*, 2006.

SECTION 3: DEBT CONVERSION SCHEMES

Global momentum has been building among different sets of stakeholders, from governments to global financial institutions, investors, NGOs and civil society, as well as many other interested parties, to ensure that climate resilience, and environmental sustainability more generally, be considered alongside financial sustainability in all matters related to sovereign finance. This momentum gathered global political strength with the Paris Agreement concluded in 2015, and the United Nations Climate Change Conferences of the Parties (**COP**) established in 1992, with the latest COP26 held in Glasgow during November of 2021. Most recently, there has been a surge in the issuance of green and blue securities to promote investment in sustainable projects, as well as the development of innovative financial tools to further foment development and conservation initiatives.

In addition, there has been a renewed focus by worldwide investor constituencies and financial regulators to incorporate Environmental, Social and Governance (**ESG**) considerations into investment and risk assessment frameworks, which in turn is placing pressure on governments to adopt and foster actions to help meet these requirements. However, there has been limited progress in supporting concrete policy actions for many low-income countries (**LICs**), as well as middle- and high-income classified countries, with significant vulnerabilities to climate-related shocks, to source affordable financing to combat climate issues, particularly where debt sustainability also needs to be addressed. These gaps could be exploited to test appetite among key stakeholders, particularly creditors, to consider innovative options to address climate-related challenges among LICs and SIDS, encouraging collaboration on opportunities to promote climate resilience actions within the context of sovereign debt sustainability.

In the context of these developments, there is an optimal opportunity for SIDS, such as Antigua and Barbuda, facing significant climate related vulnerabilities but with little fiscal capacity amid heavy debt burdens, to approach creditors (domestic and external) to explore the feasibility of structuring debt conversion schemes, particularly in the form of debt-for-climate adaptation and/or mitigation swaps, to help address these issues in a systematic manner. In the context of debt conversion schemes, climate adaptation is defined as the process of adjusting to the current and future effects of climate change, while climate mitigation refers to reducing the severity of climate change effects through lowering of the greenhouse gas emissions (GHG) into the atmosphere.

With the support of AOSIS, the GoAB, taking advantage of concrete policy initiatives to enhance legal and financial frameworks that would facilitate the mobilisation of resources, is in the process of formulating a strategy to engage with its creditors with the aim of progressing efforts to open and release fiscal space to fund much needed spending on projects to adapt/mitigate growing climate risks, while normalising arrears and fostering debt sustainability.

Nevertheless, a word of caution is required. Formulating and implementing a debt-for-climate adaptation swap strategy to mobilize funding for environmental vulnerabilities, while tackling an unsustainable public sector debt stock, will be an ambitious and complex undertaking. The magnitude and scope of the environmental challenges and climate risks that the GoAB needs to address implies that a debt-for-climate adaptation swap strategy alone cannot provide sufficient financial resources to fully undertake a set of mitigation projects, much less help place the public sector's debt stock on a downward trajectory.

In addition to this initiative, the Antiguan authorities will need to pursue a variety of additional strategies and financing alternatives to raise and pool resources to mitigate the diverse set of environmental challenges and financial vulnerabilities. One additional strategy under consideration, for instance, is the implementation of a targeted liability management operation, whereby resources raised through social impact investors and other appropriate donors (through a blue or green security), secured through multilateral guarantees and/or specialized insurance, are used to buy back high-cost debt. The net present value savings secured by the operation, in the form of fiscal space, is then redeployed to help fund the implementation of a range of climate adaptation and mitigation projects already under consideration (see Appendix III for a comprehensive list of climate adaptation and mitigation projects).

Furthermore, the GoAB must continue to assess and develop additional debt relief initiatives at a global level to restore medium-term debt sustainability over time. Another important consideration is the need to build consensus and develop concrete policy actions that may be pursued and implemented in close coordination with other governments, regional and beyond, as well as other key stakeholders. No one single government

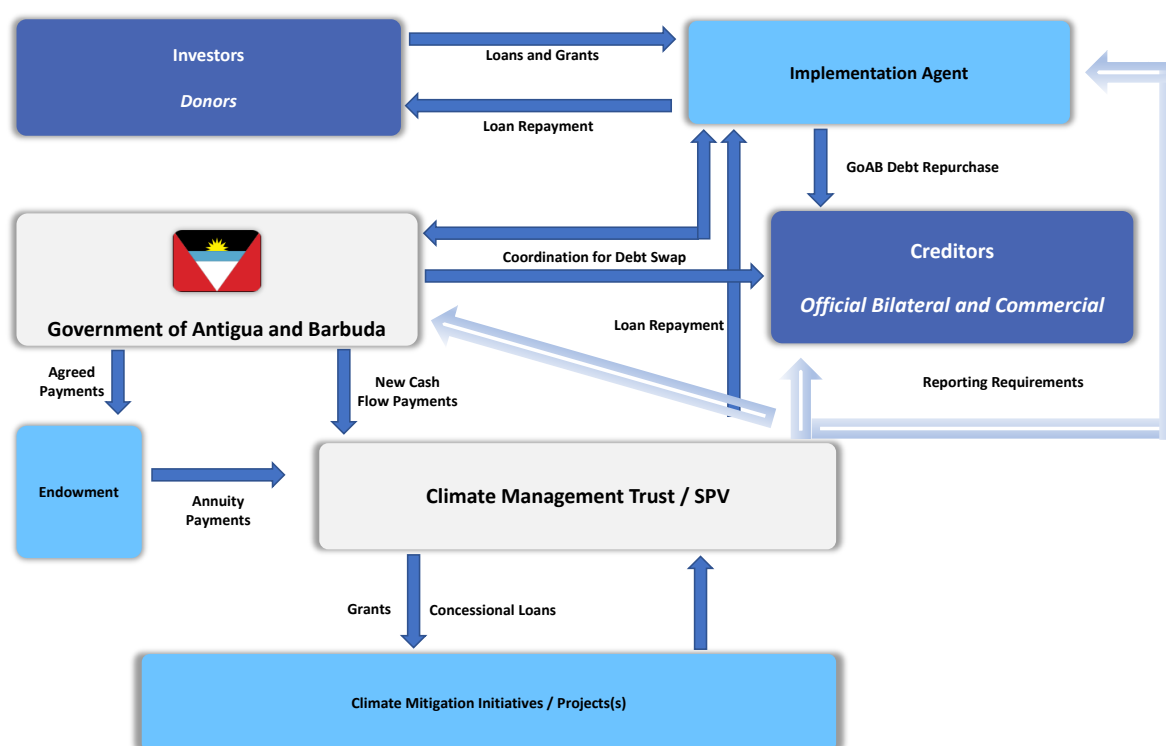
would be able to address the complex range of climate vulnerabilities in isolation. Coordination and joint efforts are required to define and pursue a wide range of inter-related climate adaptation and mitigation objectives.

This section outlines how debt conversions schemes are implemented, assesses their potential benefits, and focuses on leveraging the GoAB's current institutional frameworks and climate adaptation and mitigation projects under consideration, to structure and facilitate debt-for-climate-adaptation swaps. The GoAB has made significant progress enhancing legal and regulatory capacity over the past few years, which can quickly be deployed to support the implementation of such swap transactions. This will prove helpful when engaging with public sector creditors willing to consider debt-for-climate adaption swaps, to demonstrate commitment and transparency in accounting for the deployment of resources to finance climate adaptation and mitigation projects.

UNDERSTANDING DEBT CONVERSION SCHEMES

Debt conversion schemes, or debt swaps as commonly known, are usually tripartite agreements among a debtor, a creditor, and an implementation agent (typically an NGO), whereby a current liability (or part thereof), usually denominated in a foreign currency, is cancelled in part, or in full, in exchange for a debtor's commitment to re-channel domestic resources (local currency or other assets) for an agreed upon purpose. By and large, these agreements have been executed between sovereign debtors experiencing financial difficulties, particularly in the form of decreased fiscal capacity and/or debt sustainability challenges, and official bilateral creditors looking to support specific efforts to pursue projects of a social nature that otherwise could not be financed.

GRAPH 4: DEBT SWAP ILLUSTRATION



The formal institutionalisation of debt swap transactions can be traced to the workings of the Paris Club of developed creditor countries, as part of the execution of debt relief operations for debtor countries experiencing financial disarray in support of implementing reforms under IMF programmes. In such circumstances, the possibility of implementing voluntary debt swaps were included in an agreed multilateral minute signed between Paris Club creditors and a debtor country after a debt relief had been negotiated. The execution of debt swaps was considered a reward in the form of additional financial support for the implementation of agreed upon projects with a social component, for those debtor countries compliant with commitments under both the IMF Programme and the Paris Club agreed minute. Over time, the popularity and applications of debt swaps have been expanded by different stakeholders looking to lock-in additional rewards, whether financial and/or

political. However, the social benefit component has remained as the underlying driver for the completion of such types of operations.

The main assumption under a debt swap is that a liability can be acquired at a discount, against the backdrop of creditors' expectation (valuation) of not recovering the full nominal value of their claim against a borrower unable to meet future debt service commitments in full, and then sold to a third party to help finance a particular project under strict monitoring and reporting requirements. In theory, any outstanding liability may be eligible for a debt swap as long as an agreement among the parties for their implementation of approved projects can be reached. In practice, however, most debt swaps have been completed on the basis of claims sold, and under a robust monitoring and reporting framework, by bilateral creditors. More recently, commercial liabilities, either loans or securities, have been also leveraged in debt swap operations. Multilateral creditors remain unwilling to consider pledging their commitments extended to debtor (or borrower) countries for such debt swap operations.

POTENTIAL BENEFITS OF DEBT CONVERSION SCHEMES

Debt Swap operations are not new. The first publicly reported debt swap transaction was concluded in 1983 by the government of Chile. Since that time, debt swaps became features of debt relief operations during the Latin American debt crisis in the mid-eighties, with Bolivia, Costa Rica and Peru, for instance, effectively executing transactions through bilateral claims under the auspices of NGOs such as Conservation International (**CI**) and the World Wild Fund for Nature (**WWF**).

Unfortunately, there are no comprehensive databases keeping track of debt swap operations over time, as such it is difficult to calculate the quantum of debt undertaken globally and their potential impact in terms of project disbursements. However, according to reports compiled by the IMF, the United Nations Conference on Trade Agreement and Development (**UNCTAD**) and several NGOs, it is estimated that these financial vehicles have resulted in the cancellation of over US\$ 7 billion of bilateral debt and the application of almost US\$4 billion in development projects.

There are many advantages for pursuing and undertaking debt swaps for the parties involved, including:

- **For debtor countries**, debt swaps provide a mechanism to re-channel and mobilize scarce fiscal resources already earmarked for debt service payments towards priority development needs, while helping mitigate potential market risks. If a claim, or debt, being leveraged for the swap is denominated in hard (foreign denominated) currency, it could help lower foreign exchange, interest, and rollover risks, as future cashflows are replaced by local currency commitments. In effect these operations help mitigate pressure on the country's foreign exchange reserves without adverse effects on balance of payments position. In addition, a debt swap operation helps the debtor country reduce its indebtedness by cancelling or reducing a portion of its debt stock.
- **For creditors**, a debt swap provides an opportunity to secure upfront payments from assets (in the form of loans) that otherwise are not always be fully recovered. It also provides intangible political and goodwill benefits in terms of supporting worthwhile initiatives in countries that are undergoing, or impacted by, a crisis, which usually has devastating impact on fiscal accounts and living standards.
- **For implementation Agents and/or donors**, debt swaps provide opportunities to leverage and enhance scarce resources to fund more development and/or conservation activities over longer periods of time, usually with wider support from different constituencies. By the nature of their structure, debt swaps foster and allows for collaborative mechanisms to be established among debtor countries, creditors, donors, NGOs and civil society, to pursue priority projects that may have wider impact on the most vulnerable.

Despite these potential benefits, there are also various issues that make debt swaps complex, challenging and protracted to negotiate and implement, which discourages debtor countries from considering them seriously. First, not all creditors are keen to consider debt swaps, usually for financial and governance reasons. Financially, a debt swap involves some sort of debt cancellation which ultimately impacts bottom lines and capital ratios. Multilateral creditors, such as the World Bank and regional multilateral development banks for instance, do not have mandates to participate in debt swap transactions on account of the impact a debt cancellation will have

on their capital base. Second, many bilateral creditors need political approval, from parliaments and taxpayers, which can take time. Commercial creditors, until recently, have usually been reluctant to consider debt swap transactions that do not enhance their bottom line. However, these creditors have recently found a way that could allow them to recoup some of the initial savings by incorporating these swaps as part of Environmental, Social and Governance (ESG) policies or by participating in deals that include partners like the United States International Development Finance Corporation (DFC) and The Nature Conservancy (TNC).

For those creditors who may be open to consider, or have institutional capacity to pursue debt swaps, the legal, regulatory, governance and reporting requirements on the debtor and implementation agent can be stringent. This makes the process for negotiating a debt swap arduous and protracted. Given that potential savings can be limited, the process discourages many debtor countries to commit time, effort, and scarce resources to pursue these transactions in a systematic manner. There are significant costs for the debtor country in terms of identifying projects, coordinating efforts across various constituencies, and undertaking commitments to comply with monitoring, compliance, and reporting requirements.

TYPES OF DEBT CONVERSION SCHEMES

While this Roadmap focuses on debt-for-climate adaptation swaps, it is helpful to understand, for purposes of ensuring effective strategy implementation, the types of debt conversion schemes that have emerged and their evolution over time. In general, there are four main types of debt conversion schemes, including the following:

Debt-for-development swaps

These are the schemes originally designed, whereby a creditor allows financial resources emerging from a swap operation to be redeployed to priority projects based on the debtor country's development needs. These transactions were devised to provide flexibility in terms of project eligibility, but given their wider scope, require the debtor country to establish a well-defined support infrastructure for identification, implementation, monitoring, compliance, and reporting of the project's implementation. Their flexibility allows for greater involvement and coordination among parties interested in the effective execution of the swap. In addition, by nature of their structure, resources may be deployed to generate funding in either hard or local currency for projects on the basis of one-time expenditures, recurring disbursements or capital outlays. Examples of such operations have included infrastructure development, poverty alleviation, childhood immunisation, basic education, vocational training, low-income housing, etc.

Debt-for-nature/environment swaps

These types of operations are an offshoot of debt-for-development swaps and were specifically structured to allow projects designed for environmental purposes, particularly conservation and/or improvement, to be deployed. In these types of operations, a creditor agrees to forego all or part of debt service in return for the debtor agreeing to redirect fiscal funds to support mutually agreed nature conservation or rehabilitation projects. It is interesting to note that various creditor countries have established specific programmes for such purposes. The US Tropical Forest Conservation Fund (TFCF) was established in April 2001 with the main objective of allowing less developed countries with debt problems to redeploy debt service resources to protect forests in developing countries.

Debt-for-equity swaps

These types of schemes were primarily structured with the objective of allowing members of the private sector to purchase external denominated claims from either official and/or commercial creditors, at a discount (on the basis of net present value valuations) for the purpose of promoting equity investments in key economic sectors of a debtor country experiencing significant economic difficulties. These types of schemes were first implemented by the Government of Chile in 1983 and have been occasionally used with varying degree of effectiveness. The French government structured a few operations in Algeria during the early 1990s.

Debt-for-debt swaps

These types of schemes were structured with the aim of allowing the debtor country to swap external claims for new loans in domestic currency to implement new projects that may have vital social implications (i.e. increasing local employment). Interestingly, debt-for-debt swaps are not widely

favoured by either official creditors or debtor countries and few have been successfully implanted. In the early 2000s, the government of Indonesia attempted to structure a debt-to-debt swap using claims held by the French government with the aim of purchasing a fleet of environmentally friendly buses. Ultimately, negotiations failed to produce an agreement and the operation was cancelled.

DEBT -FOR-CLIMATE ADAPTION SWAPS

Over the past few years, specific operations to facilitate climate adaptation projects have gained international prominence following the implementation of transactions in several countries with varying degree of success. The particular cases of debt-for-climate-adaptation swaps implemented by the Seychelles in 2015 and Belize in 2021 are two cases in point. Both countries, suffering debt sustainability challenges and having experienced devastating financial shocks, implemented debt swaps geared towards marine conservation efforts under the auspices and support of **TNC**.

According to the International Institute of Finance (**IIF**), over thirty countries have used debt-for-nature swaps to fund more than US\$1 billion in environmental protection initiatives over the last twenty years, but it was the Seychelles operation that spurred international interest. The potential for debt-for-climate-adaptation swaps to be used as an option for governments of SIDS to address growing climate vulnerabilities have piqued the interest of International financial institutions, bilateral and commercial creditors as well as other relevant market participants. This provides the GoAB with an optimal opportunity to capitalize on international interest to present a well-designed proposal to certain external creditors, not only to achieve the Island State's climate-related objectives within the context of its fiscal and debt imbalances, but also to facilitate the normalisation of outstanding arrears.

SECTION 4: INSTITUTIONAL CONSIDERATIONS FOR DEBT SWAPS

It is important to understand that debt swap operations, regardless of their type, are undertaken solely on a voluntary basis and at a creditor's discretion. A creditor is not under any financial obligation to consider or agree to participate in any debt swap transaction with a particular debtor country. In fact, for those creditors willing to consider a debt swap, there must be strong financial, political, and social reasons for engaging with a debtor country in such an operation. Fiscal and debt constraints, in the face of tangible existing vulnerabilities, are among the principal determinates for creditors to consider entering a debt swap with a debtor country.

Convincing a creditor of the mutual benefits of debt swap is always the main challenge for any debtor country. A creditor's decision to forgo a future claim on a debtor in exchange for providing some sort of financial assistance in addressing tangible vulnerabilities must be anchored on real commitments. As a first step, therefore, it is critical for a debtor government looking to implement a debt swap to engage with willing creditors with a clear proposal that outlines the specific uses of the fiscal savings generated, how the funds will be monitored to ensure compliance with agreed upon objectives, and that a robust framework for meeting reporting requirements has been established.

Not all creditors have the political will, legislative / policy mandate, or financial ability to undertake debt swaps. However, to successfully convince a creditor with the willingness to consider a debt swap, a debtor country must provide sufficient comfort that all financial, political, and social commitments, among other requirements, will be met in a transparent and accountable manner. A debtor must be prepared to report on the status of project implementation systematically and on demand at any time. This means that a debt country must be prepared to develop and adopt the necessary legal, institutional, and political guarantees to demonstrate that the appropriate fiscal resources will be adhered by in future state budgets and that financial allocations will be solely channelled for agreed upon purposes. Furthermore, a debtor country must be willing to make commitments to consistently implement economic reforms to strengthen the fiscal position of the public sector and agree to meet all remaining debt service commitments to the creditor in question going forward.

IMPLEMENTATION CONSIDERATIONS

To successfully negotiate debt conversion schemes with willing creditors, there are usually six steps that must be followed by a debtor country:

1. A thorough analysis of the public sector's debt portfolio, including proper valuation of each existing liability, is necessary to identify the claims and potential quantum of debt that may be eligible for a debt swap. In first instance, targeting liabilities with the least favorable terms (higher interest rates, shortest maturities, and with difficult to manage risks) would be most beneficial for the debtor.
2. Identification of willing creditors disposed to executing debt swaps.
 - a. Official bilateral creditors, usually members of the Paris Club, are the best disposed for considering debt swap operations. Paris Club creditor countries such as Australia, France, Germany, Spain, and the United Kingdom have the political will, legal flexibility, and experience for undertaking debt swaps. The United States has only considered debt swaps in the context of clearly defined programmes approved by the US Congress such as the TFCF. Austria, Brazil and the Netherlands have the flexibility but little experience conducting debt swaps. Belgium and Japan do not have the legal framework and as such have not concluded debt swaps in the past.
 - b. Non-Paris Club official bilateral creditors such as China, India and Venezuela have not reportedly concluded properly structured debt swaps.
 - c. Some external commercial creditors have recently been more willing to consider debt swaps as in the case of Belize, but financial interests remain the primary driver. Commercial creditors will consider selling their sovereign claims for a price above the intrinsic value of the liability.

- d. Multilateral institutions such as the WB and regional development banks are precluded by their charters for entering into a debt swap as the operation involves an element of cancellation which will impact balance sheets and capital ratios.
 - e. Domestic creditors may find it difficult to negotiate a debt swap as they would need shareholder approval and in island nations, government borrowing tends to represent a significant portion of the domestic lending portfolio.
3. Defining the goals and benefits of the debt swap operation and identifying appropriate projects to meet the objectives agreed with the creditor. This involves preparation of appropriate documentation to present financial arguments, set out commitments and outline the potential benefits from the debt swap prior to engaging with creditors.
 4. Identifying, vetting, and selecting appropriate implementation agents for the projects to be financed through the financial resources released by a potential debt swap. Building consensus and garnering support from other stakeholders, including potential donors, multilateral institutions, NGOs and other influential parties is important to show commitment. A clearly formulated communications and engagement strategy is critically important (see Section 5 below).
 5. Negotiating and establishing a robust institutional, legal, and regulatory framework to support the implementation of selected projects as well as meeting the monitoring, compliance, and reporting requirements established by the participating creditor.
 6. Negotiating the modalities of the debt swap operation with the willing creditor and closing the transaction. This involves finalizing and ratifying all required legal documentation.

STRATEGIC CONSIDERATIONS FOR THE GOAB

The GoAB has had significant experience assessing the viability of debt swap operations already. In fact, the GoAB was among the first governments in the Caribbean region to assess the applicability of debt swap operations as part of the debt management strategy formulated to complement the IMF sponsored reform Programme in 2010. As part of those efforts, progress was made engaging with a variety of creditors and stakeholders to assess the viability of implementing debt swaps to complement debt relief efforts to address the public sector's unsustainable debt stock and the high level of existing arrears.

Discussions were held with several bilateral creditors in 2010 and 2011, including with the governments of Brazil, the Netherlands, and the UK, as well as with representatives from Grant Thornton, who were acting as Receivers for the commercial liabilities owed to the Stanford Financial Group, to explore the potential for executing debt swaps with debts owed to these creditors. The original strategy was anchored on facilitating the normalisation of arrears and rechannelling fiscal savings towards projects to protect the most vulnerable in the Island State.

Discussions on these operations were extended to include stakeholders, such as TNC, to assess financial support options and project implementation modalities. In the case of the debts owed to the Stanford Financial Group, TNC was interested in exploring a variety of projects for marine conservation efforts, and in parallel willing to serve as a funder to purchase the claims from the Receiver as well as monitor project implementation. Interestingly, on account of the arguments presented to these creditors at that time, the UK Government agreed to the full cancellation of a loan outstanding to the Department for International Development (DFID).¹¹ Negotiations with the Government of Brazil advanced but an agreement could not be concluded due to a change in government in the South American country. The joint proposal with TNC that was presented to Stanford Financial Group stalled due to legal developments impacting the Receiver in US courts.

Nonetheless, while these discussions did not result in the conclusion of a debt swap operation at the time, the GoAB made significant progress setting up the institutional, legal, and regulatory frameworks that today could be leveraged to support climate adaptation and mitigation projects under a debt swap operation. Over the past few years, and because of the additional negative impact of financial shocks on Antigua and Barbuda's fiscal and

¹¹ DFID has since been replaced by the UK's Foreign, Commonwealth & Development Office (FCDO)

debt positions, the GoAB has begun to formulate options and prioritised policy actions to address growing climate vulnerabilities. One of the options under consideration is the assessment of the viability of implementing debt-for-climate adaptation swaps to re-channel fiscal resources with the aim of financing climate change activities.

FORMULATING AN IMPLEMENTATION STRATEGY

The GoAB has received financial and technical support from AOSIS to formulate a strategy to maximize synergies between potential options to re-direct fiscal resources and identify other sources of funding to address growing climate vulnerabilities under the FACE programme. The GoAB is in the process of formulating a debt-for-climate swap strategy to release fiscal resources to fund urgent and much needed plans to mitigate economic and climate related vulnerabilities. As part of the strategy, the GoAB will need to formulate a communications strategy to engage with willing creditors and present the objectives of the strategy to convince them to participate in a debt-for-climate adaptation swap.

As part of the FACE programme, the GoAB will also aim to leverage its strategy to develop a blueprint that can be replicated and scaled up for other SIDS in the Eastern Caribbean, and if appropriate globally, to facilitate the implementation of similar debt-for-climate adaptation strategies. FACE was established to help assess financial opportunities for SIDS to escape the negative feedback cycle of high indebtedness and related unsustainable debt service payments which are deterring economic activity and creating ever growing challenges to develop solutions for worsening economic imbalances and the negative impact of climate change.

Formulating and implementing a debt-for-climate adaptation swap strategy to mobilize funding for environmental vulnerabilities, while tackling an unsustainable public sector debt burden, will be an ambitious and complex undertaking. The magnitude and scope of the environmental challenges and climate risks that the GoAB needs to address implies that a debt-for-climate swap strategy alone cannot provide sufficient financial resources to fully undertake a set of mitigation projects, much less help place the public sector's debt burden on a downward trajectory. The authorities will therefore need to pursue a variety of additional strategies and financing alternatives to pool resources to mitigate the diverse set of environmental challenges and financial vulnerabilities. In the case of Antigua and Barbuda, further work will also be required to assess and develop additional debt relief initiatives to restore debt sustainability over time.

Another important consideration is the need to raise awareness and build consensus among a variety of stakeholders to elicit support at all stages of the implementation of the potential operation. This will include donors who may be willing to provide financing for acquiring a debt or matching funds for project implementation. Other stakeholders include organizations that may provide technical "know-how" or assist in assessing and monitoring projects. A list of stakeholders with whom engagement has begun and/or is ongoing is included in Appendix IV below.

DEBT-FOR-CLIMATE SWAPS

The successful implementation of debt-for-climate swaps will depend on the government's continuous commitment to prioritize the country's financial and environmental challenges, the identification of climate adaptation and mitigation projects and engaging with a broad-based set of global stakeholders. This will include, in addition to the GoAB's creditors, multilateral institutions, trading partners, civil society, and NGOs, to build consensus and support for policy actions to implement the policy agenda and achieve long-term financial and environmental objectives.

The GoAB will need to strengthen and, if required, customize institutional and legal frameworks as well as project implementation structures that can effectively provide accountability, transparency, and reporting mechanisms to support debt-for-climate adaptation swaps. These institutional arrangements may need to meet the specific requirements of different creditors and/or stakeholders willing to provide funds or relief, including good governance to support the flow of funds, efficient operations, and maximize environmental benefits from the implementation of project activities.

The execution of debt-for-climate adaption swaps may be based on two main modalities, either of which can be effectively concluded by the GoAB and will depend on creditor demands and/or requirements.

1. A Bilateral Swap:

Under this modality, a willing creditor may agree to cancel a portion of a claim owed by a debtor government in exchange for tangible commitments for setting aside an agreed amount of local currency resources for the agreed upon climate adaptation and mitigation activities. The amount of local currency may or may not reflect a discount, relative to the face value of the original debt. Any discount (or haircut) to the original value of the debt, will be subject to negotiation on the basis of the intrinsic value of the claim. Robust reporting channels will need to be defined and complied with through the life of the swap.

2. A Third-Party Swap:

Under this modality, the participation of an implementation agent, or third-party, will be required for concluding the swap operation. The third party will need to be vetted by the creditor, but it is usually a recognised NGO, which is involved in the discussions from inception of the negotiation process. Some creditors prefer these types of modalities for implementing a debt swap as an additional assurance that the debtor country will honour all agreed upon and documented commitments. The third-party is granted permission to purchase a claim from the creditor at an agreed upon discount. A new liability, usually in local currency, is negotiated with the debtor government, with clear cash flows to fund the climate adaptation and mitigation activities.

The GoAB has progressed significantly with the formulation and implementation of its debt-for-climate Adaptation Strategy. Below is a status summary of the strategy's implementation.

Analysis of the Public Sector's Debt Portfolio:

A thorough analysis of the public sector's debt portfolio has been undertaken and potential loans that may qualify for a debt-for-climate adaptation swap been identified and valued taking into consideration appropriate methodologies that can leveraged during negotiations.

Identification of Potential Creditors:

Given the composition of Antigua and Barbuda's public sector debt portfolio, creditors that may be willing to consider debt-for-climate adaptation will be limited to official bilateral creditors, including France, Netherlands and Brazil, under the Paris Club, as well as Chinese based lenders and the Venezuelan based Fondo de Desarrollo. Domestic based creditors and multilateral agencies are not able to participate in such operations, as confirmed through exploratory discussions.

Discussions have already begun with the Paris Club based creditors and the Chinese Government. Apart from Brazil, the other Paris Club creditors have refused to engage with the GoAB to consider any debt swap in the absence of an IMF Programme. Discussions with the Chinese are ongoing. An approach to Venezuela is under formulation but may prove challenging on account of existing sanctions against the government.

Interestingly the Brazilian government has agreed to consider an upfront discounted payment of 10 per cent of the value of the outstanding claim (approximately US\$40 million) to settle the outstanding claim. The Brazilian Government has accepted the GoAB's request for financing support to address climate adaptation and mitigation activities, but they do not want to execute a debt swap. In any event, a 90 per cent haircut, approximately US\$ 36 million equivalent, will provide significant fiscal savings that can be redeployed to fund climate adaptation and mitigation activities.

Definition of Goals and Commitments:

The GoAB has clearly defined the goals of a potential debt-for-climate swap operation, including expected benefits and the types of adaptation and mitigation projects under consideration. Appropriate documentation to present financial arguments and set out commitments and modalities for compliance with project implementation have been prepared. These will be adapted as required as part of negotiations with creditors to conclude a debt swap operation.

Definition of Potential Climate Adaptation and Mitigation Projects:

The GoAB has developed a comprehensive set of climate adaptation and mitigation activities by sector, presenting the level of funding required for their effective implementation. The list includes twenty-four projects requiring USD 141 million in funding. Some level of co-funding has already been secured from

selected donors, aid agencies, and additional stakeholders. The preliminary list of preliminary climate adaptation and mitigation activities is presented in Appendix II.

Formulation of a Communication Strategy:

A communication and engagement strategy has also been formulated (see Section 5 below) for identifying, engaging, and negotiating with creditors, aid agencies, NGOs, implementation agents, donors and other key stakeholders. Engagement have included all identified creditors, and key stakeholders such as the United Nations Economic Commission for Latin America and the Caribbean (**ECLAC**), the Green Climate Fund (**GCF**), the IMF, the WB and the CDB, as well as others.

Establishment of Compliance Structures and Frameworks

The GoAB has already made significant progress establishing robust institutional, legal, and regulatory frameworks to support the implementation of climate adaptation and mitigation projects as well as meeting the monitoring, compliance, and reporting requirements that will need to govern a debt-for-climate adaptation swap.

SECTION 5: ENGAGEMENT AND COMMUNICATION STRATEGIES

Antigua and Barbuda's efforts to create much needed fiscal space and raise financial resources to address climate and economic vulnerabilities will require the formulation of a robust and coordinated strategy to identify, engage and communicate with a wide range of interested constituencies. The main objective of the engagement and communications strategy is to deliver a consistent, yet individually tailored, message that facilitates the effective mobilisation of innovative financing instruments for climate-related issues, including the negotiation and implementation of the debt-for-climate adaptation and mitigation strategy.

To be successful, the engagement and communications strategy will need to clearly outline the GoAB's climate-related goals and defined mitigation action plans to achieve these objectives over time within the framework of domestic, regional and international climate initiatives and bilateral priorities. It is important to reiterate though that there is a need to continuously update such goals to reflect emerging developments, both domestically and globally. As engagement with specific stakeholders progresses, the content of the targeted messages will need to be adjusted to reflect feedback and requirements from individual parties and stakeholders to facilitate the required support for the government's efforts.

A part of the message that will need to be conveyed includes the overall objectives of the climate policy framework and the robust institutional framework for implementation, monitoring and reporting as well as the potential project pipeline. However, parts of the message, particularly in respect of the key "asks" to be conveyed, needs to be tailored to specific constituencies on the basis of the options for financing (including debt-for-climate adaptation swaps) being targeted, highlighting what and how each stakeholder can contribute to the positive implementation of the overall climate adaptation and mitigation plan. Equally important, the message needs to convey the particular benefits that stakeholders are likely to obtain from their proactive support of the framework as well as the overall impact and benefits for Antigua and Barbuda.

The following section sets out the basis for a plan to define and develop the tailored messages and respective arguments that could be formulated for each key constituency as well as the channels that could be used to deliver each message to stakeholders. It is important to note that clarity and transparency need to anchor the engagement and communications strategy to ensure that the key "asks" reaches the targeted audience effectively.

FORMULATING THE MESSAGE FOR THE INTERNATIONAL COMMUNITY

It is important to reach out to the international community to raise awareness and build broad-based support for Antigua and Barbuda to address climate issues as a matter of urgency. A succinct message needs to be carefully formulated with appropriate clear information to effectively convey what the government is attempting to achieve and why it is approaching individual stakeholders, particularly creditors, to seek financial assistance. Furthermore, the message needs to be tailored to individual stakeholders based on their interests and the types of financial resources being sought. As engagement with stakeholders evolve, the message will need to adapt in response to individual requirements.

To initiate effective engagement with stakeholders, the message must clearly elucidate the government's climate challenges and the overall objectives of the national climate policy framework, as well as explaining how the contribution of stakeholders, be it financial or otherwise, will be utilised and accounted for through the introduction of robust procedures for implementation, monitoring and reporting. More specifically, the overall composition of the message must describe the government's climate risks and the policy framework that has been devised to address them, as well as a detailed overview of the robust institutional arrangements and comprehensive project pipeline that will anchor the key "asks" and the type of financing being sought from each stakeholder.

Antigua and Barbuda has a strong track record on raising awareness in the international community already, as a prominent member of regional and global climate forums and through active communication with global climate initiatives as well as its creditors. Recent meetings with bilateral creditors have also used consistent, clear communication, including through concise presentations, to set out the Government's objectives and outline the request for debt-for-climate adaptation swaps. Climate resilience initiatives are already underway, with support from domestic entities (government and other public-sector entities, domestic institutions, and other stakeholders, as well as the general public) and externally, through AOSIS, CARTAC, GCF, ECLAC and others. This has enabled financial and technical capacity to help fund and deploy certain projects to date to address climate risks, as well as identify project pipelines to future mitigation activities.

The GoAB has formulated robust national climate policy frameworks anchored by appropriate legal and institutional arrangements. Climate change policy has been integrated across government agencies by way of policies such as The Sustainable Island Resource Management Zoning Plan (**SIRMZP**) and its enabling legislation, the National Biodiversity Strategy Action Plan (**NBSAP**), the National Environmental Management Strategy (**NEMS**), the Environmental Management Strategy (**NEMS**), the Environmental Protection and Management Act (**EPMA**) 2019, the Sustainable Island Resource Framework Fund (**SIRF Fund**) and MTDS.¹² Proactive coordination and collaboration within key government entities, such as the MoF, and the Ministry of Health, Wellness and the Environment, has enabled the identification of climate priorities, the definition and identification of appropriate projects and the implementation of the policy frameworks, as well as the ability to seek financial support required over time.

MULTILATERAL INSTITUTIONS

Multilateral institutions, such as the CDB and IMF, are able to provide technical analysis, capacity building initiatives and potentially seed financing (in the form of grants or low-cost loans) for designing and implementing programs and financing arrangements for climate adaptation and mitigation activities. Multilaterals are also able to help identify and formulate options, and strengthen frameworks for implementation of projects, as well as provide grants to help fund studies, develop capacity and tailor institutional arrangements to support the implementation of the policy agenda. The development of the IMF's Resilience and Sustainability Trust (**RST**) programs are evidence of the growing support from multilateral institutions to help address climate issues among others.

In the context of debt-for-climate swaps, the outcome of the IMF's DSA is important to determine whether the country's debt is considered sustainable over the medium-term or not. If the debt is considered unsustainable, an IMF Programme is required by certain bilateral creditors (namely Paris Club creditor countries) to address debt sustainability issues, provide oversight and policy implementation discipline, as well as certain comparability of treatment provisions following the negotiation of debt relief, under which debt-for-climate adaptation swaps could be considered, depending on the country's external debt creditor base. If the debt is sustainable, there is more flexibility for a country to approach creditors bilaterally on a case-by-case basis without the need for an IMF Programme.

Antigua and Barbuda's debt is considered unsustainable under the latest IMF DSA. However, the Government is not able to currently entertain an IMF Programme for political reasons and other technical considerations. Instead, the Government has implemented its own MTFS to address macroeconomic challenges, restore fiscal and debt sustainability, and raise financing for implementing climate-related investments to mitigate the sources and impacts of climate change.

BILATERAL CREDITORS AND MAJOR TRADING PARTNERS

Bilateral creditors are important stakeholders that could be approached to pursue debt-for-climate swap initiatives. For countries entering into, or with existing, Paris Club Agreements, the possibility of conducting debt swaps is often incorporated into the terms of the Agreed Minute and can be considered on a bilateral basis with the Government's creditors, within the confines of the Paris Club's protocols and practices. Where debt is owed to non-Paris Club members, each creditor can be approached individually in turn.

It should be noted that certain bilateral creditors have shown reluctance to implement bilateral debt swaps in the past. While this does not mean that they cannot be approached, and indeed the debt-for-climate adaptation swaps should be offered to all bilateral creditors to maximise the potential impact, this should nonetheless be taken into account when considering the feasibility of conducting debt swaps for bilateral debt and when prioritising creditors to approach to explore the initiative.

In the case of Antigua and Barbuda, most of the public external debt outstanding is owed to bilateral creditors, both Paris Club and non-Paris Club. Concerted efforts have been made by the GoAB to reach out to the largest creditors as well as the Paris Club Secretariat to outline its proposal to address both debt sustainability issues and rising climate risks. The GoAB's continued engagement with creditors and its desire to find a resolution to the arrears accumulating have been noted and appreciated by certain creditors, building goodwill and opening the possibility of reaching a successful resolution.

¹² Source: UNFCCC "Antigua and Barbuda's First Biennial Update Report" 2020

INTERNATIONAL INVESTORS AND CREDITORS

Where commercial external debt is outstanding, debt-for-climate adaptation swaps could be considered, but these types of transactions are more challenging to negotiate and implement. Nevertheless, private sector donors and NGOs continue to be an important constituency with great influence on climate issues, positively impacting and fostering the green economy and specific climate-related agendas through efforts to support the implementation of global, regional, and local policy initiatives. These stakeholders are also an important source of financing, through the provision of grants, match-funding, equity capital and tied-loans to numerous environmental and climate projects. Furthermore, these stakeholders can provide technical assistance and “know-how” initiatives to complement the GoAB strategy.

Debt-for-climate adaptation swaps with commercial external debt can be conducted solely by the Government or with the involvement of a third party (private sector donor and/or NGO) to help facilitate the transaction, as has been seen with the involvement of TNC with Belize in 2021. However, this transaction took years to negotiate and implement. Debt-for-climate adaptation swaps will deliver the most impact where they can be conducted at an NPV benefit to the Government, particularly where the debt outstanding is trading below par.

Antigua and Barbuda does not have any commercial external debt outstanding beyond the loan held by the ABAA with Credit Suisse.

COMMUNICATING THE MESSAGE

It is important to engage and communicate with respective stakeholders to garner maximum support and leverage core strengths brought to bear by diverse sets of individual parties. Given the main objective of the engagement and communications strategy is to deliver consistent yet focused messages that build consensus, foster coordination, and facilitate the effective mobilisation of innovative financing for climate issues through debt-for-climate adaptation swaps, it is critical that well-defined targeted messages are formulated and delivered through a variety of mediums and communication channels.

In general, the main message to be delivered to individual stakeholders will need to be comprised of two principal components:

- 1) the underlying element of the message (“the concept”), and
- 2) the tailored component of the message (tailored to the specific stakeholder and debt swap request).

Both components of the main message do not need to be delivered at the same time but rather as part of strategic, planned and phased actions to engage with all relevant stakeholders. The objectives for engaging with each stakeholder, and the timing of their expected participation in the implementation of the different elements of the national policy framework, will determine when and how each component of the message is delivered.

ENGAGEMENT AND COMMUNICATION CHANNELS

There are a number of ways in which proactive engagement with difference constituencies can take place and specific messages effectively delivered. Some of these channels can target multiple audiences and constituencies while others can be effective to target specific stakeholders. Furthermore, some of these channels may be used at the same time and some at different periods, depending on the objectives of the engagement with stakeholders.

Examples include:

- White papers
- Blogs
- Meetings (one-on-one and group meetings) and Roadshows
- Regional and International conferences and seminars
- Training workshops
- Conference calls

As set out previously, Antigua and Barbuda has actively engaged with its stakeholders and the wider public at a number of conferences and training workshops, both participating in global and regional initiatives as well as organising its own events to disseminate key climate objectives. It has also engaged with stakeholders bilaterally to sound out reactions to its proposals and develop next steps.

SECTION 6: CONCLUSIONS

Antigua and Barbuda is facing significant and unprecedented economic, financial and climate adaptation risks. These risks have been intensifying over the past decade, and if left unaddressed will severely threaten the future growth prospects and social well-being of the Island State in the years ahead. Caught in vicious cycle, Antigua and Barbuda is highly indebted and with an extremely weak fiscal position, which constraints efforts to finance climate adaptation and mitigation activities to address these vulnerabilities. In turn, extreme weather-related events are further compounding debt problems and weakening fiscal accounts by adversely impacting tax bases and economic drivers as well as creating reconstruction costs.

Action to address these vulnerabilities and break the vicious cycle is urgently needed, and these will require support and assistance from domestic and international stakeholders alike. Harnessing the growing movement towards environmental sustainability, including climate adaptation, alongside the rising need for sovereign debt sustainability solutions, there is opportune window for the GoAB to formulate options to begin addressing these critical vulnerabilities. With assistance and financial support from AOSIS, a strategy to engage with creditors to seek the implementation of debt-for-climate adaptation and mitigation swaps is currently underway.

Formulating and implementing a debt-for-climate adaptation swap strategy to mobilize funding for environmental vulnerabilities, while tackling an unsustainable public sector debt burden, will be an ambitious and complex undertaking. The magnitude and scope of the environmental challenges and climate risks that the GoAB needs to address implies that a debt-for-climate adaptation swap strategy alone cannot provide or release sufficient financial resources to fully undertake a set of mitigation projects, much less help place the public sector's debt burden on a downward trajectory. The authorities will therefore need to pursue a variety of additional strategies and financing alternatives to pool resources to mitigate the diverse set of environmental challenges and financial vulnerabilities. In the case of Antigua and Barbuda, further work will also be required to assess and develop additional debt relief initiatives to restore debt sustainability over time.

Nevertheless, a well executed the strategy can assist the GoAB to raise fiscal resources to facilitate the funding of climate adaptation and mitigation activities, while helping address the elevated stock of public sector debt and the existence of long-standing arrears. The successful implementation of debt-for-climate adaptation swaps will depend on the government's continuous commitment to prioritize the country's financial and environmental challenges, the identification of climate adaptation and mitigation projects and engaging with a broad-based set of global stakeholders. This will include, in addition to the GoAB's creditors, multilateral institutions, trading partners, civil society, and NGOs, to build consensus and support for policy actions to implement the policy agenda and achieve long-term financial and environmental objectives.

Convincing a creditor of the mutual benefits of a debt swap operation will remain the key challenge for the GoAB. A creditor's decision to forgo a future claim on a debtor in exchange for providing some sort of financial assistance in addressing tangible vulnerabilities must be anchored on real commitments. As a first step, therefore, it is critical for a debtor government looking to implement a debt swap to engage with willing creditors with a clear proposal that outlines the specific uses of the fiscal savings generated, how the funds will be monitored to ensure compliance with agreed upon objectives, and that a robust framework for meeting reporting requirements has been established.

The GoAB will need to strengthen and, if required, customize institutional and legal frameworks as well as project implementation structures that can effectively provide accountability, transparency, and reporting mechanisms to support debt-for-climate adaptation swaps. These institutional arrangements may need to meet the specific requirements of different creditors and/or stakeholders willing to provide funds or relief, including good governance to support the flow of funds, efficient operations, and maximize environmental benefits from the implementation of project activities

APPENDIX I: SELECTED REFERENCES

1. Acevedo S, *Gone with the Wind: Estimating Hurricane and Climate Change Costs in the Caribbean*, IMF Working Paper WP/16/199, 2016
2. Bindoff et al; Observations: Oceanic climate change and sea level. in *Climate Change 2007: The Physical Science Basis. Contribution of Working Group I to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*, 2007
3. Church et al; *A 20th Century Acceleration in global Sea-level rise*, 2006
4. Government of Antigua and Barbuda, *Hurricane Irma Needs Assessment*, 2018
5. Henry-Spencer, Nadia, **Debt Swaps: Go Big or Go Home - the View of the Borrower**, Commonwealth Secretariat, August 4, 2022; Available at <https://www.thecommonwealth-ilibrary.org/index.php/comsec/catalog/book/973>
6. Jattansingh, Sasha and Spencer-Henry Nadia; *Navigating Climate Finance as a small island state: Lessons from Antigua and Barbuda*; Commonwealth Secretariat; 22 July 2022. Available at: <https://thecommonwealth.org/news/navigating-climate-finance-small-island-state-lessons-antigua-and-barbuda>
7. Ministry of Finance and Corporate Governance (Government of Antigua and Barbuda), *Medium Term Fiscal Strategy 2021-2023*, 2020
8. United Nations Framework Convention on Climate Change, *Antigua and Barbuda's First Biennial Update Report*, 2020
9. Watson W, Michai Robertson, Ameera Ramdin and Courtnae Bailey, *Assessment and Overview of Climate Finance Flows: Antigua and Barbuda 2014-2017*, United Nations Framework Convention on Climate Change, 2020
10. What is the difference between adaptation and mitigation?, European Environment Agency. Available at: [https://www.eea.europa.eu/help/fag/what-is-the-difference-between#:~:text=In%20essence%2C%20adaptation%20can%20be,\(GHG\)%20into%20the%20atmosphere.\(Accessed: October 30, 2022\)](https://www.eea.europa.eu/help/fag/what-is-the-difference-between#:~:text=In%20essence%2C%20adaptation%20can%20be,(GHG)%20into%20the%20atmosphere.(Accessed: October 30, 2022))
11. Williams, Aime; *The New Era of Stronger Hurricanes: Bigger storms, Better forecasts*, Financial Times, 2 October 2022.
12. World Bank, *Disaster Risk Management in Latin America and the Caribbean Region: GFDRR Country Notes*, Report 64260, 2012.

APPENDIX II: CLIMATE ADAPTATION AND MITIGATION ACTIVITIES

IN U.S. DOLLARS

#	Agency Name	Projects	Project Acronym	2018	2019	2020	2021
1	Global Environment Facility	Path to 2020	Path	2,729,153	2,729,153	2,729,153	2,729,153
2		Sustainable Pathways – Protected Areas and Renewable Energy	SPPARE	2,639,726	2,639,726	2,639,726	2,639,726
3		4th National Communications	4NC			500,000	500,000
4		Monitoring and assessment of MEA implementation and environmental trends in Antigua and Barbuda	CCCD	880,000	880,000	880,000	880,000
5		Capacity Building for Improved Transparency on Climate Actions through an Environment Registry in Antigua and Barbuda	CBIT			1,000,000	1,000,000
6		IWEco: Targeting Land Degradation and Effective Land Management through the Development of Innovative Financing Methodologies	IWEco	1,285,685	1,285,685	1,285,685	1,285,685
7		Antigua and Barbuda Sustainable Low-Emission Island Mobility Project	SLIM				12,964,315
8		Technology Needs Assessment	TNA	132,000	132,000	132,000	132,000
9	Special Climate Change Fund	Building climate resilience through innovative financing mechanisms for climate change adaptation	SCCF	5,000,000	5,000,000	5,000,000	5,000,000
10	Abu Dhabi Fund for Development	Sustainable Financing Mechanism for Climate Change	ADFD Phase 1	15,000,000	15,000,000	15,000,000	15,000,000
11		Transformation of the Water and Health Sector using Renewable Energy	ADFD/IRENA Phase 2			15,000,000	15,000,000
12	Adaptation Fund	Northwest McKinnon's Watershed Project	AF McKinnon's	10,000,000	10,000,000	10,000,000	10,000,000
13		AF Project South-to-South: Maldives	AF Maldives	50,000	50,000	50,000	50,000
14		AF Project South-to-South: Dominica	AF Dominica	50,000	50,000	50,000	50,000
15		Innovative Technologies for Improved Water Availability to Increase Food Security in Antigua and Barbuda	AFSIP				250,000
16	Green Climate Fund	Grenada Readiness Project	GRN RS4			180,560	180,560
17		National Adaptation Planning and Processes- Antigua and Barbuda	ATG NAP -RS3	3,000,000	3,000,000	3,000,000	3,000,000
18		Enhanced Direct Access Project	EDA-FP061	20,000,000	20,000,000	20,000,000	20,000,000
19		Accelerating a transformational pipeline of Direct Access climate adaptation and mitigation projects in Antigua & Barbuda	GCF RS4		931,000	931,000	931,000
20		Resilience to hurricanes in the building sector	GCF Build-FB133				46,164,630
21		Dominica National Adaptation Planning	NAP Dominica		2,900,000	2,900,000	2,900,000
22	Italian Government	Electric School Bus Pilot in Antigua	Ebus	625,000	625,000	625,000	
23		Grid-Interactive Solar PV Systems for Schools and Clinics in Antigua and Barbuda	GISS Project	825,000	825,000	825,000	
24	United Nations Office of Project Services	Initiative for Climate Action Transparency Project	ICAT			159,276	159,276
		Total Project Funding (includes GCF + co-financing)		62,216,564	66,047,564	82,706,840	140,635,785

Source: Ministry of Finance.

APPENDIX III: SELECTED LIST OF KEY STAKEHOLDERS

National Stakeholders

Department of the Environment – Ministry of Health and the Environment

Ministry of Legal Affairs

Ministry of Foreign Affairs

Ministry of Finance, Corporate Governance and Public Private Partnerships

Ministry of Public Works

Ministry of Public Utilities

Regional Stakeholders

ECCB – Eastern Caribbean Central Bank

OECS -Organization of Eastern Caribbean States

CARTAC – Caribbean Technical Assistance Centre

CCCCC - Caribbean Community Climate Change Centre

Government of Barbados

United Nations Economic Commission of Latin America and the Eastern Caribbean (UN- ECLAC)

International Stakeholders

Open Society Foundation

AOSIS - Alliance for Small Island Developing States

Climate Analytics

OHRLLS - Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States

Jubilee Germany

Jubilee USA

Jubilee UK

World Bank

International Monetary Fund (IMF)

COMSEC- Commonwealth Secretariat

Pacific Island Forum

Paris Club Secretariat

Green Climate Fund

Aqua Blue Investments

Conservation International

The Nature Conservancy

World Wild Fund for Nature

i