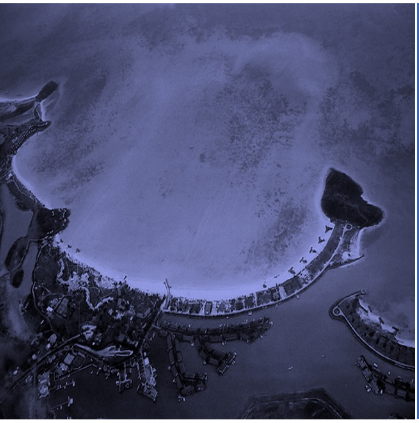


A Roadmap for Implementing Innovative Finance

Antigua and Barbuda's Case

8 November 2022

Innovative Climate Financing – The Role of the Public Sector

CARICAD

Presented by –
Nadia Spencer-Henry, Debt Manager, Ministry of Finance

Rafael M. Molina, Managing Partner, Newstate Partners LLP

For Discussion Purposes

Agenda

Session Objectives

- **Outline the steps designed by the Government of Antigua and Barbuda for pursuing innovative climate finance through debt for climate swaps and liability management**

» **Background Innovative Climate Finance**

» **Antigua and Barbuda's Strategic Approach**

» **Debt-for-Climate Swaps**

» **Implementation Considerations**

» **Some Conclusions**

» **Q & As**

Background for Innovative Climate Finance

The current environment provides a unique opportunity for SIDS facing climate related vulnerabilities but with little fiscal capacity amid heavy debt burdens to explore options to address these issues in a systematic manner

- Global momentum has been building among stakeholders to incorporate climate resilience and environmental sustainability alongside financial sustainability in sovereign finance
    - UN Climate Change Conferences of the Parties (COP) established in 1992
    - A surge in the issuance of green and blue securities as well as the development of innovative financial tools to further foment development, climate resilience and conservation initiatives

- However, there's been limited progress in supporting concrete policy actions for SIDs 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 creditors and other stakeholders to consider innovative options to address climate-related challenges within the context of sovereign debt sustainability

Antigua and Barbuda's Strategic Approach

The GoAB is capitalising on global trends to leverage concrete policy actions and established domestic frameworks to mobilise resources to create fiscal space to facilitate climate mitigation action

- The strategic approach is linked to well formulated fiscal and debt plans (MTFS and MTDS)
- Several action plans are being pursued to create fiscal space to address both financial and climate vulnerabilities
- One of these **options** relates to engaging with creditors and and other key stakeholders to fund much needed spending on projects to mitigate growing climate risks, while normalising debt arrears and fostering debt sustainability

▪ This session focuses on debt for climate swaps that target environmental consideration with concrete projects that quantify mitigation action

▪ This involves coordination of a multiplicity of stakeholders that is supported by an accommodative national institutional framework and a robust communications strategy

Policy Approach

The capacity to attract climate financing requires an important set of institutional arrangements.

- Debt conversion programmes that incorporate climate considerations requires the coordination of a multiplicity of stakeholders that is supported by an accommodative national institutional framework.

- Antigua and Barbuda has worked with national and regional institutional arrangements to advance debt-for-climate swaps.

National Institutional Framework

The Environmental Protection and Management Act (2019)

- Antigua and Barbuda's national institutional framework is built on legislation that supports climate finance mobilization.

- Chart of Accounts for the Annual Budget was amended in 2019 to allow for tracking climate finance. The Medium-Term Development Strategy, the Blue Charter, the Nationally Determined Contributions and the National Adaptation Plan outline the plans and programs.

Environmental Protection & Management Act (2019)

PART IV ENVIRONMENTAL POLICIES AND PLANS

- Empowers the Department of the Environment to act in collaboration with the appropriate authorities, Ministries and statutory bodies, to undertake the preparation of a National Environmental Policy Framework in accordance with the objects of the Act.

- The Act also supports the identification of specific legal, financial and institutional aspects that need to be addressed to give effect to the policy.

- Several Government stakeholders collaborate for implementation of climate related policies – These include Ministry of Works, Ministry of Environment, Ministry of Finance, National Office of Disaster Services and the Ministry of Agriculture.

http://laws.gov.ag/wp-content/uploads/2019/08/No.-10-of-2019-Environmental-Protection-and-Management-Bill-2019.pdf

Environmental Protection & Management Act (2019)

- The Act also establishes the Sustainable Island Resources Framework Fund (SIRFF) under section 92.
- The schedule to the Act outlines the functions of the board and operational guidelines for the Fund.
- The Fund is also established as a special fund under Finance Administration Act with its own set of regulations.
- Further institutional modifications will still be required to make the fund fit for purpose on concluding the debt-for-climate swaps.

Nationally Determined Contributions (NDCs)

Antigua and Barbuda's updated NDCs are aligned for debt-to-climate swaps and confirms Antigua and Barbuda's strategy for:

- Increasing the fiscal space necessary to fund climate adaptation and mitigation activities because of reduced debt service requirements; and
- Directly contributing to financial capacity of the SIRF Fund, which was identified in the first NDC as a central financial institution for meeting conditional commitments.

https://unfccc.int/sites/default/files/NDC/2022-06/ATG%20-%20UNFCCC%20NDC%20-%202021-09-02%20-%20Final.pdf

Project Development

The country has developed a comprehensive package of projects, programmes and climate actions and determined the financing needs and sustainable development co-benefits.

- This is highlighted in its NDC Implementation Plan and its GCF Country Programme and will be further elaborated in the National Adaptation Plan.

- Project pipeline development is important for attracting financing and for ensuring that there are budgetary allocations for co-financing.

Caribbean Resilience Fund

The Caribbean Resilience Fund is a special purpose financing vehicle intended to leverage long-term low-cost development financing for the Caribbean while at the same time ensuring the availability of resources for investment in adaptation and mitigation initiatives in the development of green industries.

By providing financing for strategic interventions across the Caribbean, it is expected to counter regional challenges including:

- Environmental vulnerability;
- Relatively low economic growth;
- SDG gaps;
- High debt; and
- Limited access to financing.

It is an opportunity to promote much needed resilience building and structural transformation for Caribbean economies.

Caribbean Resilience Fund

The Caribbean Resilience Fund (CRF):
A special purpose financing vehicle intended to leverage long-term affordable development financing for the Caribbean

Window 1
Resilience Building / Sustainable Resilience

Adaptation and Mitigation Priorities

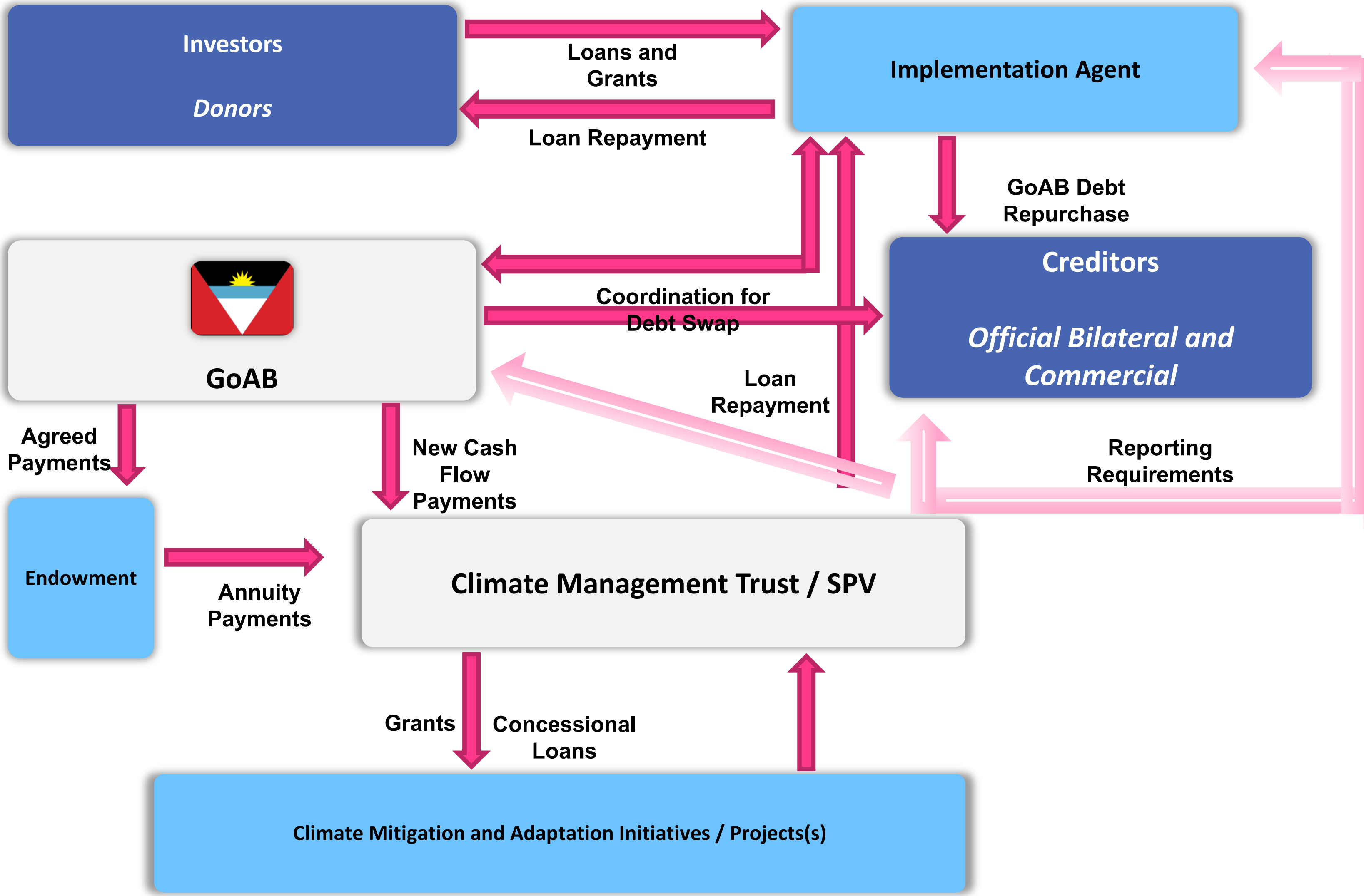
1. Energy security
2. Pooled and scaled-up insurance
3. Water security and management
4. Agriculture and food security
5. Nexus with tourism

Window 2
Debt Restructuring and Liquidity Enhancement

Liquidity Management Operations (LMOs)

1. Green Bonds arranged by Credit Suisse to purchase existing debt
2. New debt issue guaranteed by DFI
3. Parametric insurance in the event of a disaster
4. Of the fiscal space created, 50% must be directed to climate-resilience activities

Debt for Climate Swaps



Implementation Considerations

- Debt swaps are undertaken on a voluntary basis. A creditor is not under obligation to consider a debt swap with a debtor country; there must be strong financial, political, and/or social reasons for engaging with a debtor country in a debt swap

- 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 is the main challenge for any debtor. A creditor's decision to forgo a future claim on a debtor in exchange for providing financial assistance in addressing tangible vulnerabilities must be anchored on real commitments

- Debtor country must provide sufficient comfort that all financial, political, and social commitments will be met in a transparent and accountable manner through robust legal, institutional, and political guarantees to demonstrate that the appropriate fiscal resources will channelled for agreed upon purposes

- **Not all creditors have the political or financial ability to undertake debt swaps**

Implementation Roadmap

There are seven steps to successfully implement a debt swap:

1. **Analysis of the public sector's debt portfolio** to identify eligible claims and potential quantum of debt eligible for a debt swap. Target liabilities with least favourable terms (higher interest rates, shortest maturities, and embedded risks)

2. **Identification of willing creditors** for executing a debt swap

3. **Definition of goals and commitments** as well as the benefits of the debt swap. Critical to identify and selecting appropriate implementation agents

4. **Definition of Potential Climate Mitigation and Adaptation Projects**

5. **Formulation of a communication and engagement strategy:** building consensus and garnering support from stakeholders (donors, multilaterals, NGOs and other influential parties) is key

6. **Establishment of compliance and legal frameworks** to support monitoring, accounting, and reporting requirements established by the creditor

7. **Closing the transaction**, which involves negotiating the modalities of the debt swap operation with the willing creditor

Debt Swaps in the Context of Sustainability

Debt Swaps have been usually linked to debt sustainability issues

- Debt swaps are tripartite agreements among a debtor, a creditor, and an implementation agent (NGO), whereby a liability (usually in foreign currency) is cancelled in part /full in exchange for a debtor's commitment to re-channel domestic resources (local currency) for an agreed upon purpose

- Executed between sovereign debtors experiencing financial difficulties (decreased fiscal capacity and/or debt sustainability) and bilateral creditors looking to support specific projects of a social nature that otherwise could not be financed

- The formal institutionalisation of debt swaps are traced to the Paris Club as part of debt relief operations in support of reforms under IMF programmes

- Possibility of voluntary debt swaps included in the agreed multilateral minute signed between Paris Club and a debtor country after a debt relief had been negotiated

Debt Swaps in the Context of Sustainability

Debt swaps have been considered a reward in the form of additional support for the implementation of agreed upon projects with a social component, for debtor countries compliant with commitments under an IMF programme and the Paris Club agreed minute

- The popularity and applications of debt swaps have expanded by different stakeholders looking to lock-in additional rewards (financial and/or political), with a social benefit component the underlying driver for their completion

- Despite potential benefits, debt swaps are complex and protracted to negotiate which has discouraged debt countries to consider them seriously
  - Not all creditors are prepared to consider debt swaps
  - Debt swaps involve debt cancellation which impact bottom lines and capital ratios
  - Multilateral creditors do not have mandates for debt swaps / impact their capital base
  - Bilateral creditors need political approval (time consuming)
  - Commercial creditors have usually been reluctant to consider debt swaps that do not enhance their bottom line

Some Conclusions

Debt Swaps alone will not have material impact long-term debt sustainability

- In the case of Antigua and Barbuda, the debt swaps are not being pursued solely to address debt sustainability
- They are viewed in the context of scaling up fiscal space to address financial and climate vulnerabilities
- Within in the context of debt sustainability, they may help facilitate efforts to normalise arrears and debt relations with bilateral creditors and lay a platform for future engagement with new resources

Some Conclusions

- 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. A variety of additional strategies and financing alternatives to pool resources to mitigate the diverse set of environmental challenges and financial vulnerabilities is necessary

- Building consensus among all stakeholders is fundamental

- Regional and global cooperation is necessary to effectively address climate change

- Capacity building is needed and it is critical to create joint and regional robust implementation options

Qs & As

THANK YOU