

# DEBT FOR ADAPTATION SWAPS:

## PROMOTING CLIMATE RESILIENT DEVELOPMENT OF SIDS

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# What is a Debt Swap?

- Debt swaps/debt conversion: mechanism by which debt owed by a debtor, can be renegotiated with the creditor to fund activities agreed by all stakeholders involved (conservation, health, others).





## Discussion Paper

Achieving Debt Sustainability and the MDGs in  
Small Island Developing States

20 October 2010

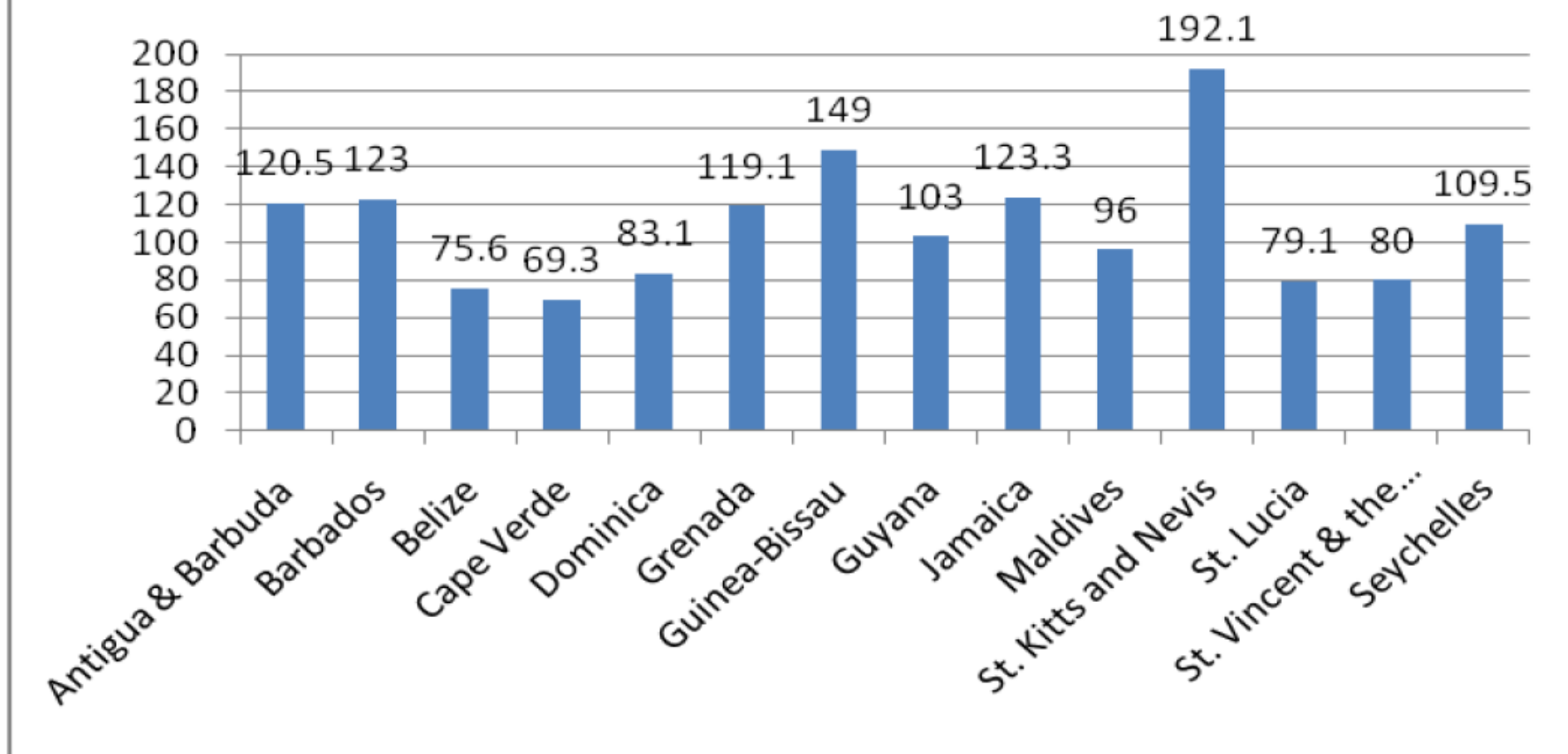
United Nations Development Programme

POVERTY REDUCTION



- **Official ODA to SIDS has declined over the last decade from 3.7% to 2.8% (as % of budget)**
- **Governments forced to borrow more**

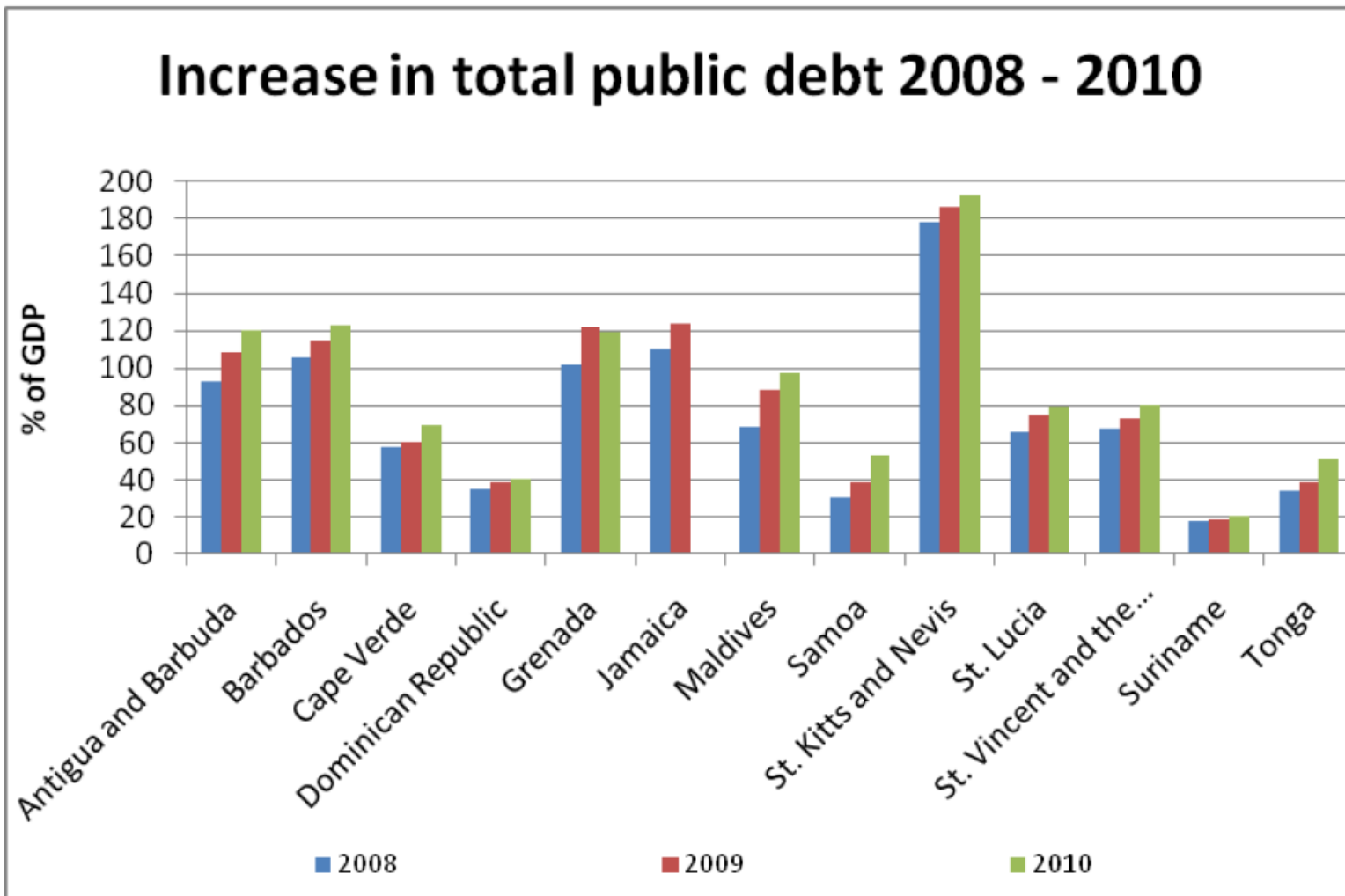
## SIDS with debt in excess of 60% of GDP in 2010



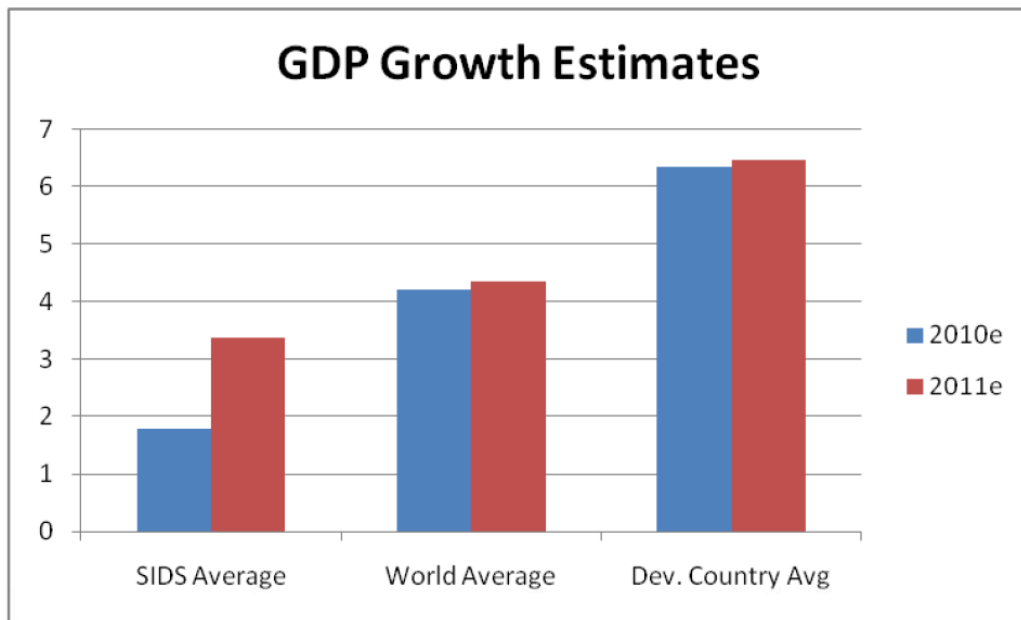
Source: IMF Article IV Consultations and Review Documents.

Note: For Jamaica and Belize, 2009 data has been used

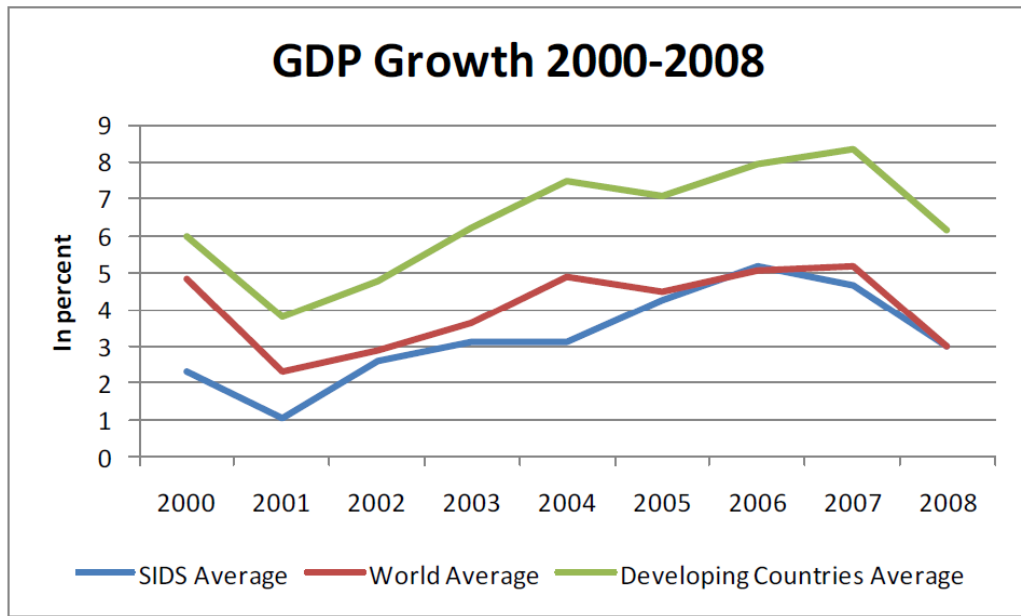
# SIDS avg. debt grew 9% between 2007-10



Source: UNDP calculations based on IMF Article IV Consultations (multi-year)



Source: IMF, World Economic Outlook Database, April 2010



Source: IMF, World Economic Outlook Database, April 2010

- SIDS GDP growth est. at 1.7% for 2010, compared to 6.3% for developing countries

-SIDS will have a hard time “growing out” of debt

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# Policy Recommendations

- Report calls for:
  - *Debt conversions for climate change adaptation: such innovative financing mechanisms could support the neediest countries to generate additional resources for climate change adaptation*



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# Debt-for-Adaptation Swaps and Ecosystem-Based Adaptation

What is the link?

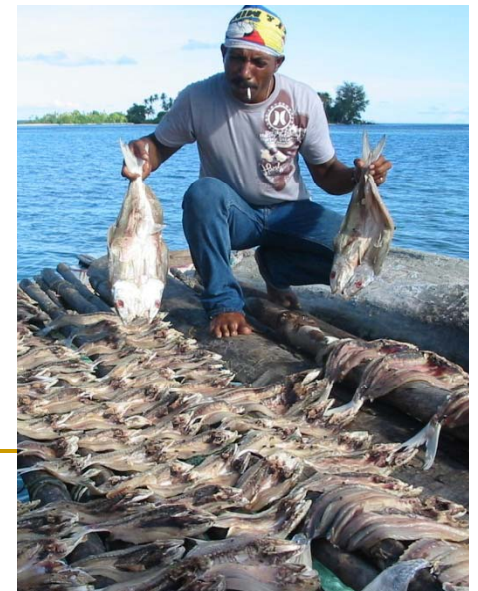
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# Debt-for-Adaptation Swaps in SIDS and Ecosystem-Based Adaptation

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



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## Debt-for-Adaptation Swaps and Ecosystem-Based Adaptation

- Seychelles- In 2008 travel and tourism contributed 56.3% of GDP
  - Mauritius- In 2008 travel and tourism contributed 30.2% of GDP
  - Caribbean - 25 million tourists/yr generating \$25 billion in revenues and about 25% of the region's GDP, and supporting six million jobs
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# SIDS and Climate Change

- Highly vulnerable to climate change
  - Sea-level rise
  - Coral bleaching
- Lack of resources to address adaptation needs



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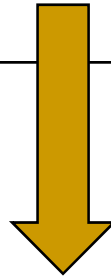
# Sample Debt-for-Adaptation Swap

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Face Value of Gov't Debt:

**\$30M**

Payable to Trust  
Fund



33% discount or  
"haircut"

New Face Value of Gov't Debt: **\$20M**

New Note: 20 yrs @ 5% - **\$1.6M/yr**

**\$1.1M/yr** for Climate Adaptation Work

**\$0.5M/yr** for Climate Adaption Endowment



Outcomes (immediate and project life):

- Reduces Gov't Debt by **\$10M**
- **\$22M** over 20 yrs for Climate Adaptation Funding
- Capitalization of Climate Adaptation Endowment w/ approx. value of **\$22M** by 2030 –
  - Will provide **\$1.1M/yr** for Climate Adaptation work starting in 2031

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# Potential Activities funded by a Climate Adaptation Debt Swaps

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

- Address climate adaptation within the context of the MDGs and conservation needs and goals in SIDS
  - Create large, sustainable funding streams for adaptation to maintain natural resources dependent economies afloat and local livelihoods
  - Real debt reduction
  - Keeps payments in the local economy
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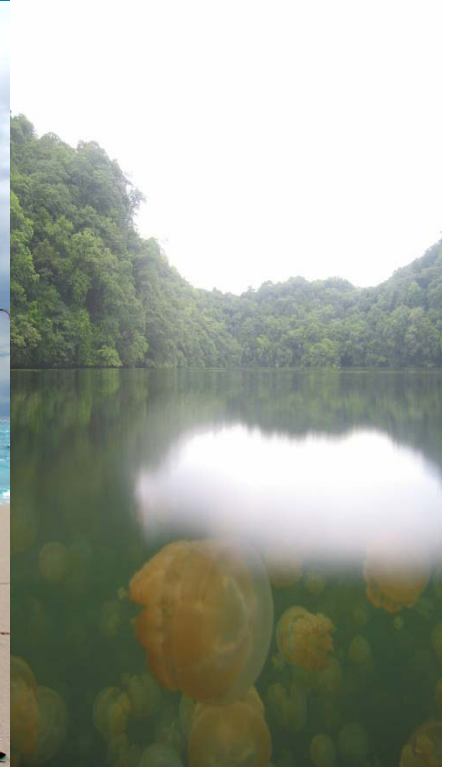
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# Conclusions - Challenges

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







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