

Riders on the storm

How debt and climate change are threatening the future of small island developing states



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Brot
für die Welt

Executive summary

The oceans are scattered with small islands, dots on the world map that have too often been ignored. Yet they are home to 65 million people. Small Island Developing States (SIDS) are among the countries that are under the greatest threat from the multiple crises that the world is facing today, particularly the climate emergency and the wave of debt in which many countries in the Global South are drowning. The sustainable development of SIDS is constantly jeopardised by their structural weaknesses, including their small size, remoteness, reduced resource base, exposure to adverse climate events and limited diversification of the economy. Together with the Covid-19 shock, global inflation and spillovers of the war in Ukraine, these multiple crises and vulnerabilities are not only threatening the stability of the SIDS' economies and harming the wellbeing of their people, but have also resulted in greater exposure to public debt problems. This report looks at the twin challenges of debt and climate change facing SIDS and suggests calls to action to help tackle these challenges.

Waves of austerity in SIDS

SIDS urgently need to increase their fiscal space to tackle the multiple challenges and crises facing them. However, high debt levels are leading many governments to adopt austerity policies in order to pay for their debt commitments. In 2019, the average government expenditure was 39.4 per cent of Gross Domestic Product (GDP) in SIDS, but in 2025 this spending is expected to be reduced to 37.95 per cent (1.45 points less). International Monetary Fund (IMF) projections show that 20 out of 37 SIDS are expected to have lower government spending in relation to their GDP in 2025 than they had before the Covid-19 pandemic. **Government expenditure as a per centage of GDP is predicted to decrease in 31 out of 37 SIDS between 2022 and 2025.** This will not only exacerbate poverty and inequality, but rapid fiscal consolidation can also hinder economic recovery.

Tides of debt in SIDS

This austerity push in SIDS is being implemented to respond to worsening debt sustainability assessments. Eurodad examined three different debt risk assessments – IMF and World Bank Debt Sustainability Analysis, and two civil society analyses by Debt Justice UK and Jubilee Germany. We found that **81 per cent of SIDS have been identified by one or several of these assessments to be facing different levels**

of debt difficulties. Twelve countries have been assessed by all three methodologies as facing a potential debt crisis or as being in debt crisis already. These include: Belize, Dominica, Grenada, Guinea-Bissau, Haiti, Maldives, Papua New Guinea, Saint Vincent and the Grenadines, Samoa, São Tomé and Príncipe, Suriname and Tonga.

Our own calculations show how **public debt rose from an average 65.9 per cent of GDP in 2019 up to 82.5 per cent in 2020, to remain over 70 per cent of GDP until 2025.** This is above the average in emerging and developing countries in Asia, Latin America and the Caribbean and sub-Saharan Africa. Half of the countries have ratios above the SIDS average and, for 10 of them, the debt ratio remains above 100 per cent of GDP for several years.

In this situation, an increasing portion of government revenue is dedicated to meeting debt obligations. Between 2020 and 2023, countries like Belize, Cabo Verde, Dominican Republic, Jamaica and Maldives are **allocating between 20 per cent and up to 40 per cent of their government revenue to pay their external creditors.**

Debt rose in SIDS particularly with the Covid-19 shock due to an increase in lending. Disbursements on external public debt almost doubled with the pandemic, increasing from US\$8.5 billion in 2019 to US\$16.2 billion in 2020. The IMF went from having programmes with three SIDS in 2019 to lending to 20 small island countries between 2020 and 2021.

The vicious circle of debt and climate emergencies in SIDS

Small islands are amongst the most vulnerable countries to climate change, despite their limited contribution to it. Mitigation, adaptation and loss and damage strategies require consistent and regular resources, which should be funded through non-debt creating public climate finance. However, financing needs for climate resilience – and particularly reconstruction costs after a climate-extreme event – lead to additional borrowing, which usually comes at higher costs for climate-vulnerable countries.

While all SIDS together only received US\$1.5 billion in climate finance between 2016 and 2020, in the same period 22 SIDS paid more than US\$26.6 billion to their external creditors – almost 18 times as much. There is no firm commitment about the climate finance flows to be received by SIDS in the upcoming years, but we can be sure that the flow of money towards official and, particularly, private creditors will continue.

Unsurprisingly, public debt goes up in the aftermath of climate-extreme events. This report looks at how, **during the two or three years after a climate-extreme event, there is an increase in debt-to-GDP in many cases.** Debt vulnerabilities in SIDS also make them more vulnerable to climate change. Countries with unsustainable debt tend to have fewer resources available to invest in climate resilience or to face the impacts of climate events.

A financial system not fit for purpose

The existing international financial system offers very few options for resolving the risks of a debt fallout in SIDS. Even with debt distress imploding in many countries in the Global South, the international community has not been able to make any advances – either in the systemic reform needed, or in short-term solutions that work. The limitations of the Debt Service Suspension Initiative (DSSI) and the Common Framework (CF), approved by the G20 to address debt problems in 2020, are today more evident than ever, particularly for SIDS.

Sixteen SIDS are not eligible for the G20 debt relief initiatives, some of them at high risk of debt distress or already in debt crisis. For those that were eligible for the DSSI and applied for a debt payment moratorium, **the temporary savings were less than US\$975 million – around 35 per cent of the total payments made by those countries between 2020 and 2021.** These temporary savings are to be paid from 2023 onwards, added to existing and new debt commitments.

The uncertainties and lack of clarity regarding the implementation of the CF remain high. The timeline for the framework is unclear; private creditor participation remains voluntary and countries are supposed to keep paying their debts during the lengthy negotiations. Unfortunately, the G20 Common Framework does not offer any guarantees for a timely and orderly debt restructuring for SIDS.

Calls to action for a fair resolution of the debt and climate crises

A fair response to the multiple crises in SIDS should start with a recognition of climate, ecological, social and historical debts that western countries owe to countries and communities in the Global South. This is a debt that started with slavery and colonialism, and that continued with neo-colonial resource pillage and unfair trade, financial and political relations that have lasted for centuries.

Such unequal north-south relations are at the root of the accumulation of climate debt by countries in the Global North due to their disproportionate contribution to carbon and other greenhouse emissions. In this historical context, climate finance commitments and debt cancellation should be part of a wider set of structural and financial reparations that should also include ecological restoration, phasing out fossil fuel subsidies, ending extractivism and shifting to decarbonised modes of production, distribution and consumption.

Beyond the profound change that we need to see in the world and economic system in order to redress the climate emergency and the unsustainable debt accumulation, there are other possible responses that go beyond what the existing international financial architecture has to offer. We call for policies and reforms that governments and international institutions could pursue and that would support SIDS in tackling the existing multiple challenges facing them, including:

Actions for immediate implementation

1. Immediate and unconditional debt cancellation of all unsustainable and illegitimate debts, to all countries in need, by all creditors.
2. Immediate access to non-debt creating or concessional climate finance that is new and additional.
3. Introduction of multidimensional vulnerability indicators to define access to concessional finance and debt relief.

International financial architecture reforms

1. Create a permanent multilateral sovereign debt resolution framework that, under the auspices of the United Nations, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent and durable debt crisis resolution, in a process convening all creditors.
2. Establish an automatic mechanism for a debt payment moratorium and comprehensive restructuring in the wake of external catastrophic shocks.
3. Agree on common and binding principles on responsible borrowing and lending, and ensure compliance with them.
4. Review debt sustainability frameworks to incorporate climate vulnerabilities, risks and impacts, and human rights and development impact assessments.
5. Establish a global public debt transparency registry, with mandatory rules that require all lenders and borrowers to disclose information on loans and other debt-creating instruments.

1. Introduction: Focusing on Small Island Developing States

To be a small island and/or a low-lying coastal state is to be vulnerable to a host of challenges – from the environmental to the geo-political to the social, which have only grown more severe over time.”

Alliance of Small Island States (AOSIS)¹

The oceans are scattered with small islands, dots in a world map that have too often been ignored. These islands are amongst the most vulnerable countries to many of the challenges the world is facing today, particularly the climate emergency and the wave of debt in which many countries in the Global South are drowning. This paper looks at the compounded challenges of debt and climate, among others, that threaten small islands' sustainable development.

Small Island Developing States (SIDS) are a group of 38 United Nations (UN) Member States, plus 20 dependent territories² that were recognised as having particular environmental and development challenges, at the 1992 UN Conference on Environment and Development held in Rio de Janeiro, Brazil. Most of these islands are coordinated through the Alliance of Small Island States (AOSIS), an intergovernmental organisation that represents the diversity of SIDS in international climate change and sustainable development negotiations and processes.³ Their interests are also coordinated in other regional fora, such as the Caribbean Community (CARICOM) or the Pacific Islands Forum (PIF).

Sixty-five million people live in SIDS, representing roughly 1 per cent of the world population. These communities face several social, economic and environmental challenges. Shared vulnerabilities amongst SIDS include their remoteness, small population, vulnerability to climate change, economic dependency on external markets and tourism, and high debt vulnerabilities. Nevertheless, they still constitute a very heterogeneous group, scattered across different regions of the world. Their name does not even necessarily convey their shared characteristics: they are not similarly 'small'; some are not 'islands', but coastal countries; they have very different income per capita, so not all of them qualify as 'developing'; and the group includes 20 territories that are not even 'states'.⁴ What brings them together is the challenges they are facing. As Abdulla Shahid, President of the 76th session of the United Nations General Assembly, stated: "SIDS are at the frontline of multiple global crises – from climate change to food security, from challenges to our marine environment to exorbitant debt".⁵

Table 1: Which countries are SIDS?

	Asia and the Pacific	Latin America and the Caribbean	Sub-Saharan Africa
Low income			Guinea-Bissau*
Lower middle income	Kiribati* Micronesia Papua New Guinea Samoa Solomon Islands* Timor-Leste* Tonga Vanuatu	Haiti*	Cabo Verde Comoros* São Tomé and Príncipe*
Upper middle income	Fiji Maldives Marshall Islands Palau Tuvalu*	Belize Cuba Dominica Dominican Republic Grenada Guyana Jamaica Saint Lucia St Vincent & the Grenadines Suriname	Mauritius
High income	Bahrain Nauru Singapore	Antigua and Barbuda Bahamas Barbados St. Kitts & Nevis Trinidad and Tobago	Seychelles

*Also Least Developed Countries (LDCs)

Sources: Eurodad based on UN⁶ and World Bank.⁷

1.1 What makes SIDS so vulnerable?

First and foremost, their fragile land and marine ecosystems combined with their geographic placement, make SIDS particularly vulnerable to the climate emergency, environmental hazards and biodiversity loss.⁸ SIDS are particularly vulnerable to climate-extreme events such as tropical storms – hurricanes, typhoons or cyclones.⁹ Over the last two decades, these events have become more destructive and frequent, shattering communications, energy, water, sanitation and transport infrastructure, homes, hospitals and schools, and also damaging cultural heritage and sacred ancestral burial grounds.¹⁰ However, small island countries are also vulnerable to slow onset events, particularly the sea level rise. More than 50 per cent of the population in many small island coastal communities are considered to be at existential risk from rising seas.¹¹ Other geological events, such as earthquakes and volcanic eruptions, are also a source of vulnerabilities for SIDS.

Beyond the climate emergency, SIDS also need to tackle high levels of poverty and inequality,¹² driven by economic and environmental vulnerabilities. According to Eurodad calculations based on the Multidimensional Poverty Index (MPI), 22.8 per cent of the population in SIDS lived in multidimensional poverty before the Covid-19 shock, and 9.52 per cent lived in severe poverty.¹³

Many of these countries face food insecurity, given their narrow resource base (in most cases limited to marine, mineral or/and energy resources) and consequent high dependency on external markets for food and other basic goods.¹⁴ Global inflation trends, exacerbated by the war in Ukraine, are driving up the prices of wheat and other grains, fertilisers, and oil and gas. The impacts of droughts and floods in many parts of the world, could create even more disruption to the food supply into next year,¹⁵ worsening food insecurity in SIDS.

While many SIDS depend on imports for securing certain goods, around half of them are considered export-commodity dependent, and in many cases they rely on exports of a single commodity. For instance, in Cabo Verde, Kiribati, Maldives, Micronesia and Tuvalu, “seafood alone accounts for 70 per cent of all exports of goods”.¹⁶ Their geographic remoteness makes many SIDS incur higher transportation and shipping costs, and the cost of import and export is aggravated by the latest price spikes in oil and gas. High energy prices are also a source of vulnerability for SIDS given that most of them are net energy importers of fossil fuels. Fuel import represents 28 per cent of GDP in Palau, 21 per cent in Guyana and 19 per cent in Maldives, for example.¹⁷

Furthermore, their relatively small population size (with an aggregate population of 65 million, less than 1 per cent of the world’s population), their dependence on the international trade system, remittances and tourism and, more generally, the lack of economic diversification, make SIDS particularly vulnerable to exogenous economic shocks, such as the Covid-19 pandemic or the spillovers of the war in Ukraine, particularly through fluctuating global commodity prices and financial flows.

Tourism is a major source of income for most SIDS, making up almost 30 per cent of their GDP. For SIDS such as Maldives or the Seychelles, with over 50 per cent of their GDP dependent on tourism,¹⁸ the global Covid-19 lockdown dramatically reduced tourism revenues, exposing more clearly than ever the dangers of this dependency. In 2020, when the pandemic led to border closures and bans in international travel, GDP declined in Barbados, Fiji and the Maldives by 17.6 per cent, 19 per cent and 32.2 per cent respectively. On average SIDS’ GDP dropped 6.9 per cent in 2020, two points above the average of other developing countries (4.8 per cent)¹⁹ and three above the global average (3.9 per cent).²⁰ Globally, millions of jobs were lost – temporarily in many cases – with a disproportionate effect on migrant workers worldwide.

As a consequence, many SIDS also experienced a sharp drop in international remittances, an important revenue for this group of countries.²¹ The disruption in global trade chains and reduction in global demand for some commodities also led to a reduction in export income. In parallel, governments increased their public spending due to health measures to contain and address the Covid-19 pandemic and to support the most affected sectors of the economy and vulnerable population, which meant an additional stress on national public budgets, increasing fiscal deficits. All in all, the Covid-19 pandemic was a severe shock for SIDS economies, hampering development gains from previous years and decades.

These combined challenges and structural vulnerabilities can also cause population displacements, with an increasing number of climate refugees, a legally vulnerable status as it is not covered by the UN Convention Relating to the Status of Refugees (1951).²² As Chet Greene, Minister of Foreign Affairs for Antigua and Barbuda stated, if the international community continues failing to act, “we will soon see unprecedented scales of movements of people forced to flee their homes because of climate change, because of poverty and economic hardship”.²³

Even when facing a multiplicity of challenges, not all SIDS qualify to receive grants and concessional lending from international donors. When countries qualify as high income, and remain within that category for three years, they become ineligible for Official Development Assistance (ODA). As of January 2022, nine SIDS remained ineligible for ODA.²⁴ For the eligible countries, ODA increased between 2014 and 2016, from US\$4.26 billion to US\$6.23 billion, but then dropped to an average of US\$4.53 billion between 2017 and 2019. ODA flows have since diminished further due to the effects of the Covid-19 pandemic.²⁵

The structural challenges that SIDS face exacerbate the long-term risks posed by the climate emergency²⁶ and increase the dependency on foreign financing, particularly debt. Additionally, external shocks, such as the Covid-19 pandemic and the spillovers of the war in Ukraine, are also exacerbating debt problems in SIDS. The existing debt vulnerabilities “arose prior to the pandemic driven by slowing growth, large and sustained primary deficits and rising interest costs”, according to the 2022 *Financing for Sustainable Development Report*.²⁷ SIDS saw on average an increase in public debt, as we will see in detail in the next section, of around 16 percentage points of GDP in 2020, as the Covid-19 shock exacerbated all three drivers causing debt increase (sharp decline in growth, increased primary deficits and rising borrowing costs).

This report explores in detail the indebtedness context in SIDS. We start by looking in Chapter 2 at how increasing debt payments are impacting on governments’ capacity to invest in sustainable development. Chapter 3 looks at the evolution and prospects for sovereign debt in SIDS, as well as analysing the creditor landscape in these countries. Chapter 4 explores how the climate emergency is exacerbating their debt vulnerabilities and the other way around, how debt is increasing climate vulnerabilities in SIDS. In Chapter 5, the paper also draws on how the international financial architecture is not fit for purpose to deliver timely, fair and comprehensive responses to the debt challenges that SIDS face, and finally points, in Chapter 6, to several reforms that could be undertaken by the international community to support SIDS that are facing debt and climate compounded challenges.

2. Austerity tales: Increasing debts, decreasing public services

As small states, we are faced with enormous pressures in saving lives and safeguarding livelihoods within the constraints of our limited fiscal space. (...) Our actions should be on avoiding a 'lost decade', that would foreclose any hope of delivering the 2030 Agenda for Sustainable Development, or the commitments made under the Paris Agreement on climate change. We must take bold actions that will finally break the failed policy prescriptions offered to us."

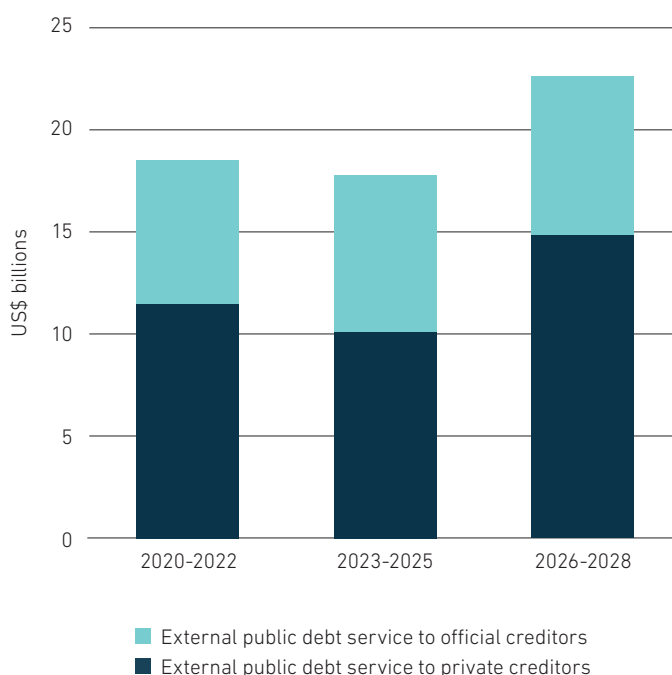
Gaston Browne, Prime Minister of Antigua and Barbuda & Chair of AOSIS²⁸

People are struggling with food and energy price increases across small island countries, at a moment when the Covid-19 pandemic is not fully over, the climate emergency impacts are increasing and the shadow of a global recession threatens people's jobs and livelihoods. In this context, where the public sector should be redoubling its efforts to protect people, an increasing proportion of public resources is being allocated to paying public debts, particularly external creditors.

As we have seen on many occasions in the past, and we are already seeing in too many countries today, growing debt levels and increasing debt service payments generally lead to a decrease in public expenditure. As Eurodad has argued in the past,²⁹ governments tend to respond to the lack of resources to meet debt obligations through public spending cuts, following the dominant neoliberal mindset and/or advice from the IMF and other international financial institutions (IFIs). These cuts are coupled with the promotion of value added taxes – the least progressive of taxes – and privatisation strategies along with public-private partnerships. Together, these serve to increase inequalities and endanger the capacity of public services to advance human rights and achieve the Sustainable Development Goals (SDGs), including women's rights and gender justice. Moreover, instead of solving unsustainable debt and contributing to economic recovery, austerity pushes countries into recession, dampens demands, reduces GDP and, consequently, the country's capacity to carry debt burdens even further.³⁰ The UN Conference on Trade and Development (UNCTAD) has also pointed out that austerity measures diminish prospects for future growth, while hitting social protection systems and public investment, with further damage in terms of rising inequalities and insecurity.³¹ SIDS are no different.

Between 2020 and 2022, as the Covid-19 pandemic continued, the 22 SIDS for which there is debt service data available paid US\$18.5 billion to their external creditors. Most of it – US\$11.5 billion (62 per cent) – went into the hands of private creditors, mostly bondholders, and US\$7 billion went to official bilateral and multilateral creditors. On the other hand, while average government expenditure grew in SIDS in 2020 due to Covid-19, it has decreased in 2021 and 2022, while countries are still facing the socioeconomic impacts of the pandemic.

Figure 1: External public debt service to official and private creditors (US\$ billion)

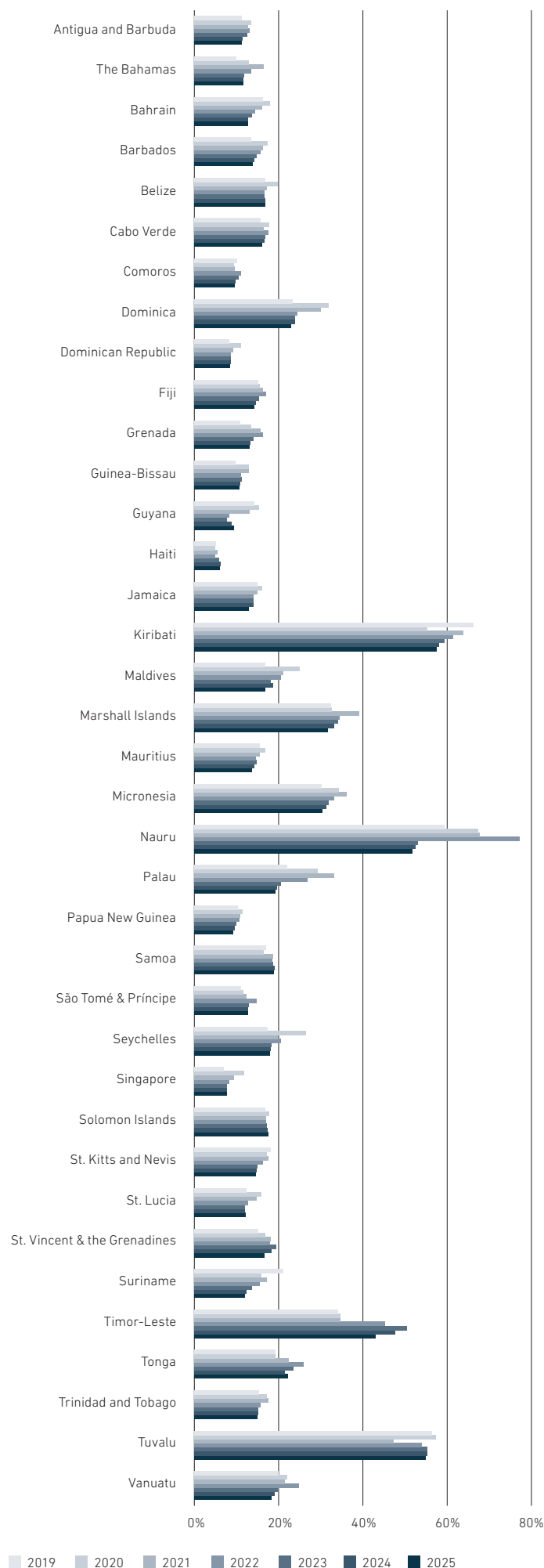


Source: Eurodad calculations based on World Bank International Debt Statistics, 2022.³²

Figure 2:
Government
expenditure in
SIDS 2019-2025
(% GDP)

Over the next three years (2023 to 2025), SIDS will be paying more than US\$17.7 billion to their external creditors – 56 per cent will go to private creditors. If we consider the next six years, the total external public debt service for SIDS will be at least US\$40 billion. These numbers correspond to the IMF projections, but do not consider the new borrowing that many of these countries will have to undertake in order to face the impacts of the economic challenges that the climate emergency and the war in Ukraine has exacerbated. Meanwhile, according to IMF projections, government expenditure is expected to keep decreasing in SIDS in relation to their GDP between 2023 and 2025. This means that communities within these countries will have reduced public services, local authorities will have reduced access to emergency finance in the wake of climate-extreme events and other external shocks, such as the increases in food and energy prices, contributing to ongoing backslides in poverty eradication (see Box 1).

While debt service payments keep piling up, government expenditure is expected to decrease in the next few years in SIDS. In 2019, the average government expenditure was 39.4 per cent of their GDP, growing up to 43.3 per cent in 2020. In 2025, it is expected to be reduced to 37.95 per cent (1.45 points less). According to IMF projections, Guyana, Kiribati, Nauru, Palau, Saint Kitts and Nevis and Suriname are SIDS with a bigger public expenditure reduction relative to their GDP. These projections show that **20 countries out of 37 SIDS are expected to have lower government spending in relation to their GDP in 2025 than they had before the Covid-19 pandemic** (see more details in Tables I and II in the Annex). Countries like Bahrain, Jamaica, Mauritius, Saint Kitts and Nevis and Suriname are expected to reduce their government spending both in relative terms to their GDP and in absolute terms. As Figure 2 shows, we have seen government spending increases between 2019 and 2022 in many countries, but, as debt vulnerabilities grow, **government expenditure as a per centage of GDP is predicted to decrease in 31 out of 37 SIDS between 2022 and 2025**. Average government spending as a per centage of GDP will decrease in SIDS by 4.87 points, from 42.82 per cent in 2022 to 36.95 per cent in 2025.



This government expenditure reduction will be implemented during a new global wave of austerity. According to Isabel Ortiz and Matthew Cummins' most recent analysis of austerity trends, public expenditure is not only expected to be reduced in many SIDS; several austerity measures are also included in IMF programmes and Article IV reports for 21 SIDS.³⁴ Targeted social protection, increasing VAT, applying wage bill cuts or caps and privatisation of public services or public enterprises are amongst the most repeated recommendations or conditionalities found in SIDS' IMF programmes by these authors. The programmes also include policy recommendations on eliminating subsidies, pension reforms or labour flexibilisation (see Table III in the Annex).

The impact of austerity measures and budget cuts to essential public services falls more heavily on women and girls. It is mainly women who will carry the extra unpaid burden of the care tasks when public services coverage and quality decrease or even stop. Women are concentrated more heavily than men in lower-income sectors of society, thus women are more affected by cuts in social protection programmes and food or energy subsidies. Women are also affected by the removal of vital services for survivors of gender violence. Public workers' wage caps directly impact women's income and economic security, as the public sector tends to be a major source of employment for women, and female workers tend to be concentrated in those public services – education, healthcare, social services – that tend to be a focus for wage and jobs cuts.³⁵

As the last Intergovernmental Panel on Climate Change (IPCC) report on climate change impacts, adaptation and vulnerability acknowledges, women in Least Developed Countries (LDCs) and SIDS "also endure the harshest impacts of the debt crisis due to imposed debt measures in their countries. The austerity measures derived as conditionalities for fiscal consolidation in public services increases gender-based violence and brings additional burdens for women in the form of increasing unpaid care and domestic work".³⁶ Gendered impacts from the debt crises hit hard on top of the gendered impacts of other multiple crises, like the Covid-19 pandemic or the climate emergency.

Table 2: Additional funding needs to reach SDG targets in 2030

Caribbean SIDS	7.7% of 2030 GDP
Pacific SIDS	6.5% of 2030 GDP
African SIDS	6.2% of 2030 GDP

Source: IMF, Meeting the Sustainable Development Goals in Small Developing States with Climate Vulnerabilities: Cost and Financing, March 2021.

Box 1: Pushing the Sustainable Development Goals 2030 agenda further down the road

Less than eight years away from the finalisation of the 2030 Agenda, the 17 Sustainable Development Goals (SDGs)³⁷ seem more unachievable than ever for all countries, including SIDS. SIDS performance in terms of SDGs varies. Data availability also diverges from one country to another. Nonetheless, economist Jeffrey Sachs includes SIDS among the country groups that face the largest SDG gaps and for which most goals' trends are described as "stagnant", according to his latest *Sustainable Development Report* (2022).³⁸

The most challenging goals for SIDS are those related to poverty (1), access to and quality of key services and infrastructure (9), biodiversity (14 and 15) and strong institutions (16),³⁹ whereas progress on eradicating extreme poverty (1), reducing obesity levels (2) and improving the access and quality of health services (3) has either stalled or reversed.⁴⁰ The best outcome comes for SDG13 on Climate Action, and a relatively good performance has been recorded for Quality Education (4) and Affordable and Clean Energy (7).⁴¹

In general, SIDS' ability to fulfil the SDGs is hampered by their structural weaknesses and exacerbated by the different shocks impacting SIDS in recent years, as detailed above. The consequent low economic growth, high debt, low Official Development Assistance (ODA) and fluctuations in remittance flow, have deterred SIDS from adequately investing in SDGs.

A 2021 IMF paper analysing the costs of meeting the SDGs in Small Developing States (SDS)⁴² with Climate Vulnerabilities concludes that the spending needs to advance in SDGs are substantial. SDS would need to increase their spending by about 6.7 per cent GDP by 2030.⁴³ These additional costs to meet the SDGs include 3.7 per cent of GDP in spending for physical infrastructure or an increase of 3 per centage points of GDP until reaching 8 per cent of GDP in 2030 in health and education. The report also concludes that climate resilience is a relevant factor that increases the spending needs to meet the SDGs, as "rehabilitation, upgrades, and maintenance of existing infrastructure inflate these spending requirements".

This bleak outlook will get even worse if the projections on government spending come true and the conditionalities in the IMF programmes are implemented.

3. A tide of debt threatening Small Island Developing States

Compounding crises have heightened our debt burden. The need for a long-term solution to the debt crisis we face is critical. The debt-obligations faced by SIDS globally are unsustainable and immoral.”

Abdulla Shahid, President of the 76th session of the United Nations General Assembly⁴⁴

The multiple crises that threaten the stability of the SIDS' economies have also resulted in a bigger exposure to public debt problems. The Covid-19 pandemic, global trade disruptions and global inflation trends exacerbated by the war in Ukraine and the worsening of the climate emergency have combined to create a perfect storm for SIDS and their increasing debt. SIDS' high sensitivity to exogenous shocks limits their borrowing space.⁴⁵ Amidst a context of growing interest rates, it is becoming even more complex for SIDS to refinance their debts.

In the following chapter we explore to what extent SIDS are facing debt crisis risks, as well as the characteristics of the SIDS debt landscape. Finally, we explore who are SIDS' creditors, including detailed information on private creditors.

According to the IMF and World Bank DSAs, half of SIDS are either in debt distress, at high risk of debt distress or have unsustainable debt levels (**18 countries out of 36** for which data is available). Two countries, Barbados and Fiji, are considered to have sustainable debt subject to significant risks. However, if instead we look at assessments by civil society researchers, we have a different picture. For Debt Justice UK, **23 out of 31 SIDS** for which they have enough data are in debt crisis or at risk of public or private debt crisis (**74 per cent** of all SIDS with available data). For Jubilee Germany, **22 out of 34 SIDS** included in their analysis are in a critical or very critical debt situation (**64 per cent**).

Only seven out of 37 SIDS⁴⁹ have been assessed by all three methodologies as having moderate or no risk of debt distress. This means that **81 per cent of SIDS have been assessed by one or several of these three methodologies as facing different levels of debt difficulties. Up to 12 countries have been assessed by all three methodologies as facing a potential debt crisis or being in debt crisis already.**⁵⁰ These include: Belize, Dominica, Grenada, Guinea-Bissau, Haiti, Maldives, Papua New Guinea, Saint Vincent and the Grenadines, Samoa, São Tomé and Príncipe, Suriname and Tonga.

3.1 A wave of debt distress in SIDS

To assess whether a country or group of countries is in a debt crisis or not, we can use different methodologies and indicators. To evaluate the level of debt distress in SIDS, we compared three existing analyses: the IMF and World Bank Debt Sustainability Framework (DSF) – producing debt sustainability analyses for low-income countries (LIC DSA) and for Market Access Countries (MAC DSA);⁴⁶ Debt Justice UK debt crisis assessment;⁴⁷ and Jubilee Germany sovereign debt monitor assessment.⁴⁸

Table 3. Debt sustainability and debt risk assessments for SIDS

	IMF/WB Debt Sustainability Analysis		Debt Justice risk assessment	Jubilee Germany risk assessment
	LIC DSA	MAC DSA		
Antigua and Barbuda		High risk of debt distress	N/A	Very critical
Bahamas		Sustainable	In debt crisis	Critical
Bahrain		No public DSA	N/A	Very critical
Barbados		Sustainable*	Risk of public debt crisis	Critical
Belize		Unsustainable	In debt crisis	Very critical
Cabo Verde	Moderate		In debt crisis	Very critical
Comoros	High risk of debt distress		Risk of public debt crisis	Slightly critical
Dominica	High risk of debt distress		Risk of public and private debt crisis	Very critical
Dominican Republic		Sustainable	In debt crisis	Very critical
Fiji		Sustainable*	No risk identified	Slightly critical
Grenada	In debt distress		In debt crisis	Critical
Guinea-Bissau	High risk of debt distress		Risk of private debt crisis	Critical
Guyana	Moderate		Risk of private debt crisis	Slightly critical
Haiti	High risk of debt distress		Risk of public debt crisis	Critical
Jamaica		Sustainable	In debt crisis	Very critical
Kiribati	High		No risk identified	Critical
Maldives	High		In debt crisis	Very critical
Marshall Islands	High risk of debt distress		N/A	Critical
Mauritius		Sustainable	Risk of private debt crisis	Very critical
Micronesia, Federated States of	High risk of debt distress		N/A	Critical
Nauru		Sustainable	N/A	Slightly critical
Palau		Sustainable	N/A	Missing data
Papua New Guinea	High risk of debt distress		Risk of public and private debt crisis	Critical
Saint Kitts and Nevis		Sustainable	No risk identified	Slightly critical
Saint Lucia	Sustainable		Risk of private debt crisis	Critical
Saint Vincent and the Grenadines	High risk of debt distress		Risk of public and private debt crisis	Critical
Samoa	High risk of debt distress		Risk of public debt crisis	Critical
São Tomé and Príncipe	In debt distress		Risk of public debt crisis	Very critical
Seychelles		Sustainable	Risk of public and private debt crisis	Very critical
Singapore		Sustainable	No risk identified	
Solomon Islands	Moderate		No risk identified	Slightly critical
Suriname		High risk of debt distress	In debt crisis	Very critical
Timor-Leste	Moderate		No risk identified	
Tonga	High risk of debt distress		Risk of public debt crisis	Critical
Trinidad and Tobago		Sustainable	No risk identified	Critical
Tuvalu	High risk of debt distress		No risk identified	Slightly critical
Vanuatu	Moderate		Risk of public debt crisis	Critical

*Sustainable subject to significant risks

Sources: IMF and World Bank LIC DSAs and MAC DSAs as of August 2022; Debt Justice UK data portal January 2022; Jubilee Germany Sovereign Debt Monitor March 2022.

Another analysis, by UNCTAD and the Overseas Development Institute (ODI), also concludes that “overall, SIDS have higher debt distress than other developing countries, but among SIDS there is a high degree of heterogeneity”.⁵¹ For the authors, countries like Barbados, Cabo Verde, Jamaica, Antigua and Barbuda, Dominica, São Tomé and Príncipe, Saint Vincent and the Grenadines, Maldives, Grenada and the Bahamas, all have particularly high levels of debt distress.

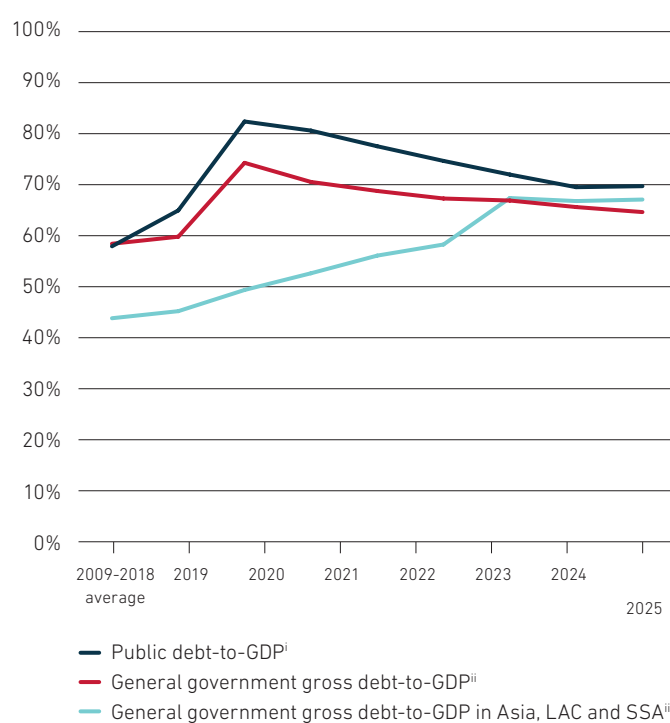
All of these methodologies assessing debt distress are based on several indicators. Looking at some of them for SIDS countries, and particularly, at the impact of the Covid-19 shock in those debt indicators, we can conclude that the debt problems are far from over for SIDS. Vulnerabilities are projected to continue over the next few years.

Public debt, including both domestic and external debt, rose in SIDS from an average 65.9 per cent of GDP in 2019 up to 82.5 per cent in 2020, and is expected to remain over 70 per cent of GDP until 2025.⁵² Between 2019 and 2023, debt-to-GDP in SIDS is above the average of government gross debt-to-GDP in emerging and developing countries in Asia, Latin America and the Caribbean and sub-Saharan Africa, according to IMF data.⁵³

However, averages often hide an even more challenging landscape: more than half of the 33 countries for which we collected data have government debt-to-GDP ratios above the SIDS average. For 10 countries – Bahrain, Barbados, Belize, Cabo Verde, Dominica, Fiji, Maldives, Saint Vincent and the Grenadines, Singapore and Suriname – government debt-to-GDP has remained above 100 per cent of GDP for several years (see Table IV in the Annex).

External public and publicly guaranteed debt in SIDS, for which there is data available, reached an average of 44.4 per cent in 2020 (according to latest available data). External public debt in 2020 was particularly high in relation to GDP in Belize (88 per cent), Cabo Verde (118.7 per cent), Jamaica (66.25 per cent) and Maldives (75.96 per cent). All of these are countries with an important dependence on tourism. While in the previous years the external debt-to-GDP ratio was on average stable at around 35 per cent, there was a nine points increase in 2020, particularly in countries like Belize, Cabo Verde, Dominica, Dominican Republic, Guinea-Bissau, Maldives and Saint Lucia, all of which saw an external debt-to-GDP ratio increase above the SIDS average (see Table V in the Annex for detailed data).

Figure 3: Debt-to-GDP in SIDS

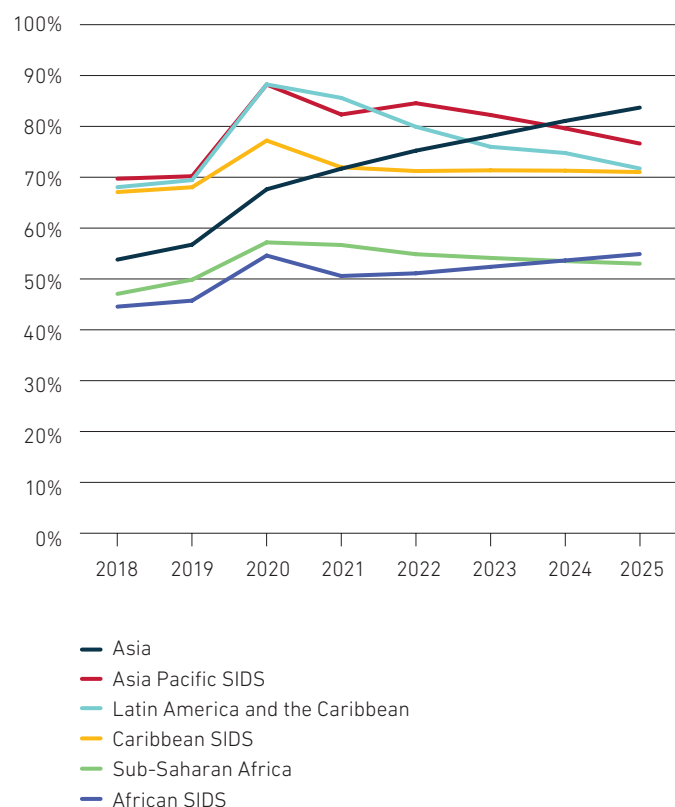


Sources:

- i. Eurodad calculations based on data from IMF/WB DSAs from 2021 and 2022. Includes external and domestic public and publicly guaranteed debt. Data available for 33 countries. Average corresponds to 2017-2018.
- ii. IMF World Economic Outlook (IMF WEO). Includes external and domestic debt. Data available for 36 countries.

As we can see in the Figure 4, government debt-to-GDP is particularly high in Caribbean and African SIDS, in both cases above the average of the corresponding regions. Debt-to-GDP ratio in Pacific SIDS is lower than in other SIDS and below the average in the Asian region.

Figure 4: General government gross debt-to-GDP per regions

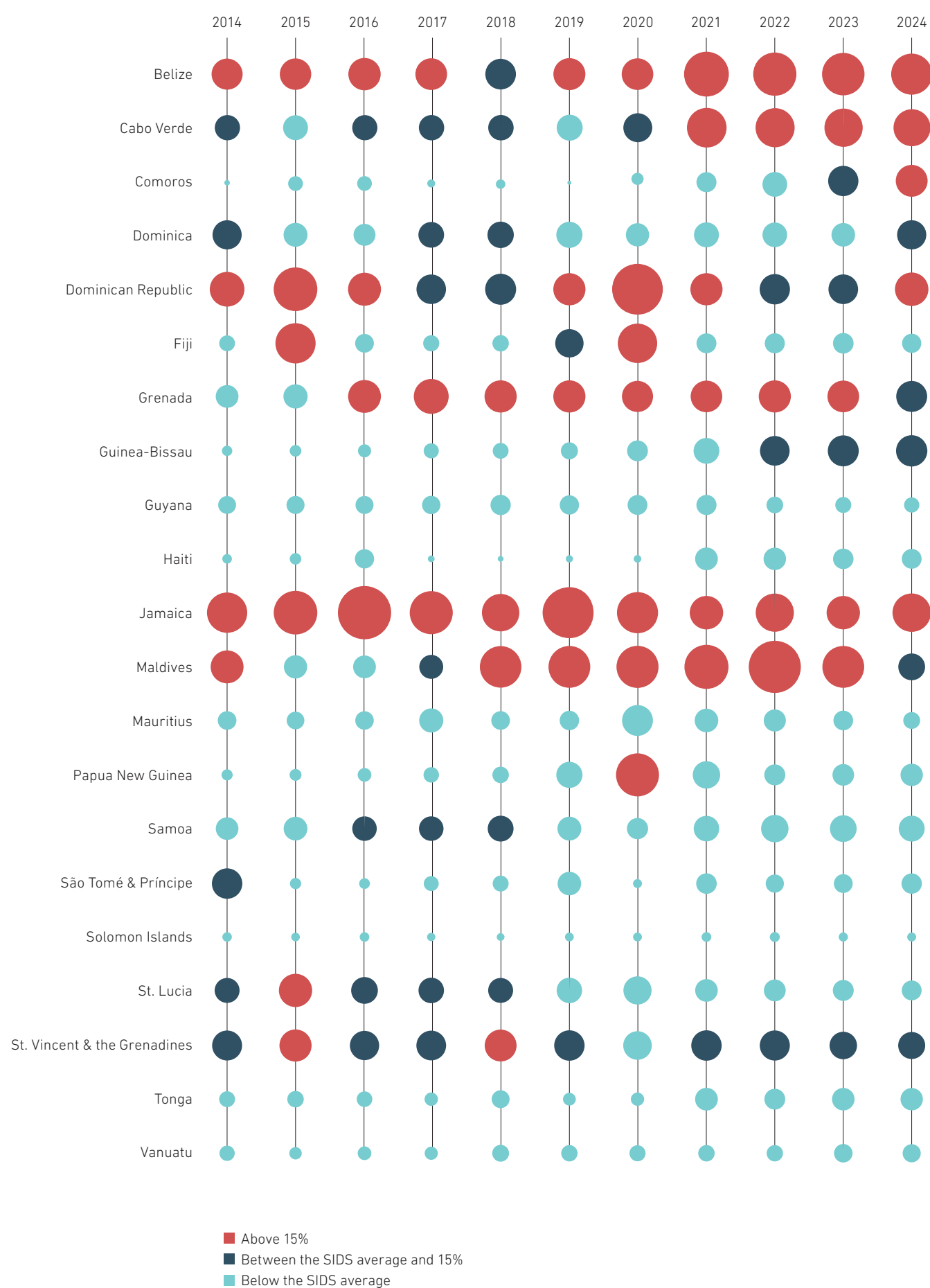


Sources: Eurodad based on IMF World Economic Outlook (IMF WEO). Includes external and domestic debt. Data available for 36 countries.

There is not a lot of systematised data on domestic debt available. However, a review of some of the DSAs for market access countries shows that, for some countries, domestic debt (debt in local currency or owed to residents) is even higher than external debt. For instance, in the Bahamas, all public sector debt to domestic creditors was 60.4 per cent to GDP, while external public sector debt was 48.8 per cent of GDP in the 2020/2021 fiscal year. External debt has grown at a bigger rate than domestic debt since 2014. For Barbados, the weight of domestic debt is even bigger, with 98.2 per cent of domestic debt-to-GDP, while external debt was just 48.8 per cent in the 2020/2021 fiscal year. Mauritius' domestic debt is also higher than external debt, with the central government domestic debt at 70.6 per cent of GDP in 2020 while external debt was only 19.5 per cent. Other countries like Bahrain, the Dominican Republic, Fiji, Papua New Guinea, Singapore and Trinidad and Tobago have issued a substantial part of their debt bonds in local currencies.

Another key indicator to understand the governments' efforts to fulfil their debt obligations is the ratio of external public debt service payments in relation to government revenue. For Debt Justice UK, when external debt payments exceed 15 per cent of government revenue, this tends to lead to a decline in government spending,⁵⁴ which means fewer resources available to invest in public services, social protection, infrastructure or climate resilience. The IMF establishes three thresholds for which governments tend to face difficulties when it comes to making debt repayments. Depending on the country's "debt-carrying capacity"⁵⁵ this threshold is at 14, 18 or 23 per cent of government revenue.

External public debt service to government revenue ratio rose in SIDS from an average 9.2 per cent between 2009 and 2018 to almost 13 per cent in 2020. However, at least **eight out of the 21 SIDS for which there is data available have been dedicating a proportion of their revenues to meeting their debt obligations above 15 per cent in the last three years.** Between 2020 and 2023, countries like **Belize, Cabo Verde, Dominican Republic, Jamaica and Maldives are allocating between 20 per cent and up to 40 per cent of their government revenue to pay their external creditors.** In 2020, Grenada and Papua New Guinea spent 15 per cent and 28.9 per cent of their revenue to pay their debts, respectively.

Figure 5: External public debt service to government revenue

Finally, we can look at the evolution of debt stocks in SIDS countries. Per se, the absolute amount of external debt stocks does not tell us much about how critical the debt situation is in a country. However, we can see how debt stocks jumped considerably between 2019 and 2020, rising from a steady increase since 2009.

According to World Bank data,⁵⁶ external public debt in SIDS reached US\$55.5 billion in 2019, from only US\$24.4 billion in 2009, a 127 per cent increase in a decade. The highest annual increase, however, happened in 2020, with a 17.3 per cent increase in just one year, reaching a total public external debt in SIDS of US\$65 billion. In comparison, public external debt stocks in all low- and middle-income countries grew below the SIDS average.

Table 4: Debt stocks growth in SIDS and developing countries

	2009-2019	2019-2020
Debt stocks growth in SIDS	127%	17.3%
Debt stock growth in SIDS excluding Dominican Republic	73.5%	9.8%
Debt stock growth in low- and middle-income countries	118%	8.9%
Debt stock growth in low- and lower middle-income SIDS	114.3%	13%
Debt stock growth in low- and lower middle-income countries	113.6%	8.3%
Debt stock growth in upper middle-income SIDS	130.1%	18.3%
Debt stock growth in upper middle-income countries	121.2%	9.1%

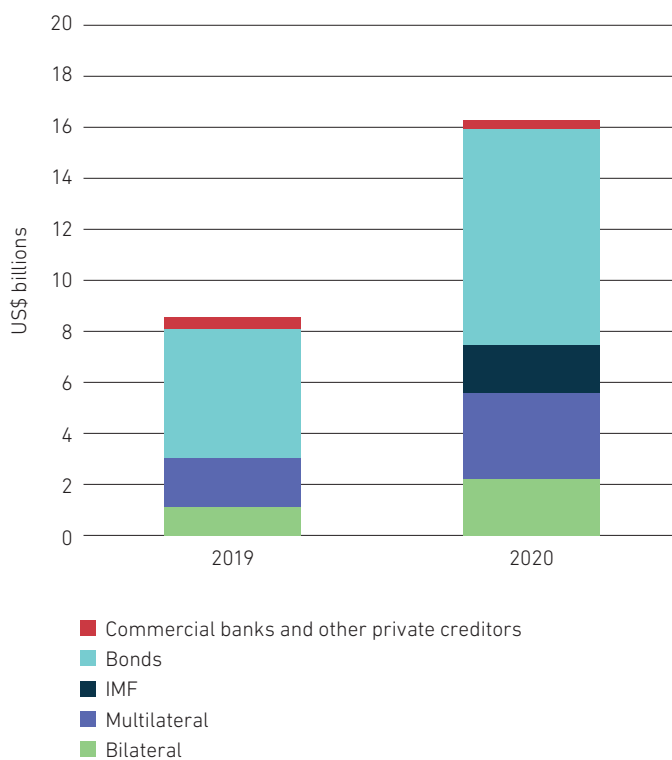
Source: Eurodad calculations based on WB IDS.

Half of SIDS' debt corresponds to just one country, the Dominican Republic, which is also responsible for most of the debt stock increase in 2020.⁵⁷ The Dominican Republic is assessed by the IMF and World Bank to have a sustainable debt, while both Jubilee Germany and Debt Justice consider that the situation is very critical. Nevertheless, even when we exclude the Dominican Republic, total external public debt stocks grew in SIDS substantially over the last decade, particularly since 2012.

Most of the SIDS' debt increase has happened in a context of low interest rates in advanced economies, particularly after the global financial crisis. According to UNCTAD analysis, this increase accelerated "in 2013 – the year of the so-called 'Taper Tantrum', when US bond yields surged after the US Federal Reserve announced a monetary policy normalisation (triggering capital outflows from SIDS for higher returns, a currency depreciation and spike in external debt relative to GDP)".⁵⁸ As the IMF acknowledges, and we will see in more detail in Chapter 4 of this report, in some SIDS "both climate-induced catastrophes and significant climate financing needs may exacerbate debt vulnerabilities".⁵⁹

When Covid-19 and the global lockdown hit, which was particularly hard on tourism-dependent countries, debt increased even further. Disbursements on external public debt to the 21 countries included in the World Bank database almost doubled with the Covid-19 pandemic, increasing from US\$8.5 billion in 2019 to US\$16.2 billion in 2020.

Figure 6: Disbursements on external public debt in 2019 and 2020 (US\$ billion)

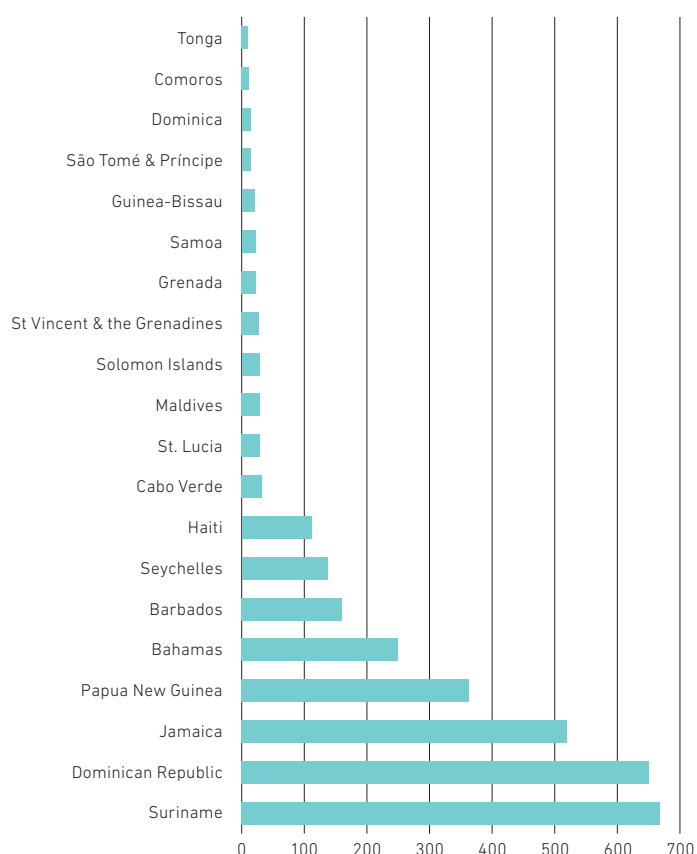


Source: Eurodad calculations based on WB IDS data. 21 countries included.

In absolute terms, most of the increase was due to new bond issuing, scaling from US\$5 billion in 2019 to US\$8.5 billion in 2020, mainly due to bond issuing in the Dominican Republic. We need to consider that this data excludes countries like the Bahamas, Bahrain, Singapore, and Trinidad and Tobago, which all issued debt in local and foreign financial markets in 2020.

With the Covid-19 shock, there was a very steep increase in IMF lending. The IMF went from having programmes in 2019 with just three countries – São Tomé and Príncipe (2019), Barbados (2018) and Jamaica (2016)⁶⁰ – to approve emergency lending of US\$3.12 billion to 20 SIDS in 2020 and 2021.

Figure 7: IMF emergency lending to SIDS in 2020 and 2021 (US\$ million)



Source: Eurodad based on IMF data.⁶¹

Other multilateral and bilateral lending almost doubled in one year too. Multilateral institutions increased their lending from US\$1.9 billion to US\$3.3 billion, and bilateral lending increased from US\$1.1 billion to US\$2.2 billion. Part of it was concessional lending, which almost tripled, from US\$352 million to US\$1 billion. Bilateral concessional lending to SIDS went from being 8 per cent of all bilateral lending in 2019 to 26 per cent in 2020, while multilateral concessional lending remained at 14 per cent of total multilateral lending.

Box 2: Special Drawing Rights – a whiff of breathing space for SIDS

Given the non-eligibility of some SIDS to concessional finance, some SIDS' representatives have been particularly vocal when it comes to the new allocation of Special Drawing Rights (SDR) by the IMF.⁶² The US\$650 billion in SDR allocation in July 2021 was very well received by SIDS, but it was also considered insufficient.

SIDS only got 1.52 per cent of the 2021 SDR allocation, barely US\$9.9 billion. It represents 74 per cent of what SIDS paid in external public debt service in 2020 and 2021. Half of what SIDS received was allocated to one country, Singapore. Four countries – Bahrain, Dominican Republic, Jamaica, and Trinidad and Tobago – got another one quarter of the allocation assigned to SIDS. Recent research by Andrés Arauz and Kevin Cashman at the Centre for Economic Policy Research (CEPR) revealed that 23 of the small island countries had used about 50 per cent of the SDR allocation in just one year. SDRs were exchanged, used for IMF debt relief or for fiscal purposes.⁶³

Eurodad also considered the allocation as “inadequate in size when compared to its ambitious and broad goals and the magnitude of countries' needs. Moreover, given its unfair distribution based on IMF quotas, it did not reach the countries that needed it the most”.⁶⁴ Most of the SDR allocation was distributed to advanced economies, but rich countries promised to partially rechannel SDRs to countries in the Global South.

The only concrete step towards this has been the design of a new fund, the Resilience and Sustainability Trust (RST), which would channel SDRs through IMF lending to low- and middle-income countries with a focus on reforms to increase climate resilience. As Eurodad argued, “far from being a ‘silver bullet’, the RST presents several limitations in its design which

make it misaligned with the principles proposed by CSOs in September 2021 for just and transparent SDRs channelling⁶⁵ and increase the risk of getting little traction from developing countries. Another limitation is that, as it currently stands, it will only be able to absorb about US\$50 billion of SDRs over a decade”.⁶⁶ In comparison, only SIDS have costed their financing needs for climate mitigation and adaptation at more than US\$92 billion.

The establishment of the RST as one of the main channels to lend SDRs to low- and middle-income countries for climate action also raises questions about the IMF assuming a relevant role in climate policy and its use of policy conditionality, also in the area of climate action and energy transition.

The promises of reallocation have not yet been delivered. As Gaston Browne, Prime Minister of Antigua and Barbuda, stated: “the months have passed since the approval and none of the additional resources promised to developing countries have been realised”. Browne strongly encouraged the “immediate rechanneling of unused SDRs to all developing countries in need and in particular to SIDS”.⁶⁷

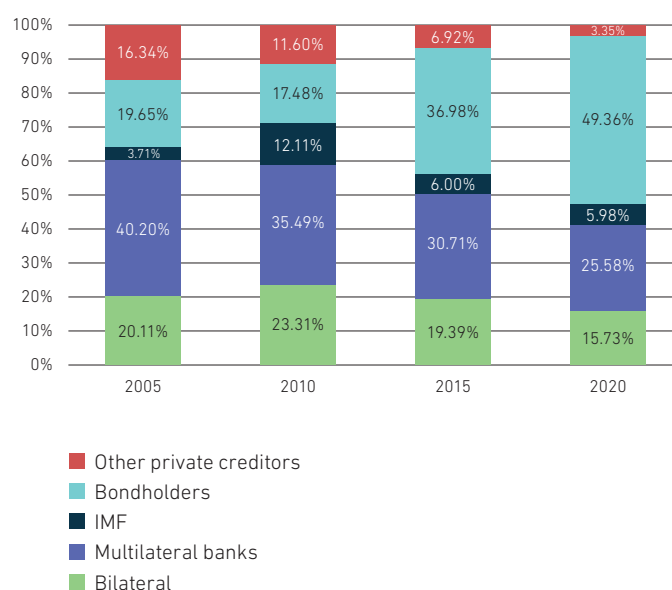
As well as the insufficiency of the 2021 allocation, Mia Mottley, Prime Minister of Barbados, proposed an annual US\$500 billion allocation to finance climate resilience in developing countries.⁶⁸

The calls for another SDR allocation are increasing in the face of the multiple challenges facing the global economy and particularly developing countries. As things stand, a new allocation remains the most efficient and straightforward instrument in the hands of the IMF to provide additional liquidity to countries in need of more fiscal space without adding to their debt burden and with no policy conditionality. However, SDRs remain an inadequate tool for providing good quality climate finance for climate adaptation and loss and damage, and substantial reforms should be undertaken in order to find better alternatives for the distribution and channelling of SDRs.⁶⁹

3.2 Changing creditor landscape

As has happened in most low- and middle-income countries, the creditor landscape in SIDS has changed substantially over the last two decades. The most substantial change is the pre-eminence of bondholders as the principal creditor group, going from representing 17.5 per cent of all public external debt in SIDS in 2010 to 49.4 per cent in 2020. This has been coupled with a reduction in the weight of bilateral and multilateral creditors in SIDS debt (see Figure 8). However, this creditor landscape varies hugely across countries.

Figure 8: Public external debt by type of creditor (% of total)



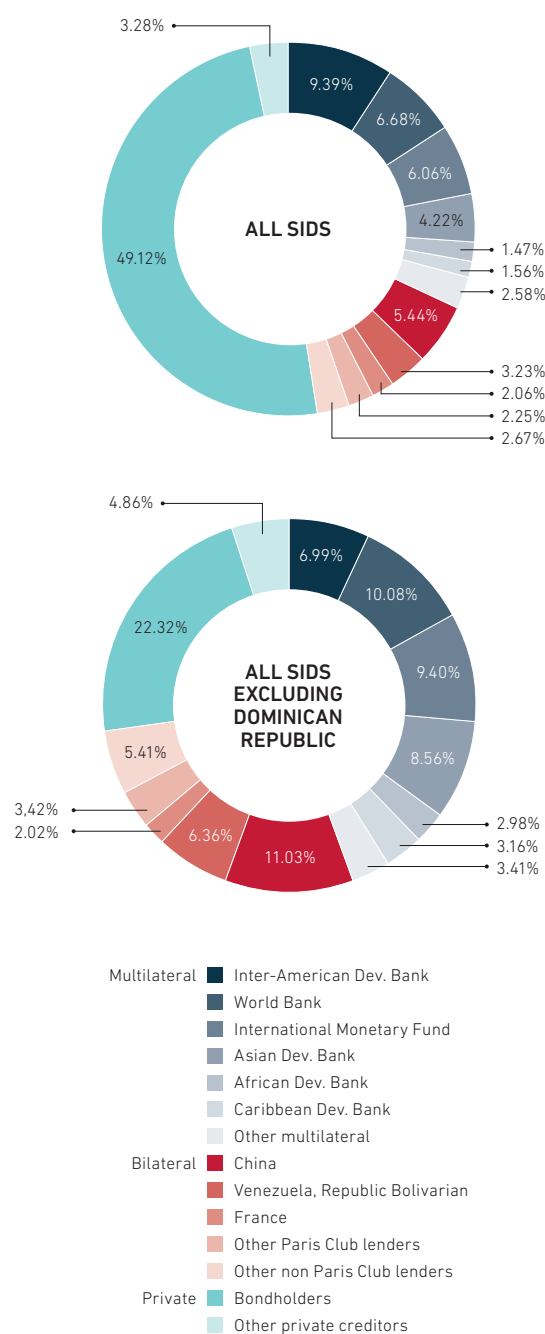
Source: Eurodad calculations based on WB IDS.

Looking at the data available in more detail,⁷⁰ the most important single creditor to SIDS is the Inter-American Development Bank (IADB) (9.39 per cent), followed by World Bank and IMF (6.68 per cent and 6.06 per cent respectively). This is very much influenced by Dominican Republic debt, distorting the weight of certain creditors, particularly bondholders and the IADB. If we exclude data from the Dominican Republic, we see that the weight of bondholders in SIDS is reduced substantially to 22.32 per cent. The proportion of debt held by the IMF, the Asian Development Bank and China increases significantly.

China is the main bilateral creditor for SIDS, with 5.44 per cent of debt stocks in 2020 (this per centage grows to 11 per cent when we exclude Dominican Republic), followed by Venezuela and France (see Figures 9 and 10). However, according to a 2021 Organisation for Economic Co-operation and Development (OECD) report, there is a significant portion of private-guaranteed debt in SIDS that remains “off-the-radar”. The OECD argues that this is basically debt to Chinese entities that remains unreported, and that would increase SIDS’ private guaranteed debt by almost 50 per cent. The report states that “for the eleven SIDS for which data are available in 2019, off-the-radar Chinese debt is estimated to add an extra USD 3.8 billion, on average, or 7 per cent of their total external debt. Off-the-radar Chinese loans could represent up to one-fourth of total external debt in countries like the Maldives, but remain marginal in other SIDS”.⁷¹

The other outstanding bilateral creditor is Venezuela, which, together with Trinidad and Tobago, has become an important source of interregional finance in the Caribbean. According to a UNDP 2015 report, Venezuela emerged as one of the largest donors to Caribbean states, through its oil concessionary facility at PetroCaribe. This initiative supplied oil to neighbouring countries at reduced prices, allowing them to defer repayments for up to 25 years.⁷² Those deferred payments are part of the recipient countries’ external debt. In 2020, Venezuela held 79 per cent of Haiti’s debt, 15 per cent of Belize’s and 7.5 per cent of debt in Guyana.

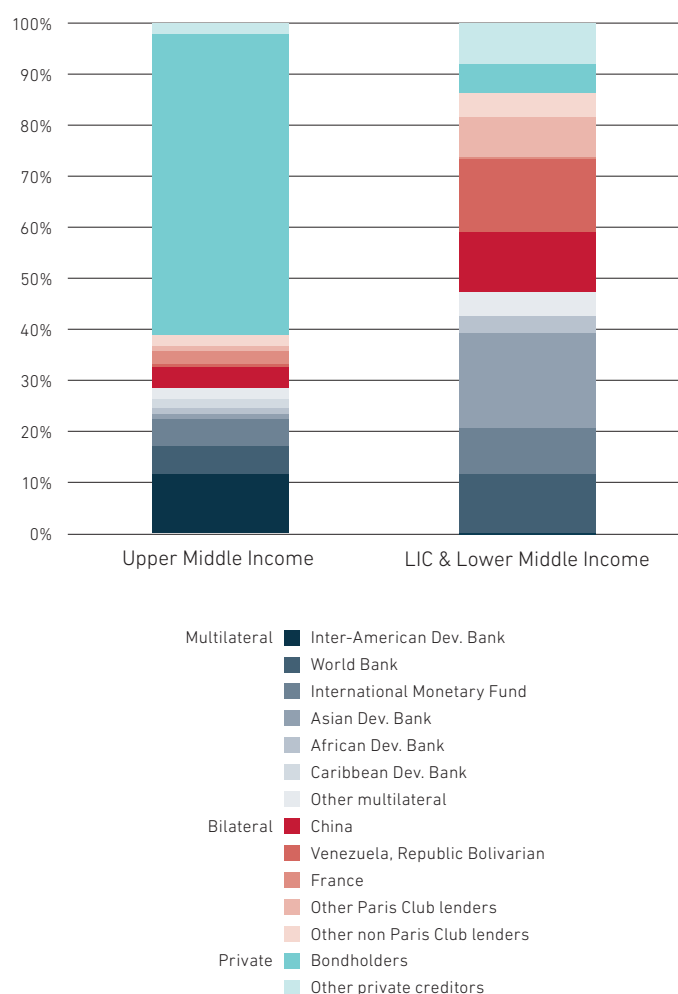
Figure 9: Public external debt by creditor and groups of creditors 2020 for SIDS and for SIDS excluding Dominican Republic (% of total)



Source: Eurodad calculations based on WB IDS data.

The creditor landscape varies a lot depending on each country, their income status and region. Figure 10 shows very graphically how the creditor composition changes completely depending on the income group. While in upper middle-income SIDS, bondholders represent 59 per cent of the debt stocks in 2020, in low- and lower middle-income countries, it represents barely 5.6 per cent (with a total private creditor weight of 13.7 per cent). On the other hand, multilateral institutions, including development banks and the IMF, hold 47.3 per cent of low- and lower middle-income countries but only 28.5 per cent of upper middle-income countries. Similarly, bilateral debt is more important in lower income countries, particularly debt owed to Venezuela and China.

Figure 10: External public debt in 2020 per creditor by income groups (per cent of total)



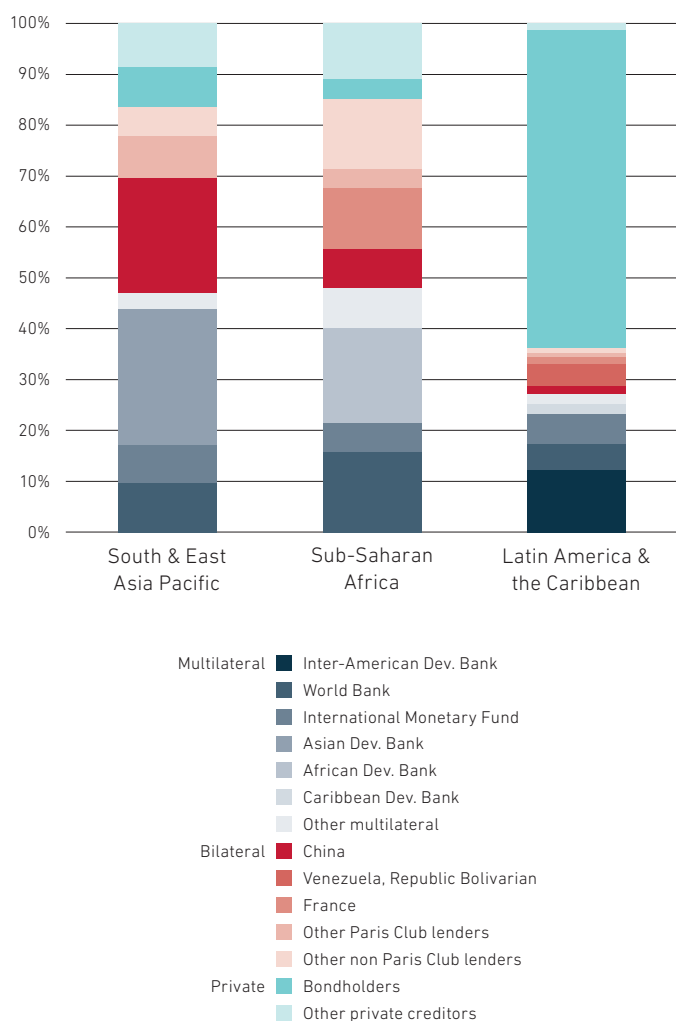
The differences are also significant depending on the regions, as the significance of regional banks and certain bilateral creditors varies depending on their area of influence. In the South and East Asia Pacific region, the importance of the Asian Development Bank (holding 26.58 per cent of debts) and China (22.48 per cent) is evident. Other bilateral creditors such as Japan (4.52 per cent), India (4.42 per cent) and Australia (3.64 per cent) and Chinese commercial banks (3.70 per cent) are also important in the region.

In Latin America and the Caribbean, the creditor landscape is very much influenced by the creditor distribution in the Dominican Republic. When considering it, most debt is owed to bondholders (62.4 per cent), but when excluding data from the Dominican Republic, the bondholders' weight is reduced to 37 per cent. China and Venezuela as bilateral creditors are also key to the rest of the Caribbean debts, representing 5 per cent and 12 per cent respectively (when not including the Dominican Republic). The Inter-American Development Bank is key for the financing in the region, holding 12.3 per cent of debts in 2020 (13 per cent when excluding the Dominican Republic).

In sub-Saharan African SIDS, most debt is in the hands of the African Development Bank, followed by the World Bank (18.6 and 15.8 per cent respectively). In African SIDS, the main bilateral creditor is France (11.95 per cent, mainly due to debts from Mauritius), followed by China (7.52 per cent), India (4.25 per cent) and Portugal (4.22 per cent). Portuguese private commercial banks are also a relevant creditor with 10 per cent of the total African SIDS debt, corresponding to Cabo Verde.

Source: Eurodad calculations based on WB IDS data.

**Figure 11: External public debt in 2020
per creditor by region (per cent of total)**



Source: Eurodad calculations based on WB IDS data.

Box 3: Who is behind the bondholders' debt?

Even when the weight of bondholders' debt varies from country to country, it is undeniable that its importance has grown in SIDS during the last decade across all regions and income groups. In some cases, such as the Dominican Republic, Grenada and Jamaica, bond debt accounts for more than half of the total external public debt. This is without taking into account bond debt issued in local currency. There is no systematic data available about the distribution of debt across creditor groups for high-income countries and several middle-income countries. In any case, there is normally very little or no information about who these bondholders are. Private financial data providers, such as Bloomberg or Refinitiv, offer some details about the bondholder composition in several countries. This data is not exhaustive and it is only accessible behind paywalls.

Eurodad has been able to analyse bond data in Refinitiv for 10 SIDS⁷³ and 57 bonds issued in US\$. An analysis of the managing investment firms holding the bonds from these countries shows that only 20 firms hold 60 per cent of the bond debt for which there is available data. One firm, BlackRock, holds 13.7 per cent of the SIDS bond debt, followed by PIMCO, with 7.4 per cent of the total outstanding amount corresponding to bond debt with available data.

BlackRock, for instance, holds debt from nine of the 10 SIDS with bond information available. The investment fund holds US\$1.6 billion in Dominican Republic debt or US\$826 million on Bahrain's debt, among others. PIMCO, on the other hand, holds almost US\$1 billion of Singapore debt and US\$500 million in Dominican debt.

Figure 12. Top 20 SIDS sovereign bonds managing firms (US\$ million)



Source: Eurodad calculations based in Refinitiv data. See more detailed data in the Table VI in the Annex.

4. The vicious circle of debt and climate emergencies in SIDS

Countries that lie between the tropics of Cancer and Capricorn are more vulnerable to rising sea levels, to warmer seas, to more ferocious storms, and to more flooding and drought. Tackling natural disasters, and protecting the environment are the single most significant causes for increases in our debt.”

Prime Minister Mia Mottley of Barbados, November 2020⁷⁴

Small islands are amongst the most vulnerable countries to climate change, despite their limited contribution to it. In fact, SIDS contribute less than 1 per cent to total greenhouse gas emissions, but, as the UN recognised, have been and will continue to be amongst the earliest and most impacted countries.⁷⁵ This high vulnerability to climate change is key to understanding debt vulnerabilities in SIDS. There is an undeniable interconnection, a vicious circle, between debt crises and climate change.⁷⁶ This chapter of the report analyses the elements of this interconnection, looking at how they specifically unfold in SIDS.

4.1 Meagre climate finance for mounting climate vulnerabilities

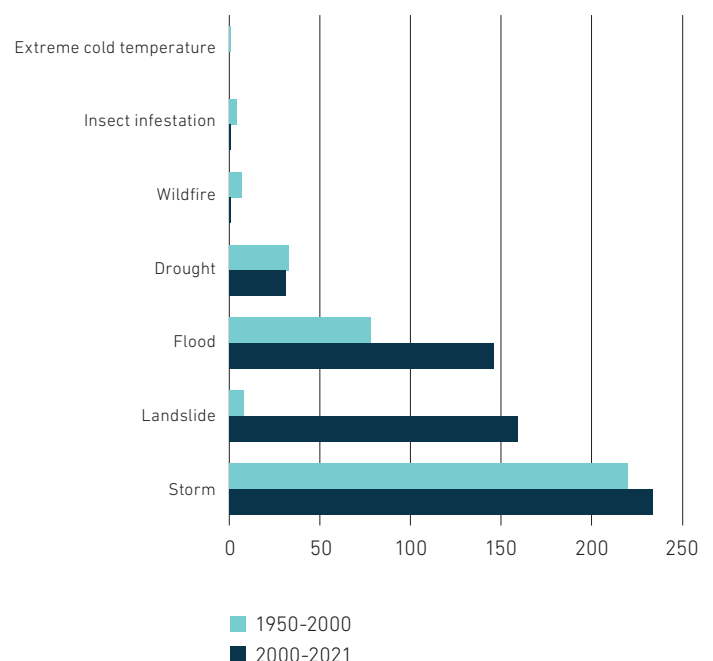
The biggest threat to these countries originates in their geographic position, surrounded by oceans, which causes a higher exposure to storms,⁷⁷ coastal erosion, sea level rise, heatwaves, floods and ecosystem degradation.⁷⁸ In the Caribbean alone, the damage caused by climate-related and earth-related hazards is estimated at US\$12.6 billion per year.⁷⁹

As Ian Fry, the UN Special Rapporteur on the promotion and protection of human rights in the context of climate change, states, the compounded impact of extreme events (i.e. hurricanes) and slow-onset events (i.e. sea-level rise) have repercussions on agriculture and fisheries. Some of these impacts have a particularly adverse effect on women – for example, in the Marshall Islands, where families are being displaced by climate change and dispossessed of their traditional ownership of land.⁸⁰

The intensity of climate-related hazards is exponentially increasing, with experts estimating hurricanes to reach fivefold their current magnitude in the near future.⁸¹ Not only is their intensity increasing, but also their frequency. While before the 2000s SIDS suffered less than 10 major climate-extreme events per year, over the last two decades the average climbed up to 20 each year.⁸²

SIDS are not only experiencing more frequent and more extreme climate events, but also a greater frequency of less intense climate events. Not all of them are necessarily very destructive on their own, but their increasing number results in an unsustainable situation. Smaller-magnitude events or slow-onset events do not trigger emergency financing or international responses, as more extreme events do, but their quick succession still has a significant impact that needs to be addressed. Moreover, variability of shocks means that countries can face the same or different extreme climatic events within a very short timeframe.⁸³ This surge in numbers not only has consequences on the affected communities, but it can also generate donor fatigue, “a phenomenon where those who give either give less or do not donate at all with each passing crisis”,⁸⁴ which is why it is crucial that climate finance flows are predictable, adequate, new and additional, and that adaptation finance and finance to address loss and damage are scaled up.

Figure 13: Number of climate-related extreme events in SIDS*



*Data for all SIDS except Nauru.

Source: Eurodad calculations based on Emdat Database in SIDS 1950-2021.

The top-10 climate-extreme events in terms of losses as a percentage of GDP between 1998 and 2017 have all been recorded in SIDS in the Caribbean area; six of them were in 2015-2017. The losses vary from 69 per cent of GDP (Hurricane Maria in Puerto Rico, 2017) to 797 per cent of GDP (Hurricane Irma in Saint Martin).⁸⁵ Other countries, for example the United States of America, experience a higher number of extreme events, but their larger territory and GDP allows the damages to be contained and therefore to affect a smaller share of the economy. Instead, small islands could see their whole territory heavily impacted at the same time, turning natural disasters into a systemic risk.⁸⁶ For example, the Maldives cover around 300 km² versus the US's 9,834 million km². It will not come as a surprise that, in a 2018 survey about how people around the world view climate change, SIDS citizens showed the highest level of support for climate action (74 per cent).⁸⁷

When facing the challenges of climate change, countries need to follow a combination of strategies, as outlined by the three documents that require developed countries to provide climate finance to developing countries: the United Nations Framework Convention on Climate Change (UNFCCC) (1992), the Kyoto Protocol (1997) and the Paris Agreement (2015). Climate finance is crucial for mitigation, adaptation and loss and damage, including to support the costs of reconstruction and recovery from the impacts of climate change related events.

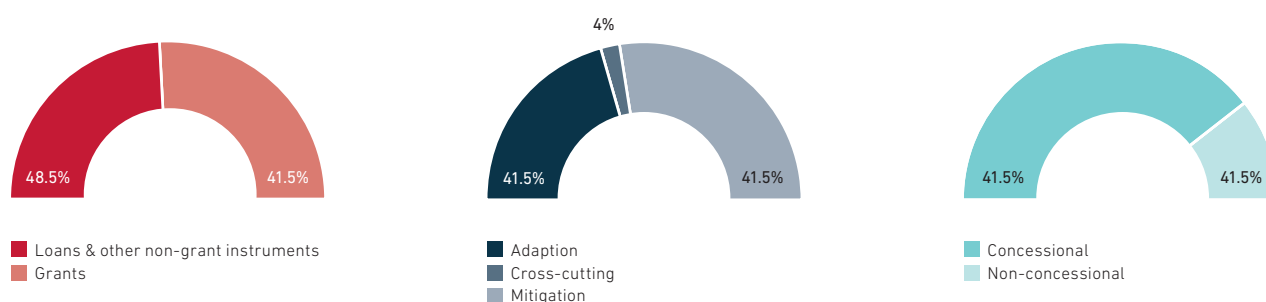
Box 4: Strategies to tackle climate change in SIDS

Mitigation is needed to reduce greenhouse gas emissions (GHG) and to avoid further increases in global temperatures. Although SIDS are not large GHG emitters, they also have finance needs to invest in energy transition, particularly as many are dependent on imports for their energy supplies.

Adaptation is particularly crucial for SIDS, as they need to invest in adapting and preparing their infrastructures and economies for the increasing impacts of climate-related events, for instance investing in coastal protection or climate-resilient agriculture. Furthermore, "because of their high degree of climate change exposure and sensitivity, SIDS face relatively high adaptation costs. For instance, the costs of shoreline protection structures to combat sea-level rise and storm surge in SIDS are substantially greater, in terms of both per capita and per centage of GDP, than the costs of similar infrastructure in larger territories with larger populations and higher levels of gross national income per capita".⁸⁸

Significantly, SIDS need financial resources to address loss and damage.⁸⁹ This includes covering the pre- and post-event costs of facing the emergency, providing relief and financial support to vulnerable communities and to cover the costs of emergency, recovery and reconstruction. *Ex ante* preparedness and having access to finance before climate events hit is particularly important to limit the humanitarian and economic costs *ex post* an event.⁹⁰ However, finance to address loss and damage is scarce and the focus has been mostly on *ex post* humanitarian recovery and emergency-based financing.⁹¹ SIDS countries have been among the most vocal in requesting a Loss and Damage Finance Facility.⁹²

Figure 14: Share of climate finance received by SIDS (2017-2018)



Source: Tracy Carty, Jan Kowalzig and Bertram Zagma, 'Climate Finance Shadow Report 2020. Assessing Progress towards the \$100 Billion Commitment' (Oxfam International, 20 October 2020). <https://www.oxfam.org/en/research/climate-finance-shadow-report-2020>.

Mitigation, adaptation and loss and damage strategies require consistent and regular resources, which should be funded through non-debt creating public climate finance (grants and concessional loans from developed countries and multilateral institutions). However, climate resilience financing needs, and particularly reconstruction costs after a climate-extreme event are often covered with additional borrowing by countries in the Global South.

While all SIDS together received only US\$1.5 billion in climate finance between 2016 and 2020,⁹³ in the same period 22 SIDS paid more than US\$26.6 billion to their external creditors – almost 18 times as much. Most of this climate finance is not new and additional, as most of it is double counted as ODA.⁹⁴ While there is no firm commitment about the climate finance flows to be received by SIDS in the upcoming years, we can be sure that the flow of money towards official and, above all, private creditors will continue.

In the case of SIDS, almost half of climate finance is delivered in the form of loans and other non-grant instruments. For all developing countries, concessional and non-concessional loans and equity made up 73 per cent of total climate finance in 2020. While SIDS receive proportionately more grant-based support than the average, according to Oxfam's calculations, only around half of climate finance provided to SIDS in 2017-2018 was estimated to be in the form of grants. The debt-creating finance was mostly in concessional terms (79 per cent) – that is, in better conditions than market ones. Oxfam also calculates that climate finance in SIDS in 2017-2018 was devoted mostly to Mitigation (54.5 per cent) and to a lesser extent to Adaptation (41.5 per cent).⁹⁵ This reflects the global pattern, with mitigation representing 58 per cent of global climate finance in 2020 versus a much smaller 34.3 per cent ratio invested in adaptation.⁹⁶ This is despite the aim in the Paris Agreement for a balance to be achieved between finance for mitigation and adaptation.⁹⁷

While some donors like Australia or Canada, give a bigger priority to SIDS in their climate finance flows, others – like Germany, Sweden or the UK – offer SIDS less than 1 per cent of their climate funds.

Table 5: Estimated share of climate finance to SIDS by major country donors, 2017-18

Donor	Share to SIDS
Australia	50%
Canada	14%
Denmark	0%
European Commission & European Development Fund	6%
France	3%
Germany	0.3%
Japan	0.9%
The Netherlands	0%
Norway	1.5%
Spain	8%
Sweden	0.2%
Switzerland	4%
UK	0.1%
US	3%

Source: Ibid.

Flows fall short of the identified needs that have been costed in their Nationally Determined Contributions (NDCs), estimated at around US\$92 billion for SIDS – an amount that is underestimated, as around 58 per cent of identified needs are not yet costed.⁹⁸ As countries at the forefront of the climate emergency, SIDS urgently need access to new and additional external financial support to implement their mitigation and adaptation strategies, and to address losses and damages from climate impacts. However, as a UN report acknowledges, “the current climate and development finance architecture is exceedingly complex and unequipped to operate efficiently, fairly, and at the speed and scale needed to meet SIDS needs”.⁹⁹ Moreover, as other countries in the Global South, SIDS need climate finance that does not exacerbate their debt vulnerabilities.

4.2 Climate fuelling debt

There seems to be no doubt that climate change is exacerbating debt vulnerabilities, not only in SIDS, but across Least Developed Countries (LDCs) and Low-Income Countries (LICs). As Barbados Prime Minister Mia Mottley described it: “Tackling natural disasters, and protecting the environment are the single most significant causes for increases in our debt.”¹⁰⁰

On the one hand, the increasing impacts of the climate emergency lead to increased external borrowing for adaptation and reconstruction, which usually comes at higher costs. Several studies have concluded that climate vulnerabilities increase the costs of borrowing from private creditors for countries in the Global South. According to research commissioned by UN Environment Programme (UNEP), public debt interest rates for a group of systemically climate-vulnerable countries are higher than they should be if only macroeconomic and fiscal indicators are considered, and this is due to climate vulnerability.¹⁰¹ According to this research, climate risks added up to US\$40 billion of additional interest payments over the past 10 years – and up to US\$62 billion when debt by the private sector is considered. The projections made by researchers set the additional costs over the next decade at between US\$146-168 billion.

The link between debt vulnerabilities and borrowing costs was also corroborated by a recent IMF working paper, concluding that “climate vulnerability has a highly significant effect on the cost of government borrowing, even after controlling for conventional macroeconomic and institutional determinants of sovereign risk”. The impact of climate vulnerabilities in borrowing costs is “greater in developing countries with weaker capacity to adapt to and mitigate the consequences of climate change,” according to the paper’s authors.¹⁰² Similarly, a report prepared by the SOAS Centre for Sustainable Finance at SOAS University of London, the Asian Development Bank Institute, the World Wide Fund for Nature Singapore and Four Twenty Seven concludes also that higher climate risk vulnerability leads to significant rises in the cost of sovereign borrowing, particularly in the Global South. Furthermore, the study signals six different transmission channels through which climate change can amplify sovereign risk: “the fiscal impacts of climate-related disasters; the fiscal consequences of adaptation and mitigation policies; the macroeconomic impacts of climate change; climate-related risks and financial sector stability; the impacts of climate change on international trade and capital flows; and the impacts of climate change on political stability.”¹⁰³

Table 6: Total damages in recent climate-extreme events in SIDS and debt-to-GDP changes

Country	Name & year	Year	Total Damages		General Government Debt-to-GDP			
			Billion US\$	% GDP	Year of event	Plus 1 year	Plus 2 years	Plus 3 years
Dominica	Hurricane Maria	2017	1.60	259%	81.90	84.63	94.23	107.33
Grenada	Hurricane Ivan	2004	1.27	148%	94.69	87.31	92.92	89.06
Saint Kitts & Nevis	Hurricane Georges	1998	0.66	110%	77.42	89.18	96.48	105.18
Dominica	Hurricane Erika	2015	0.55	90%	68.87	75.30	81.90	84.63
Bahamas	Cyclone Dorian	2019	3.60	27%	59.62	75.07	102.81*	91.25*
Tonga	Cyclone Harold	2020	0.12	24%	43.25	44.68*	42.91*	50.22*
Saint Lucia	Hurricane Elsa	2021	0.03	2%	95.00	92.40*	91.22*	90.56*
Fiji	Cyclones Josie & Keni	2018	0.06	1%	45.77	48.68	62.04	79.18*

*IMF projections

Source: EmData and IMF WEO.

Beyond higher costs, many countries having to deal with the emergency of a climate event, including the reconstruction and recovery after the event, have little option but to borrow. This is particularly the case as there is not an agreed mechanism to provide finance to address loss and damage. This is one of the calls from climate-vulnerable countries and particularly from SIDS (as already discussed in Box 4).¹⁰⁴

Having to access loans, from bilateral, multilateral or even private sources, in some cases at non-concessional terms, to pay for the impacts of climate change that these countries have historically contributed the least towards is deeply unjust. Unsurprisingly, public debt increases in the aftermath of such climate-extreme events. These shocks are critical to sovereign debt risks, as they have had a prominent role in some default episodes in SIDS, such as in Antigua and Barbuda in 2004 and 2009, in Grenada in 2004, in Dominican Republic in 1998 or in Suriname in 1992.¹⁰⁵

The IMF examined 11 cases of significant extreme events that occurred in developing nations between 1992 and 2016 and resulted in GDP losses of 20 per cent or more. The findings indicate that, in effect, public debt grew, rising from an average of 68 per cent of GDP in the year of the extreme climate event to 75 per cent of GDP three years later.¹⁰⁶ And in a recent report on climate-debt swaps, the IMF acknowledged the harmful self-feeding cycle between debt and climate, recognising that not only climate and debt problems are closely linked, as climate vulnerabilities and fiscal risks are correlated, but also that “there is likely causation in both directions”.¹⁰⁷

According to a report by Anja Slany for UNCTAD, “there is on average no significant relationship between a disaster and increases in external debt across SIDS”.¹⁰⁸ The report concludes that the effect on debt in the aftermath of a severe disaster “strongly relates to the restrictions of already indebted countries to access adequate funding”. So countries with pre-existing debt vulnerabilities will be more prone to build on those vulnerabilities after a climate-extreme event. Other factors, like their exposure to those extreme events, the state of development, the eligibility to concessional financing or their institutional capacity to manage disaster response, will also determine the impact of the event on the country’s debt. The report also concludes that “country case studies are necessary to reveal each country’s vulnerability to debt increases”.¹⁰⁹

A close look at different countries shows that, in most of those cases, during the two or three years after the extreme event, there is an increase in debt-to-GDP (see Table 6). For instance, in 2017 the impact of category 5 Hurricane Maria on Dominica produced damages accountable for 259 per cent of the country’s GDP. In terms of real GDP per capita, Dominica may have lost more than a decade of development, showing how development is seriously threatened by a failure to manage and increase resilience to climate risk.¹¹⁰ General government debt-to-GDP grew in Dominica during the three years after Hurricane Maria, spiking from 81.9 per cent of GDP in 2019 to 107.33 per cent in 2020. We cannot discern how much of this increase is because of the impacts of the hurricane and costs of reconstruction and recovery. However, if we look at other events, we see a similar trend in the cases of Hurricane Georges in Saint Kitts and Nevis in 1998, Hurricane Erika also in Dominica in 2015, Cyclone Dorian in the Bahamas in 2019 and Cyclones Josie and Keni in Fiji in 2018.

4.3 Debt fuelling climate change

Looking at the other side of the links between debt and climate, we see that debt vulnerabilities in SIDS also make them more vulnerable to climate change. Countries with unsustainable debt tend to have a reduced fiscal space, not only to invest in SDGs and development, but also to invest in climate resilience or measures to help face the impacts of climate events.

Additionally, debt payments remain a priority even when the countries are facing the impacts of a storm or floods. For instance, only one day after Hurricane Irma hit Antigua and Barbuda in 2017, leaving damages valued at US\$152 million, the country had to deal with an almost US\$3 million in debt payment due to the IMF. Despite civil society calls for a moratorium on the debt payments, the IMF declared that they would rather lend more money to the island than postpone the collection of the repayments. Similarly, Dominica had to pay several million dollars only days after it was devastated by hurricane Maria. No debt relief or moratorium on the debt payments was made possible by international financial institutions or creditors.¹¹¹

Countries in debt distress or at high risk of debt distress will also have less access to borrowing, particularly from financial markets, or this borrowing will be more expensive, even if it is to finance climate mitigation, adaptation or loss and damage.

Furthermore, with high levels of debt, and in a context of increasing energy and commodity prices, countries in the region might be tempted to increase the exploitation of natural resources – including fossil fuels, mining or forests – in order to increase exports and use the revenue to repay increasing debts. Several Pacific countries are already pursuing this agenda, particularly when it comes to mining,¹¹² and we have also seen how countries like Suriname are being pushed by its private creditors to pursue future oil extraction in order to be able to repay its debts.¹¹³

When countries turn to increased exploitation of natural resources, women tend to be more impacted, given the predominant role they play in firewood collection and engagement in forestry value chains as a supplement to their household income.¹¹⁴ In most cases, the process will require further indebtedness to be able to fund the necessary infrastructures. In the end, intensifying the exploitation of natural resources to repay public debts will in some cases increase climate vulnerabilities, by generating desertification and an increase in carbon emissions. It also exacerbates the countries' dependency on commodities, together with the additional debt vulnerabilities that this may bring.

In many of these cases, the exploitation of natural resources is encouraged by international financial institutions, donors and creditors. According to a report by ActionAid USA and the Bretton Woods Project, in over half of IMF's 105 member countries, IMF policy advice had endorsed, or directly supported, the expansion of fossil fuel infrastructure since the Paris Agreement was signed in December 2015 and March 2021, despite the urgent need to reduce emissions.¹¹⁵ Overconsumption of fossil fuels, particularly in the Global North, spurs this dynamic, as it remains lucrative and produces revenue that can help attain more sustainable debt levels.

5. Limitations of the international financial architecture to deal with SIDS debt and climate crises

SIDS cannot recover from this pandemic if our unsustainable debt is not comprehensively addressed. While commendable, the policies that were put in place by the G20, the IMF and the World Bank to address the pandemic were not tailored to address the specific needs of our countries. We need tailored solutions; debt forgiveness and debt relief must be considered as options for a sustainable recovery from the Covid-19 pandemic.”

Ambassador Conrod Hunte
of Antigua & Barbuda, AOSIS¹¹⁶

SIDS urgently need to increase their fiscal space to face the food and energy prices spikes, to invest in economic recovery, diversification and climate resilience. However, high debt levels are leading many SIDS' governments to adopt austerity measures in order to be able to pay for their debt commitments at the same time as reversing fiscal deficits. In order to build up the fiscal space needed, SIDS would need to have access to substantial resources in the form of grants or highly concessional lending, but they also need to have effective debt resolution mechanisms available. Chapter 5 reviews some of the options that the existing international financial architecture offers SIDS to deal with their debt challenges, and highlights some of their limitations.

5.1 The limited debt resolution options for SIDS

The existing international financial system has very few options for resolving the risks of a debt fallout in SIDS. The calls for reform of the existing international financial architecture, and particularly to address the need for functioning debt resolution mechanisms, are becoming more frequent and come from quite different positions – from civil society organisations to UN agencies and representatives, and even from the IMF management, which called for a reform of the international debt architecture in 2021.¹¹⁷ In August 2022, the UN Secretary-General António Guterres mentioned in a speech to the General Assembly the need for a reform of the international financial architecture, including “short-term actions to provide immediate relief to highly indebted developing countries and long-term measures to guarantee resilience and debt sustainability”.¹¹⁸ Also the UNCTAD Secretary-General told the UN General Assembly that “structural reforms of the international debt architecture must be part of a broader reform on the international financial system”.¹¹⁹ Even with debt distress imploding in many

countries in the Global South, the international community has not been able to make progress – either in the systemic reform needed, or in finding short-term solutions that work.

5.1.1. G20 debt initiatives: much ado about nothing

In 2020, the G20 approved two initiatives to address the debt problems arising from the Covid-19 shock. The Debt Service Suspension Initiative (DSSI), providing temporary debt payment moratoria to a limited number of countries, and the Common Framework (CF) aspiring to deliver on timely and comprehensive debt treatment for countries with unsustainable debt levels. However, they have proved to be insufficient and inadequate, particularly for SIDS.¹²⁰

First of all, 16 SIDS were not eligible for the DSSI and cannot apply to the CF, as both initiatives are limited to a list of 73 eligible countries.¹²¹ Among the non-eligible countries are two that have been assessed by the IMF as being at high risk of debt distress – Antigua and Barbuda and Suriname. Countries like the Bahamas, Bahrain, Barbados, Belize, Dominican Republic, Jamaica, Mauritius and Seychelles have also been assessed by either Debt Justice or Jubilee Germany methodologies as being at high risk of debt crisis or in debt crisis, and are excluded from the G20 debt treatment schemes.

Table 7: DSSI and Common Framework Eligibility

	In debt crisis or at risk	No debt crisis risk
Non eligible	Antigua and Barbuda, the Bahamas, Bahrain, Barbados, Belize, Dominican Republic, Jamaica, Mauritius, Seychelles, Suriname, Trinidad and Tobago	Cuba, Nauru, Palau, St. Kitts and Nevis, Singapore
Eligible not participating in DSSI	Guyana, Haiti, Kiribati, Marshall Islands, Micronesia, São Tomé and Príncipe, Tuvalu, Vanuatu	Solomon Islands, Timor-Leste
Eligible and participating in DSSI	Cabo Verde, Comoros, Dominica, Grenada, Guinea-Bissau, Maldives, Papua New Guinea, Saint Lucia, Saint Vincent & the Grenadines, Samoa, Tonga	Fiji

Source: Eurodad.

For those that were eligible for the **DSSI and actually applied for the debt payment moratorium, the temporary savings were less than US\$975 million – around 35 per cent of the total payments made by those countries between 2020 and 2021**, when the initiative was operative. These temporary savings are to be paid from 2023 onwards, added to existing and new debt commitments.

Multilateral debts, which, as we have seen, represent the majority in lower income SIDS, are excluded both from DSSI and the CF, as well as from most debt restructuring operations. Private creditors did not participate in the DSSI, and, as we are seeing in the cases of Zambia, Chad and Ethiopia, their participation in the CF is still to be seen.

The uncertainties and lack of clarity regarding the implementation of the CF remains high. Both the IMF and the World Bank have called for a clearer timeline for the framework, as well as more clarity on the implementation of the comparability of treatment clauses. They have also vouched for a debt payment standstill for the duration of the debt restructuring negotiations. So far, the G20 has not reached an agreement on any of these.

Also, on the proposal for a debt payment standstill during the debt restructuring negotiations, the G20 DSSI experience throws doubts on the capacity of the Fund or the G20 to enforce private sector participation in such a standstill. In the end, the only way to ensure a suspension of the payments is to effectively stop paying. However, those countries defaulting on their debt payments risk legal action from private creditors, particularly for debt issued under New York or London law. Protecting those countries that default, by ensuring financing and legislation to protect them against uncollaborative creditors, is key not only for SIDS but for all countries in the Global South.

Furthermore, participation in the Common Framework is conditional on having an IMF programme. As we have seen in the case of Zambia,¹²² such a programme can become a Trojan horse to impose further austerity measures.

In the end, it would be surprising that a forum like the G20, dominated by creditors and not including one single SIDS, delivers on a debt resolution framework that puts the wellbeing of the people in debtor countries over the creditors' interests. We cannot expect the G20 or the IMF to let go of a system that, although ineffective, gives them all the decision-making power in global economic governance, including on sovereign debt resolution. As countries in the Global South, including SIDS, are excluded from the decision-making table around sovereign debt resolution, the responses framed and decided by creditors will end up falling way short of people's needs.

Box 5: IMF debt payments cancellation

Between April 2020 and December 2021, the IMF provided debt payment cancellation to a set of countries through the Catastrophe Containment and Relief Trust (CCRT), paid by contributions from donor countries. Only five countries among SIDS benefited from this debt relief, with a total of US\$33 million of debt payments cancelled, representing a 12.5 per cent of the debt service paid by those five countries in 2020 and 2021.

Table 8: IMF debt payment cancellations in SIDS through the CCTR

	Debt service cancelled US\$ million	% of total debt payments cancelled for SIDS	Debt service cancelled as % debt payments in 2020-2021
Comoros	4.31	12.97%	19.7%
Guinea-Bissau	6.23	18.75%	11.8%
Haiti	21.28	64.06%	12.8%
São Tomé & Príncipe	0.96	2.89%	8.7%
Solomon Islands	0.44	1.32%	3.2%
Total CCRT Debt relief for SIDS	33.22		12.5%

Source: Eurodad based on IMF data.¹²³

In summary, debt relief for SIDS has been scarce and insufficient for some of these countries to be able to avoid default, as has been the case for Grenada and Suriname.

5.1.2. Options for a timely and fair debt restructuring beyond the Common Framework

The current international financial architecture does not offer an optimal framework or guarantees for a fair, lasting, comprehensive and timely resolution to the debt challenges facing SIDS, within or outside the Common Framework. Nor does it offer an appropriate approach to debt restructurings considering the climate challenges and other issues that SIDS are facing. However, even within the current system, it is better to undertake early and strong debt restructurings when there are debt problems, rather than continuing to pay debts in full, which makes the crisis more protracted and more severe. As the IMF stated already a decade ago: “debt restructurings have often been too little and too late, thus failing to re-establish debt sustainability and market access in a durable way”.¹²⁴

The cumbersome negotiation process with several groups of creditors, trying to get an agreement that is compliant with the comparability of treatment principle – in other words, that all bilateral and private creditors offer similar or equivalent terms – makes such processes long and costly. However, the cost of not doing so is normally bigger. A 2018 IMF report concluded that IMF programmes were more likely to be successful if they included debt restructuring.¹²⁵

Fear of credit rating downgrades by credit rating agencies and loss of market access are amongst the main reasons for countries to try to avoid and postpone debt restructurings, on too many occasions incurring bigger costs. However, debt restructuring is also a means to be able to borrow from private markets again. As Scope Ratings stated: “If an economy’s debt sustainability is adequately enhanced via public and private sector debt relief, this could support stronger market access and lower borrowing rates longer term and, with this, potentially a stronger credit rating long term”.¹²⁶

Unfortunately, debt restructurings are being negotiated today without any clear rules or timelines. They can become lengthy and costly processes, determined by the calibre of lawyers a country can afford to hire. As the World Bank President David Malpass described it back in 2020, it is “the modern equivalent of debtor’s prison”.¹²⁷

One striking case of what to expect from a debt restructuring process is Suriname. The Caribbean country started a process to restructure its debts with official bilateral and private creditors in November 2020. In July 2022, 20 months later, the country reached an agreement with its bilateral creditors at the Paris Club.¹²⁸ However, its private creditors have refused to close a deal, arguing that the country could have bigger revenues in the future to repay its debts if the offshore oil reserves were to be exploited.¹²⁹ Almost two years after starting the debt restructuring negotiations, the process continues at the time of writing.

Barbados also restructured its debts in 2018 and 2019. The process started in July 2018, just a week after Mia Mottley had assumed office as Prime Minister, and it included both external and domestic debts. The agreement with domestic creditors was achieved in a few months (October 2018), but the process with external private creditors took a year longer (October 2019). The biggest novelty in the case of Barbados is that the restructuring included a new bond issuance with a hurricane clause. This is a clause in the new debt contract that allows Barbados to improve its financial resilience in the case of a climate-extreme event or another catastrophe: “The clause will enable the government to capitalise interest and defer principal maturities due on the new bonds for two years following an earthquake, tropical cyclone, or rainfall event covered by its insurance policy”.¹³⁰

This hurricane clause made Barbados the first country in the world whose debt with private creditors is climate resilient. However, as a report at the *New York Times* exposes, the negotiations with private creditors were far from easy: “The creditors thought that Barbados could pay more and that the country was using the IMF’s cooperation to leverage lower payments. They were neither versed in nor particularly concerned with climate change as a unique risk to their investments. The notion that a hurricane clause might be imposed on funds that firms sold to their clients as less volatile than other investments was untenable” to their private creditors.¹³¹ The result in Barbados might be opening the door to other countries to issue debt, within a debt restructuring or not, that protects the country’s finances in the case of climate-extreme events. But this will remain dependent on the will of the financial markets to embrace such clauses. Both the participation in debt restructuring, including debt cancellation, and the improvement of debt instruments, remain voluntary for creditors.

5.1.3. Debt swaps for climate and/or development

The history of debt swaps goes back to the 1980s, with multiple experiences of different types of debt-for-development swaps. This instrument is gaining momentum as debt-for-climate swaps (where liberated funds are invested in climate adaptation and mitigation measures) or debt-for-nature swaps (where funds are invested in conservation goals) are seen by some as 'win-win' solutions that will both relieve some of a country's debt burden and free up resources at a national level to address the climate crisis.

However, experience tells us that debt swaps have not been efficient when it comes to reducing debt significantly, particularly in cases of unsustainable debt levels. While well-designed debt swaps can free up resources for climate resilience investments and other development-related projects, there are risks and challenges that should be taken into consideration when promoting debt swaps. For instance, debtor governments can face challenges in mobilising counterpart resources, particularly if they were unable to repay the original debt in the first place.

Debt swaps have also traditionally seen high transaction costs, so modalities that reduce these (such as trilateral debt swaps) or options for scaling up could be explored. In any case, negotiating debt swaps tend to be a lengthy process

and transaction costs become difficult to avoid. Additionally, climate-for-debt swaps should be additional to climate finance commitments.

When promoting debt swaps, country ownership should always be protected, avoiding any kind of conditionality or tied aid imposed by the donor. Indeed, while linking debt relief to commitments for environmental and climate resilience investments might raise support from creditor countries, these types of instruments ultimately promote even more conditionalities on indebted countries. Creditors might be tempted to use debt relief to push for their particular interests or concerns, rather than savings from debt relief being spent on the strategic priorities identified by debtor countries and their populations. Green conditionality might be seen as less problematic than other types of conditionalities, but it is still a breach of the country's sovereignty. Green conditionalities are a form of institutional influence that, in the end, undermine democratic country ownership of economic and environmental policies.

In summary, progress on debt swaps could help to free up resources for investment needs if well defined and substantially scaled up, but it should not be seen as a solution for unsustainable debts nor as a substitute for climate finance commitments.

Box 6: Debt restructuring for climate action

Members of the V20 promoted in October 2021, right before the COP26 summit in Glasgow, a statement with a proposal for a major debt restructuring initiative for climate-vulnerable countries that are overburdened by debt.¹³² This type of restructuring should include some level of debt write-off, as well as the commitment from beneficiary countries to devote the freed-up resources on their own plans to achieve climate resilience and prosperity. The proposal also includes a call for an enhanced Debt Sustainability Analysis, in order to account for climate and other sustainability risks and spending needs for climate action and achieving the SDGs.

This proposal is inspired by reports from the series *Debt relief for green recovery* published by Boston University Global Development Policy Centre, the Heinrich Böll Foundation and the Centre for Sustainable Finance at SOAS, University of London, in June 2021.¹³³ The report constitutes "a call for an ambitious, concerted, and comprehensive debt relief initiative that should be

adopted on a global scale to free up resources to support recoveries in a sustainable way, boost economies' resilience, and foster a just transition to low-carbon economy". Under this mechanism debt relief should be available to all countries that commit to invest in "green and inclusive recoveries". It also includes the creation of a Guarantee Facility, that the authors propose should be managed by the World Bank, to incentivise private creditor participation in the debt restructuring. "The facility would back the payments of newly-issued sovereign bonds that are swapped with a significant haircut for old and unsustainable debt."

These two proposals, both very aligned with each other, have received a lot of attention. Debt cancellation may undoubtedly offer possibilities to invest in climate action or green and inclusive recovery. In this sense, they can be very positive solutions as long as they are led by debtor countries, respecting their sovereignty when choosing the strategic priorities of investment of released resources.

6. Time for reparations: Calls to action for a fair resolution of the twin debt and climate crises

The international community has so far failed to provide adequate support for SIDS to be able to deal with the dual impacts of the climate and debt crises. In part, this incapacity to respond to the challenges is due to the shortcomings of the existing financial architecture and unwillingness among creditor countries to reform it. However, there is also a lack of will amongst countries in the Global North to fulfil the climate finance and aid commitments. The very critical economic outlook for SIDS and the life-threatening challenges that communities in SIDS are facing are simply not being given the due recognition or the response they deserve by the international community.

By endorsing the principle of common but differentiated responsibilities (CBDR) on the climate crisis, but not fulfilling the climate finance commitments or agreeing to provide sufficient finance to address loss and damage, countries in the Global North are showing that there is no real acknowledgement of the responsibility they have for climate change. They fail to acknowledge the climate debt that the Global North has with the Global South due to their disproportionate contribution to carbon and other greenhouse emissions.

A fair response to the multiple crises in SIDS should start with this recognition of climate and other ecological, social and historical debts that countries in the Global North have with them. A debt that started with slavery and colonialism, but that continued with neo-colonial resource pillage and unfair trade, financial and political relations that have lasted for centuries. In this historical context, responses to the climate and debt crises should start with the recognition and reparations for climate and ecological debt. Climate finance commitments and debt cancellation should be part of a wider set of structural and financial reparations that should also include ecological restoration, phasing out fossil fuel subsidies, ending extractivism and shifting to decarbonised modes of production, distribution and consumption.¹³⁴

As the journalist Anders Lustgarten wrote in a recent report on the debt and climate crises in Barbados, since “Caribbean countries are paying a tangible price now in lives and in dollars because of the emissions of wealthier nations, perhaps the suggestion that lenders forgive debt isn’t about kindness but about obligation – about seeing it as a kind of back tax that they owe to society and to frontline societies, in particular”.¹³⁵ Reparations are a way to decolonise the international climate and financial architecture¹³⁶ but also open a door to systemic change. As the philosophy professor Olúfemi O. Táíwò stated, “Reparations are central to the expansive project of building a more just world, not just a mechanism of redress for past harms”.¹³⁷

Beyond the profound change that we need to see in the world and economic system in order to redress the climate emergency and the unsustainable debt accumulation, there are other alternatives to the existing limited responses, that governments and international institutions could pursue and that would support SIDS in tackling the existing challenges. The following calls for action include financial architecture reforms and immediate policy proposals that would work for all countries in the Global South, but that would be particularly relevant in the case of SIDS.

Actions for immediate implementation

1. Immediate and unconditional debt cancellation:

Unconditional debt cancellation should be granted to all developing countries in need of it, and that have unsustainable and illegitimate debts, including debt generated by fossil fuel projects. The scope of the debt cancellation should cover official, bilateral, multilateral and private creditors, and should consider long-term financing needs to achieve the SDGs, climate goals and human rights and gender equality commitments. Not taking sufficiently ambitious action in relation to debt cancellation, amidst a growing debt crisis, will leave SIDS even more ill-prepared to deal with the climate challenges they face. Finally, debt cancellation should be free of conditionalities, including green conditionalities, “in order to enable sovereign and participatory policy decisions by those countries so they can meet their human and nature rights’ responsibilities.”¹³⁸

2. Access to non-debt creating or concessional climate finance:

As we identified, SIDS urgently need to increase their fiscal space so that they are able to tackle the economic recovery, the reduction of inequalities as well as the fight against climate change. As Barbados Prime Minister Mia Mottley states, “failure to provide enough critical funding to small island nations is measured in lives and livelihoods in our communities. This is immoral, and it is unjust.”¹³⁹ However, it is key that access to more financing does not exacerbate the debt vulnerabilities. Climate finance should be non-debt creating and without conditions.¹⁴⁰ As Oxfam stated “the world’s poorest countries and communities should not be forced to take out loans to protect themselves from the excess carbon emissions of rich countries”.¹⁴¹ In fact, the ‘common but differentiated responsibilities (CBDR)’ principle in the UNFCCC Convention text is being broken when climate finance is provided in the form of loans, at the full cost, with interest, falls on the shoulders of the Global South country receiving them. Therefore, bilateral

public donors and multilateral development banks should be ready to provide the necessary finance, including for adaptation and loss and damage, with priority given to grants over loans. Highly concessional loans should be used only under certain conditions. Furthermore, SIDS need to have ensured a genuine access to high-quality, new and additional climate finance, while additionality must be defined. The democratic ownership of climate finance strategies must also be protected and based on developing countries' needs. As Eurodad proposes, "This must be responsive to the needs of different members of society, including women, non-binary and gender-nonconforming communities, indigenous, racialised and ethnic groups, and the disabled community."¹⁴² Finally, a comprehensive monitoring and reporting framework that covers bilateral, multilateral, intermediary and private finance flows should be put in place.

3. Introduce multidimensional vulnerability indicators

to define access to concessional finance: In relation to the access to affordable climate finance, one of the challenges for SIDS is graduating to a higher income per capita category, since this graduation reduces their access to grants and concessional finance, while inequality and poverty, together with the climate emergency, remain a challenge in the country. Many voices have highlighted in the past years the need to leave 'income per capita' as a threshold behind. Instead, SIDS have reiterated calls to develop multidimensional vulnerability indicators (MVI), which can help to grasp countries' needs and vulnerabilities in a much more accurate way, and define access to concessional finance based on such needs and vulnerabilities. For the last three decades, a plethora of UN General Assembly resolutions also carried similar repeated calls for the "development and coordination of work within the UN system on a multidimensional vulnerability index for SIDS".¹⁴³ This index is being developed by the UN and SIDS countries. Advancing towards such a multidimensional vulnerability index could also inform a new approach to debt sustainability and improve debt restructurings, as it could lead to better access to debt cancellation and debt treatment frameworks to all countries in need, regardless of their income per capita.

International financial architecture reforms

1. Multilateral sovereign debt resolution framework: All countries facing risks of debt distress should have a timely and comprehensive process available to restructure their debts, including debt cancellation when needed, based not only on payment capacity analysis but also on the financial needs to cope with the climate crisis and to advance towards the SDGs. Unfortunately, the existing debt architecture does not offer any guarantees that a country in default or facing risks of default, can have such a process available. As the UN Secretary-General states, "a wider reform of the international debt architecture should be considered urgently to address rising vulnerabilities and deteriorating global financing conditions, drawing on reform options to improve sovereign debt resolution that have long been discussed but have not yet advanced."¹⁴⁴ Following this direction, Governments and international organisations should support and work towards the creation of a permanent multilateral sovereign debt resolution framework that, under the auspices of the UN, ensures the primacy of human rights over debt service and a rules-based approach to orderly, fair, transparent and durable debt crisis resolution, in a process convening all creditors.¹⁴⁵ As the UN independent expert on debt and human rights puts it: "Debt restructuring is complex, time consuming and costly and, in times of crisis, the lack of an available mechanism often leads to a panicked search for a solution. The pandemic has made it imperative that we [do] not wait for another crisis to renew efforts to have such a multilateral mechanism."¹⁴⁶ AOSIS called in their note to the UN Secretary-General and Member States in July 2020 for short-term "instruments to provide debt relief including through debt cancellation, debt suspensions, debt rescheduling and restructuring, as well as other support measures" for SIDS and medium-term reforms including "a multilateral debt workout mechanism to reduce external debt to a sustainable level".¹⁴⁷

2. Automatic mechanism for debt payments moratorium and comprehensive restructuring in the wake of external catastrophic shocks:

The cases of several developing countries, not only SIDS, facing debt payments amidst the emergency produced by a destructive storm or massive floods, has raised the need for an automatic debt payment standstill mechanism in the wake of such catastrophic events. Leaving the financial resources available in the country on the ground is simply the easiest, fastest and most reliable way to provide support for emergency relief and the first efforts towards reconstruction. In the wake of such events – including climate-extreme events, but also geological events, health pandemics or other external

catastrophic shocks – debt payments could be automatically and temporarily suspended for a determined period. Civil society organisations (CSOs) have been supportive of the development of such an automatic mechanism for debt payments suspension, covering public and private lenders, in the aftermath of such shocks. After a period for assessing the impacts of the shock, a debt sustainability analysis should be conducted, considering the losses and damages, as well as the financing needs for recovery and reconstruction, providing the debt restructuring and debt cancellation needed in each case, again involving all creditors.

3. Responsible borrowing and lending: A long-awaited issue for the international community has been agreeing on common and binding principles on responsible borrowing and lending, and ensuring compliance with it. Following these principles, any newly contracted or restructured debt, governments and IFIs should include in their lending contracts, and promote among private lenders, state contingent clauses tied to both climate, geological, health and other economic exogenous shocks – such as a sudden change in commodity prices.

4. Review of debt sustainability frameworks: The pre-eminent approach to debt sustainability is fairly limited to that of capacity of payment. As a result, the existing debt sustainability analysis methodologies (IMF and World Bank Market Access Countries Debt Sustainability Framework – MAC DSA – and Low-Income Countries Debt Sustainability Analysis – LIC DSA) also remain a challenge to countries like SIDS, facing multiple vulnerabilities that are ignored when analysing the sustainability of these countries' debts. For instance, the financial needs to tackle climate vulnerabilities, risks and impacts, or structural income inequality are not considered. The updated MAC DSA incorporates specific vulnerabilities in the long-term analysis, including climate risks, but these are not part of the actual assessment of over-indebtedness risks. In our view, debt cannot be considered sustainable if its payment prevents a country from affording to implement climate resilience plans or advancing the SDGs. As the V20 states, climate-vulnerable countries need comprehensive and enhanced DSAs "that integrate climate and other sustainability risks, climate resilience benefits, as well as estimates of a country's financing needs for climate change adaptation, mitigation, and achieving the broader goals set out in the 2030 Agenda for Sustainable Development Goals. These risks and spending needs must be included to properly assess a country's debt sustainability capacity in the face of the climate crisis and to drive investments toward climate resilience."¹⁴⁸ In conclusion, a new approach to debt sustainability should not only look

at climate vulnerabilities, risks and impacts, but should also incorporate human rights and development impact assessments, in order to consider also the impact of a country's debt burden on its ability to meet its SDGs, climate resilience, gender equality and to create the conditions for the realisation of all universal human rights.

5. Global Public Debt Transparency Registry: The call for further debt transparency is today broader than it ever was. During the research undertaken to produce this report, we encountered numerous data gaps. The World Bank published a comprehensive report recently on the lack of transparency in developing countries' debt and the risks of hidden debts in debt resolution processes.¹⁴⁹ However, the partial and creditor-led responses to the lack of transparency, including the OECD's Debt Transparency Initiative,¹⁵⁰ have not produced any significant results so far.¹⁵¹ CSOs have been calling for new mandatory rules to ensure that lenders and borrowers disclose information on loans and other debt-creating instruments, proposing the creation of a publicly accessible registry of loan and debt data, housed in a permanent institution, independent of lenders and borrowers.¹⁵² The gaps in data found while working on this report are a striking example of the need for further and more systematic debt transparency and access to debt data also in the case of SIDS.

Annex: Detailed data on SIDS government spending, austerity and debt

Table I. External public debt service to government revenue ratio

	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Belize	15.4%	16.3%	15.7%	14.6%	16.0%	15.6%	31.3%	29.2%	28.1%	26.3%	23.0%
Cabo Verde	9.7%	9.9%	10.0%	10.1%	10.5%	13.0%	24.5%	23.9%	22.9%	21.3%	18.8%
Comoros	3.4%	3.4%	1.0%	1.4%	0.2%	2.3%	6.3%	9.6%	14.3%	15.8%	14.6%
Dominica	8.9%	7.5%	10.3%	10.8%	10.7%	8.4%	9.7%	9.5%	8.7%	13.3%	6.1%
Dominican Republic	29.8%	17.0%	13.6%	15.0%	16.2%	40.2%	16.1%	14.4%	13.7%	17.5%	18.1%
Fiji	25.2%	5.5%	4.1%	4.2%	12.6%	24.2%	6.2%	6.3%	6.6%	5.8%	5.0%
Grenada	9.1%	16.8%	19.0%	16.2%	16.1%	15.1%	15.6%	16.1%	15.7%	14.9%	14.1%
Guinea-Bissau	2.1%	2.7%	3.6%	3.9%	4.6%	6.8%	10.4%	13.7%	15.0%	15.3%	13.7%
Guyana	5.1%	5.0%	5.2%	6.4%	5.8%	6.1%	6.3%	4.3%	4.0%	3.6%	3.2%
Haiti	2.1%	5.8%	0.7%	0.5%	0.8%	0.9%	8.1%	7.9%	6.5%	6.1%	6.0%
Jamaica	29.7%	44.2%	28.9%	21.8%	40.5%	26.4%	17.5%	22.7%	17.4%	23.0%	24.7%
Maldives	8.5%	8.1%	8.9%	26.9%	27.3%	27.6%	30.3%	42.4%	27.3%	11.2%	13.3%
Mauritius	4.9%	5.3%	9.1%	5.4%	5.9%	14.9%	8.7%	7.6%	6.0%	4.4%	4.0%
Papua New Guinea	2.2%	2.9%	3.7%	4.2%	10.7%	28.9%	11.7%	6.9%	7.3%	7.8%	7.6%
Samoa	8.8%	9.4%	9.4%	10.4%	8.9%	7.0%	10.2%	11.7%	11.2%	10.5%	9.2%
São Tomé & Príncipe	2.0%	1.8%	3.5%	4.0%	8.7%	1.3%	6.6%	5.2%	5.5%	6.5%	5.9%
Solomon Islands	1.2%	1.4%	1.1%	0.9%	1.2%	1.2%	1.5%	1.6%	1.3%	1.3%	1.3%
St. Lucia	17.3%	11.1%	10.2%	9.7%	10.1%	12.4%	8.0%	7.4%	6.8%	6.2%	6.7%
St. Vincent & the Grenadines	16.1%	13.4%	13.8%	15.9%	14.4%	12.8%	14.4%	14.1%	11.8%	11.4%	11.6%
Tonga	4.2%	3.8%	2.8%	5.0%	2.6%	2.8%	8.1%	6.8%	7.9%	7.8%	7.8%
Vanuatu	2.4%	2.9%	2.7%	4.4%	4.2%	4.0%	4.2%	4.2%	5.3%	5.1%	5.3%
SIDS Average	9.9%	9.3%	8.4%	9.1%	10.8%	12.9%	12.2%	12.6%	11.6%	11.2%	10.5%

Table II. Changes in government expenditure

	2019-2025 (% GDP)	2019-2025 (% reduction in US\$ bn)	2019-2025 (US\$ bn)
Antigua and Barbuda	-0.066	19.08%	0.07286
The Bahamas	3.095	32.20%	0.849209
Bahrain	-7.4	-2.02%	-0.25511
Barbados	0.606	25.87%	0.369355
Belize	-0.156	18.52%	0.121243
Cabo Verde	0.737	33.29%	0.206126
Comoros	-0.931	26.62%	0.063826
Dominica	-0.576	26.18%	0.074893
Dominican Republic	0.273	53.98%	7.974021
Fiji	-1.843	14.93%	0.248067
Grenada	4.501	41.91%	0.110022
Guinea-Bissau	1.799	62.69%	0.17521
Guyana	-9.672	114.24%	1.676674
Haiti	2.016	86.08%	1.288812
Jamaica	-4.058	-3.19%	-0.14984
Kiribati	-17.73	25.07%	0.059167
Maldives	-0.054	27.61%	0.519506
Marshall Islands	-1.568	28.59%	0.043691
Mauritius	-3.91	-6.43%	-0.28131
Micronesia	0.526	19.06%	0.047748
Nauru	-15.436	5.29%	0.007487
Palau	-5.789	0.19%	0.000229
Papua New Guinea	-2.37	30.22%	1.551933
Samoa	3.574	27.24%	0.078948
São Tomé and Príncipe	3.292	77.32%	0.073512
Seychelles	1.014	23.15%	0.135686
Singapore	1.412	45.64%	24.0229
Solomon Islands	1.315	34.61%	0.182948
St. Kitts and Nevis	-7.103	-6.81%	-0.02878
St. Lucia	-0.61	16.32%	0.085704
St. Vincent and the Grenadines	3.168	39.88%	0.10955
Suriname	-18.219	-51.62%	-0.87048
Timor-Leste	17.673	39.83%	0.555899
Tonga	5.82	44.56%	0.087882
Trinidad and Tobago	-0.878	4.44%	0.324591
Tuvalu	-2.903	47.94%	0.029196
Vanuatu	-3.273	20.30%	0.075182

Table III. Main Austerity Measures in Article IV reports and IMF programmes in SIDS, 2020-2022

	Targeting Social Protection	Wage Bill Cuts/Caps	Eliminating Subsidies	Privatisation Public Services/ SOEs	Pension Reform	Labor Flexi- bilisation	Social Security Con- tributions /Tax Wedge	Contain Health Expenditures	VAT	PPPs	Fees/ Tariffs for Public Services
Bahamas	1	1	1	1	1	1			1		1
Barbados		1	1	1	1	1		1	1	1	1
Cabo Verde	1			1	1						
Dominican Republic	1										
Fiji	1		1	1		1			1		
Grenada	1										
Haiti	1	1	1					1	1		
Jamaica	1	1		1	1				1		
Maldives	1	1									
Mauritius		1			1	1				1	
Papua New Guinea		1		1							
Samoa	1		1				1		1		
São Tomé & Príncipe	1	1	1	1		1		1	1		1
Seychelles	1	1	1	1	1				1		
Solomon Islands	1	1		1					1		
St. Lucia	1	1				1			1		
St. Vincent & the Grenadines		1							1		
Suriname	1	1	1	1					1	1	1
Timor-Leste	1						1		1	1	
Trinidad and Tobago	1		1	1					1		
Vanuatu	1			1							
Total	17	13	9	12	6	6	2	3	14	4	4

Source: Isabel Ortiz and Matthew Cummings, 'End Austerity: A Global Report on Budget Cuts and Harmful Social Reforms in 2022-25'

Table IV. Public debt-to-GDP in SIDS

	2019	2020	2021	2022	2023	2024	2025	2026
Antigua and Barbuda	82.5	99.9	105.4	98	92.8	87.7	82.8	78.5
Bahamas	59.7	75	103.3	90.6	84.2	82.8	81.7	81.1
Bahrain	102	130	129	116	118	n.a	n.a	n.a
Barbados	123.2	147	135.4	119.9	112.8	106.7	99.9	93.4
Belize	96.3	133.1	111	102.5	97.7	95.9	94.2	92.8
Cabo Verde	114	142.6	143	145.9	139.7	132.5	124	116.2
Dominica	94.2	106	100.9	100.3	97.5	94.3	92	90.8
Dominican Republic	53.2	70.3	62.1	59.2	57.5	56.6	55.8	54.9
Fiji	94.2	106	100.9	100.3	97.5	94.3	92	90.8
Grenada	58.5	71.4	70.3	69	66.5	64.4	58.9	53.6
Guinea-Bissau	64	76.5	78.5	78.4	76.4	73.9	71.2	68.8
Haiti	26.9	22.7	27.1	27.3	26.1	26.4	26.8	
Jamaica	94.3	108.1	91.6	84.7	78.4	75.4	66.7	63.3
Maldives	78.3	146	137.2	133.3	128.2	128.4	126.8	122.9
Mauritius	84.6	99.2	92.4	88.1	86.1	85.2	84.4	83.8
Micronesia	18.5	16.5	15.3	14.6	13.6	17.1	21.3	25.6
Nauru	62.8	61.4	27.1	27.3	24.8	23.4	22.1	18.8
Palau	62.1	85.7	90.3	74	71.1	66.7	62.1	
Papua New Guinea	40.2	47.1	50.9	49.5	48.9	50.5	41.7	39.9
Saint Lucia	62.1	96.9	92.2	91.8	90	89.4	89	88.3
St. Vincent & the Grenadines	75.2	86.9	103.7	96.8	93.2	90.9	89.4	84.8
Samoa	46.7	49	54.1	56.8	56.4	56	55.6	
São Tomé & Príncipe	99.9	87.1	95.6	94	91.3	86.6	80.8	73.7
Seychelles		88.7	76.2	73.3	67	61.3	55.5	50.1
Singapore		152	160.2	155.3	154.4	154.6	152	149.8
Solomon Islands	8.2	13.1	16.2	18.3	20.7	23.1	25.6	28.3
St. Kitts and Nevis	51.7	61.1	60.8	54.4	51.4	49.5	47.7	45.9
Suriname	85.2	147.7	125.3	132.2	116.2	119.5	105	99
Timor-Leste	11.5	13.9	17.2	19	20.5	22.1	23.4	24.6
Tonga	41.3	43.6	47.5	47.6	45.5	47.9	54.5	62.2
Trinidad and Tobago	61.9	79.6	87.2	88.4	87	84	81.8	79.5
Tuvalu	11.5	7.3	6.1	5	4	3.4	2.9	2.4
Vanuatu	46.1	50.1	47.5	50.2	51.4	53.2	55.5	56.8
AVERAGE	64.9%	82.5%	80.7%	77.6%	74.7%	72.0%	69.5%	69.7%

Source: Eurodad calculations based on data from IMF/WB DSAs from 2021 and 2022. Includes external and domestic, and public and publicly guaranteed debt. Data available for 33 countries. In red, those above the SIDS average.

Table V. External public and publicly guaranteed debt-to-GDP

	2017	2018	2019	2020
Belize	66.72%	66.74%	66.09%	88.82%
Cabo Verde	100.40%	89.23%	91.25%	118.71%
Comoros	14.80%	18.63%	19.50%	21.08%
Dominica	50.71%	44.67%	40.99%	54.64%
Dominican Republic	25.27%	26.97%	30.62%	43.20%
Fiji	14.07%	13.22%	12.97%	19.75%
Grenada	43.97%	42.79%	39.24%	47.71%
Guyana	23.90%	25.16%	24.26%	23.24%
Guinea-Bissau	26.09%	29.13%	35.68%	49.51%
Haiti	13.00%	12.27%	13.61%	13.97%
Jamaica	67.05%	62.04%	59.42%	66.25%
Maldives	25.96%	37.80%	39.73%	75.96%
Mauritius	11.67%	10.08%	9.81%	17.47%
Papua New Guinea	10.14%	14.15%	17.43%	20.72%
Samoa	49.96%	49.09%	45.49%	48.79%
São Tomé & Príncipe	65.35%	54.89%	52.69%	50.94%
St. Lucia	24.52%	24.19%	25.59%	37.34%
St. Vincent & the Grenadines	36.95%	34.53%	36.95%	43.00%
Timor-Leste	6.84%	9.14%	9.34%	11.58%
Tonga	39.90%	36.32%	34.62%	37.81%
Vanuatu	32.68%	34.31%	38.65%	42.69%
AVERAGE	35.71%	35.02%	35.43%	44.44%

Source: Eurodad calculations based on World Bank International Debt Statistics for Public and Publicly guaranteed external debt and IMF WEO for GDP.

Table VI. Top 35 SIDS sovereign bonds managing firms

	US\$ millions	Per cent of total
BlackRock	3,048.08	13.7%
PIMCO	1,653.27	7.4%
The Vanguard Group, Inc	1,010.61	4.5%
Eastspring Investments (Singapore) Limited	685.11	3.1%
T Rowe Price Associates Inc	617.99	2.8%
Fidelity	595.40	2.7%
JP Morgan Asset Management	578.60	2.6%
Nikko Asset Management	538.81	2.4%
AllianceBernstein	535.95	2.4%
Schroder Investment Management	449.63	2.0%
NN Investment Partners	442.88	2.0%
Amundi Asset Management	425.89	1.9%
Eaton Vance Management	390.08	1.8%
Vontobel	362.20	1.6%
M & G Investment Management Ltd	345.62	1.6%
TCW Asset Management Company	340.26	1.5%
MFS Investment	335.17	1.5%
RBC Global Asset Management Inc	331.60	1.5%
State Street Global Advisors	319.19	1.4%
UBS	309.93	1.4%
Grantham Mayo Van Otterloo & Co LLC	288.49	1.3%
Credit Suisse	285.28	1.3%
Goldman Sachs	236.87	1.1%
Franklin Templeton	232.34	1.0%
Legal & General Investment Management Ltd	230.07	1.0%
Invesco	210.92	0.9%
Degroof Fund Management Company	196.75	0.9%
Manulife Asset Management	196.06	0.9%
Wellington Management Company LLP	192.05	0.9%
Pictet Asset Management	190.00	0.9%
TIAA Global Asset Management	185.74	0.8%
Ashmore Investment Management Ltd	177.31	0.8%
DWS Investment GmbH	174.92	0.8%
Aviva Investors Global Services Limited	158.58	0.7%
HSBC Global Asset Management	155.31	0.7%
Others	5,816.22	26.1%

Source: Eurodad based on data from Refinitiv.

Endnotes

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