



Case study



# Breaking the cycle of debt in Small Island Developing States (SIDS): the Antigua and Barbuda experience

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## **Abstract**

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Antigua and Barbuda has a high and unsustainable debt burden. Its high indebtedness has been a persistent and unresolved problem for several decades. Antigua and Barbuda appears locked in repeated cycles of 'recovery then disaster' which leads to a situation in which debt is never able to be fully brought under control. One of Antigua and Barbuda's core challenges is its inability to access financing on concessional terms.

Antigua and Barbuda is in substantial arrears to many of its principal bilateral lenders, with a string of previous debt reprofiling operations having failed to restore debt sustainability to the country. Conversations on more ambitious debt treatments appear at a stalemate however, with the current impasse benefiting no one. The paper presents a series of recommendations on how both Antigua and Barbuda and its official sector lenders can approach debt discussions more constructively, and underscores the need for Antigua and Barbuda to have access to affordable financing on concessional terms if it is to have any hope of increasing spending on achieving the SDGs and transforming its economy.

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# Acronyms

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<b>AOSIS</b>	Alliance of Small Island States
<b>CDB</b>	Caribbean Development Bank
<b>ECCU</b>	Eastern Caribbean Currency Union
<b>GDP</b>	gross domestic product
<b>ODA</b>	Official Development Assistance
<b>RGSM</b>	Regional Government Securities Market
<b>SDG</b>	Sustainable Development Goal
<b>SIDS</b>	Small Island Developing State
<b>SIRF</b>	Sustainable Island Resource Framework

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# 1 Antigua and Barbuda: a snapshot of climate vulnerability, social and economic development

Antigua and Barbuda is a highly indebted Small Island Developing State (SIDS) located in the Caribbean. Antigua and Barbuda forms part of what is historically known as the Leeward Islands. This is a group of Caribbean islands situated in the north-east, which forms a wedge between the Caribbean Sea to the west and the Atlantic Ocean to the east.

The twin-island state officially comprises three islands: Antigua, Barbuda and Redonda. However, of these, only Antigua and Barbuda are inhabited. Antigua and Barbuda is small in both geographical size – with a combined area of 441 km<sup>2</sup> – and population. At the end of 2022, Antigua and Barbuda recorded a population of just over 100,000; over 98% of whom are living in Antigua.

**Table 1** Antigua and Barbuda: selected indicators

Antigua and Barbuda			
Area	441 km <sup>2</sup>	Human Development Index rank (2021)	71
Population (2022)	100,772	Income classification (2022)	High
Gross domestic product (GDP) per capita (\$) (2022)	17,441	Environmental vulnerability (2023)	High

Source: IMF (2024); World Bank (2023); UNDP (2022).

As is typical of most SIDS, Antigua and Barbuda is highly vulnerable to disasters. Located in the Caribbean’s ‘hurricane belt’, it is not only vulnerable to hurricanes but also to droughts and floods. Since 2000, Antigua and Barbuda has been hit by eight major hurricanes, with their frequency and intensity increasing over the years. In 2017, Antigua and Barbuda was hit by three hurricanes in quick succession – two of which were Category 5<sup>1</sup> hurricanes – which had catastrophic effects. Infrastructure on the island of Barbuda was either severely damaged or completely destroyed, and almost the entire Barbudan population had to be evacuated. Immediate damage from those storms amounted to \$136 million or 9.3% of GDP (International Monetary Fund, 2023a).<sup>2</sup>

Extreme weather events combine with slower-onset climate events to exacerbate the country’s environmental vulnerability. In particular, Antigua and Barbuda’s climate makes it highly

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1 These are the most powerful and destructive category of hurricanes classified by meteorologists.  
2 Data from the Antigua Meteorological Service indicates that, on average, there is a chance of a hurricane affecting Antigua and Barbuda once every three years (International Monetary Fund, 2023).

susceptible to drought, with this vulnerability intensifying due to climate change. Severe droughts are likely to occur every 5 to 10 years and the twin-island state experienced the worst on record from 2013 to 2016. Rising sea levels will also pose an increasing threat to the twin-island state's economic viability. It is projected that, with a 1 m sea level rise, Antigua and Barbuda will lose 2% of its land area by the end of this century (UNDP, 2010).

Antigua and Barbuda is a member of the Eastern Caribbean Currency Union (ECCU): a regional grouping which comprises six member states and two overseas territories. Antigua and Barbuda, along with other members of the ECCU, shares a common currency and is supervised by a single central bank: the Eastern Caribbean Central Bank. A significant feature of this arrangement is that countries within the ECCU cannot use monetary policy to implement countercyclical policies in the event of a shock. The sole policy tool at their disposal is fiscal policy, which often has negative implications for containing the public debt. In times of weak economic activity, governments cannot rely on the lowering of interest rates to stimulate economic activity. Instead, fiscal expenditures are relied on as the main policy to provide the necessary social safety net and to stimulate growth, leading to expanding deficits financed primarily by debt.

Antigua and Barbuda distinguishes itself as being just one of two<sup>3</sup> ECCU member countries that is classified as a high-income country. This income status, however, acts as a major impediment to accessing concessional finance, as it makes the country ineligible for Official Development Assistance (ODA) from multilateral and bilateral donors. Unlike its upper-middle-income ECCU peers, Antigua and Barbuda also cannot access International Development Association blended financing from the World Bank. This is available to certain other small states on an exceptional basis, despite their higher income levels. For much of the past two decades, Antigua and Barbuda has maintained this income classification. Reversals in status occurred for brief intervals from 2003 to 2004, and from 2009 to 2011; during these periods, marked contractions in economic activity, on the heels of severe external shocks, led to per capita income declines. However, these short-lived reversals did not lead to renewed access to concessional funding and instead they were demarcated by increased accumulation of arrears, particularly with Paris Club Creditors including the United States (US), United Kingdom (UK), France, Japan and the Netherlands. Considerable arrears were also built up with non-Paris Club creditors such as China, Brazil and Kuwait.

On the United Nation's Human Development Index, Antigua and Barbuda ranks 71 out of 191 countries (UNDP, 2024). It is the fifth highest-ranked Caribbean country, surpassed only by the Bahamas, Barbados, Grenada, and Trinidad and Tobago. Despite its high-income status and high human development rank, it has significant income inequality. The Gini coefficient – a measure of income inequality – for Antigua and Barbuda is the highest of all countries in the Caribbean, at 0.48. In effect, the poorest 20% in Antigua and Barbuda enjoy only 5% of the country's income, whereas the richest 20% enjoy 56% of the country's wealth. It is estimated that almost 30% of

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3 The other ECCU member is Saint Kitts and Nevis.

the country's population are either in poverty or at constant risk of falling into poverty. A poverty assessment in 2007 estimated that a downturn in the economy or an exogenous shock due to disasters, climate change or a pandemic, could push a further 10% of the population into poverty (GOAB, 2021).

Antigua and Barbuda shares the characteristic, common among SIDS, of having a very narrow resource base. Tourism and tourism-related activities account for the largest share of economic activity. Estimates by the World Travel and Tourism Council indicate that the total contribution of tourism to the economy is about 63% of GDP (WTTC, 2022). This makes Antigua and Barbuda the country with the sixth largest tourism concentration in the world.<sup>4</sup>

Antigua and Barbuda relies heavily on tourist arrivals from the US, UK and Canada. Almost 80% of tourists come from these three markets. The lack of market diversification translates into a high degree of sensitivity to the economic conditions in these major markets and their impact on tourism demand. Antigua also relies on government and offshore financial services to generate economic activity and provide employment. These sectors combined, however, contribute less than 20% to the overall economic activity of the country.

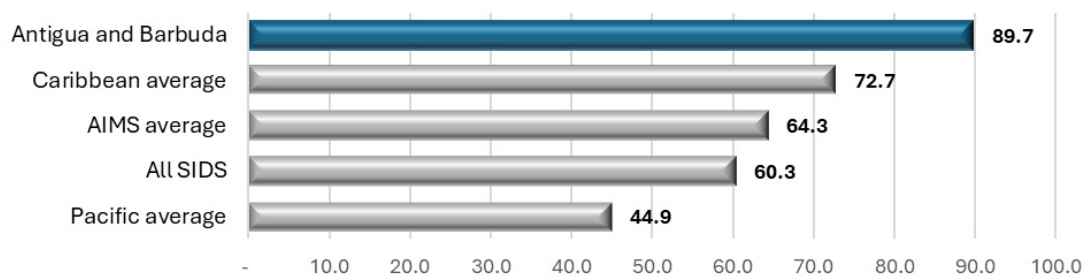
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4 Only one other country in the Americas, Aruba, surpasses this concentration.

## 2 Evolution of debt in Antigua and Barbuda

Antigua and Barbuda has had a long history of unsustainable debt. It started the 2000s as the most highly indebted country in the Caribbean with a debt-to GDP in excess of 100%. Over the past two decades, the country has slipped slowly to sixth place in this ranking, as gargantuan shocks and fiscal slippages have also affected other Caribbean nations and translated into escalating debt. However, the seeming intractable nature of Antigua and Barbuda's debt sets it apart. Antigua and Barbuda's debt has far surpassed regional averages. The country has ranked among the 10 most highly indebted SIDS for over two decades, ranking in the top five for four of the five years between 2014 and 2018.

**Figure 1** Debt-to-GDP of Antigua and Barbuda, and other SIDS by region, 2022 (in %)



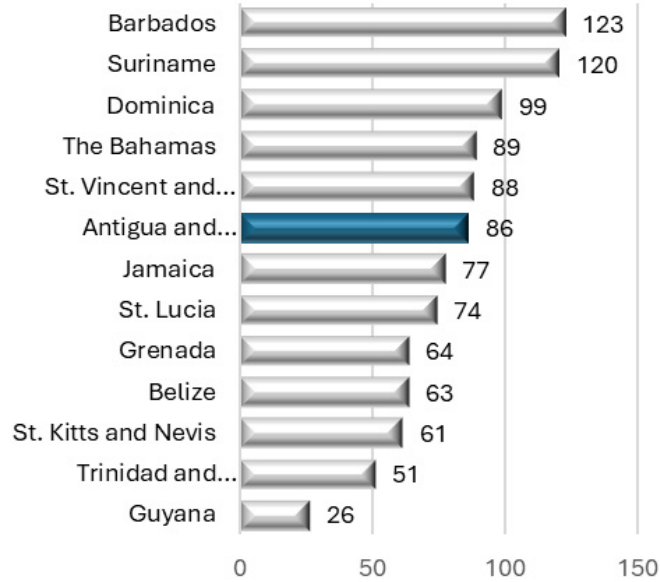
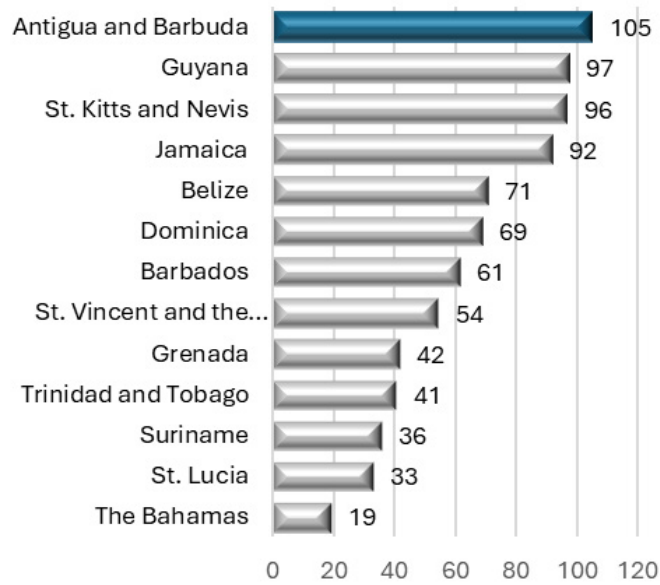
AIMS, Atlantic, Indian Ocean, Mediterranean and South China Sea.

Source: IMF (2023b).

### 2.1 The 1990s and the erosion of preferential trade agreements

Antigua and Barbuda's debt problems emerged in the late 1980s, when there was a significant deterioration in the fiscal accounts and widening deficits as the economy transitioned away from post-colonial sugar production towards tourism. The economic fallout came subsequent to the removal of preferential trade treatment for exports of sugar and bananas from the Caribbean into the UK and the European Union. As the economy contracted and unemployment grew, the Government of Antigua and Barbuda adopted a policy of 'employer of the last resort', triggering a substantial expansion in the public wage bill (CDB, 2013). The deterioration in the fiscal accounts was substantial and there was a rapid build-up of debt.

**Figure 2** Antigua and Barbuda: comparative debt-to-GDP ranking in the Caribbean, 2000 and 2022 (in %)



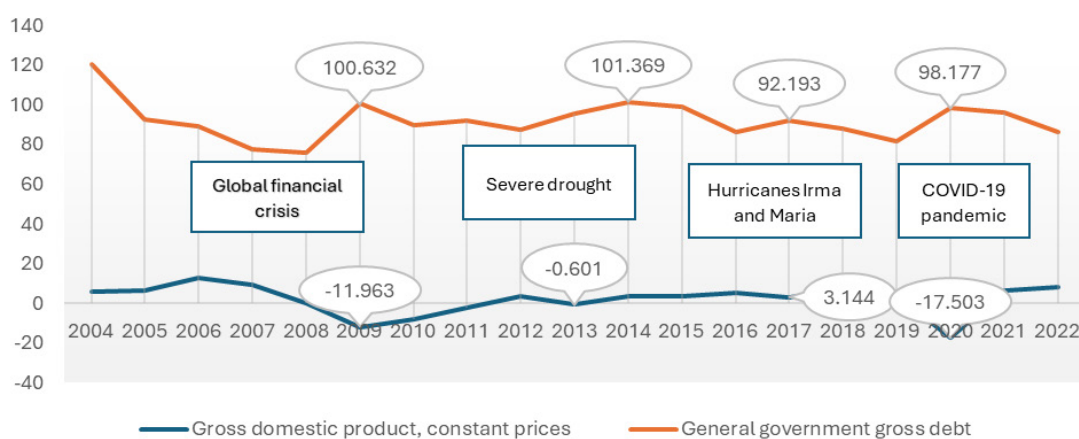
Source: IMF (2023b).

By 1990, Antigua and Barbuda's debt was high and unsustainable at 98% and, by 2000, it had breached the 100% line, to reach 105%. For the early part of the decade, Antigua was the most highly indebted country in the Caribbean, with a debt-to-GDP almost twice the average of all Caribbean countries combined.

## 2.2 The 2000s and an avalanche of shocks: external and internal

Since the start of the 2000s, Antigua and Barbuda's economic history has been characterised by relatively robust periods of economic growth and sustained declines in debt-to-GDP, punctuated by periods of severe crisis. Economic gains have been halted by sharp and scarring external shocks that have abruptly reversed these trends.

**Figure 3** Antigua and Barbuda: impact of real GDP on debt-to-GDP, 2004-2022 (in %)



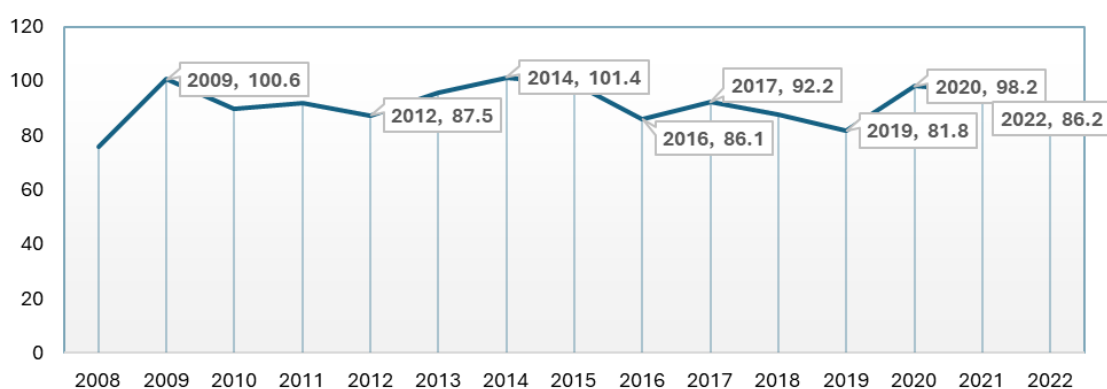
Source: IMF (2023b).

The early 2000s saw Antigua and Barbuda's public debt continue to mount, especially in the wake of the 2001 US 9/11 terrorist attacks. Tourism-dependent Antigua and Barbuda saw tourist arrivals plummet. The resulting contraction in economic activity led to further fiscal distress and a sharp ratcheting upwards of the debt. Public debt reached a historic high of 126.3% in 2002 and averaged an annual 123% in 2002 to 2004.

Economic activity revived robustly in 2003, especially in the tourist sector. This led to a sustained decline in Antigua's debt-to-GDP ratio until the onset of the global financial crisis in 2008. From a record high of 126% of GDP in 2002, debt-to-GDP declined to 76.0% in 2008. However, the global financial crisis and the ensuing global recession reversed the downward debt-to-GDP trajectory. The economy shrank by 12% in real terms and the fiscal deficit jumped from 6% of GDP to a record high of 19%.

Antigua and Barbuda also experienced further setbacks during this period. The twin external shocks of the global financial crisis, and steeply rising food and fuel prices collided with banking failures within the domestic financial sector. The collapse of the Stanford Group, as well as the Colonial Life Insurance Company and British American Insurance Company, severely impacted financial sector stability. The financial crisis, coupled with an already fragile fiscal position led to a substantial accumulation of payment arrears. At the end of 2009, debt arrears amounted to 45% of the public debt, or 53% of GDP (CDB, 2013). The accumulation of arrears is compounded by the penalties that they attract, and this is further worsening an already challenging situation in Antigua and Barbuda.

**Figure 4** Antigua and Barbuda: impact of external shocks and disasters, 2008–2022 (in %)



Source: IMF (2023b).

### 2.3 The impact of the two ‘C’s: climate change and the COVID-19 pandemic (2010 to the present)

The cycle of slow recovery and steep decline has continued into the 2010s and 2020s. External shocks, both climatic and economic, have halted growth and led to a perpetuation of unsustainable debt levels. Antigua and Barbuda bore witness to the increased frequency and intensity of hurricanes when it was hit by two hurricanes (Irma and Jose) in quick succession, and brushed by a third (Maria) during the 2017 hurricane season.<sup>5</sup> Scarce budgetary resources yet again had to be diverted to finance relief, recovery and rehabilitation. While damage amounted to \$136 million, the cost of reconstruction was estimated at \$222 million. While some donor support was forthcoming, it was hardly of the magnitude that could meet reconstruction costs. As in previous shocks, domestic budgetary resources had to be diverted to recovery. The subsequent pickup in activity was short-lived, as it was derailed by the advent of the coronavirus 2019

<sup>5</sup> In the Caribbean region, the hurricane season runs from June to November.

(COVID-19) pandemic. The economic decline elicited by the COVID-19 pandemic in 2020 was massive and immediate. Antigua and Barbuda's economy shrank by 18%. Public debt jumped from 82% of GDP to 98%.

Antigua and Barbuda has emerged from the COVID-19 pandemic to begin another cycle of economic recovery, very mindful that a single shock could erase the gains being made. The damage inflicted by the two worst shocks of the past 10 years – the 2017 hurricanes and the COVID-19 pandemic – have highlighted to the authorities the urgent need to become more resilient in the face of ever-growing climatic threats. The challenge for Antigua and Barbuda is how to accomplish this, given the level and composition of the debt, and the debt dynamics that currently prevail.

### 3 Current debt picture and trends

At the end of 2022, Antigua and Barbuda's debt could be described as high and unsustainable; at this time, it amounted to \$1,531 million or 87% of GDP. Despite this high level, this ratio was one of the lowest recorded in the past two decades, except for the years 2007, 2008 and 2019.

**Table 2** Antigua and Barbuda: level and composition of public debt

	2008	2010	2015	2020	2021	2022
In millions of \$						
Public debt outstanding	1,061.3	1,062.3	1,337.4	1,390.6	1,488.8	1,530.6
In %						
Domestic debt/total debt	58.3	55.6	54.6	52.1	52.0	53.2
External debt/total debt	41.7	44.4	45.4	47.9	48.0	46.8
Bilateral debt/total external debt	60.3	61.3	55.9	62.9	60.4	58.6
Paris Club debt/total external debt	37.1	20.7	16.4	25.7	24.4	24.7
Multilateral debt/total external debt	9.8	16.1	25.4	25.0	27.7	26.9
Securities/total domestic debt	6.9	7.3	19.8	32.8	38.3	39.2
Loans/total domestic debt	82.0	81.1	73.3	54.4	51.0	50.0

Source: IMF (2023b).

Antigua and Barbuda has historically been more heavily indebted domestically than externally. Since 2008, domestic debt has, on average, accounted for about 60% of total public sector debt. However, this share is slowly declining and, at the end of 2022, it amounted to 52% of the total. At the end of 2022, domestic debt was \$696 million, or 45% of GDP. The decline reflects the recent strategy of the authorities to rely more heavily on external financing to mitigate the impact of the rollover risk associated with shorter-term financing in the domestic market.

Domestic debt mainly comprises loans, which account for a 50% share. Reflecting the relative shallowness of the domestic regional market, securities, including those issued in the Regional Government Securities Market (RGSM) account for around 39% of total domestic debt. Suppliers' credits account for the remaining 11% share.

While traditional bank loans form a large share of domestic loan financing, much of Antigua and Barbuda's domestic borrowing has been from its statutory bodies, especially Social Security and the Medical Benefits Scheme. After 2010, however, concerns about mounting arrears to these institutions halted this practice, and the debt owed to these institutions has begun to decline.

External debt of \$611 million accounts for about 40% of total public sector debt. Official bilateral creditors have maintained the largest share, at approximately 60%. While the external debt share has not varied significantly over the past two decades, the creditor distribution has. Since Antigua and Barbuda's 2010 Paris Club debt restructuring, the share of debt owed to Paris Club creditors has declined. In its place, China has established itself as the biggest official lender to Antigua and Barbuda when compared to both bilateral and multilateral lenders. The dominance of China is reflected in the threefold increase in debt owed to it between 2008 and 2015. Debt increased from \$42.1 million to \$130 million over the period. Loans from China to Antigua and Barbuda have been from ExIm Bank of China (The Dialogue, 2024) and have been contracted on concessional terms at rates of around 1-2% (Andres Bello Foundation, 2024).

Except for China, ODA and, therefore, concessional financing from bilateral donors has waned as Antigua and Barbuda has graduated to be reclassified as a high-income country. Some ODA has still been provided, on an exceptional basis, to provide emergency financing. Lending from multilateral financial institutions has, to some extent, filled the gap. Compared to a 10% share of external debt in 2008, multilateral debt now accounts for almost three times that share in 2022.

Among Antigua and Barbuda's official multilateral donors, the Caribbean Development Bank (CDB) is the largest creditor. This is largely unsurprising. Antigua and Barbuda is not a member of the Inter-American Development Bank and, therefore, cannot access its various financing facilities. Antigua and Barbuda's high-income status makes the cost of borrowing from the CDB costly. The CDB classifies Antigua and Barbuda as a Group 2 (high-income) country and, as such, it gets less favourable terms than do CDB's Groups 3 and Group 4 member countries, which are all middle-income countries. The World Bank is also a major lender. However, it also lends on non-concessional terms. Antigua has no access to concessional financing under the International Development Association; the arm of the World Bank Group that provides concessional financing. Neither does Antigua and Barbuda, as a small state, qualify for concessional financing on an exceptional basis, unlike many of its Caribbean peers. Antigua and Barbuda has, therefore, sought within limited options to find alternative financing sources on more favourable terms.

The CDB has significantly stepped up financing to Antigua and Barbuda since Hurricane Irma and the onset of the COVID-19 pandemic. Funds have primarily been earmarked for reconstruction and rehabilitating infrastructure damaged by the 2017 hurricanes. The CDB has focused increasingly on financing climate resilience and has funded major investments to improve road infrastructure, water facilities, electricity and education. The CDB committed \$91 million to Antigua and Barbuda to aid post-hurricane recovery after Irma. The CDB also gave significant support to Antigua and Barbuda to support expenditures to mitigate the impact of the COVID-19 pandemic. Given Antigua and Barbuda's limited access to financing, it is likely that its loan exposure to CDB will continue to increase in the foreseeable future.

Antigua and Barbuda also benefitted significantly from concessional lending under Venezuela's Petrocaribe initiative. This was a trade arrangement under which Caribbean countries could

purchase oil at market value, but could repay up to 95% over a 17- to-25-year term at an interest rate of 1%. This initiative was crucial to Antigua and Barbuda, given its high dependence on imported fuel.<sup>6</sup> In 2020, some 50% of Petrocaribe debt was forgiven by the Venezuelan government. The funds released were channelled into social programmes that aimed to provide a social safety net to vulnerable groups, including the elderly. The debt write-off provided by Venezuela contrasts sharply with the limited relief obtained from the Paris Club, which simply reprofiled debts but did not cancel them.

On the domestic side, Antigua and Barbuda receives debt financing either through issuing securities on the RGSM, or through commercial bank loans. All these are transacted at market rates of interest. In 2022, new securities issuances had interest rates ranging from 3% to 6%, averaging close to 4% over the year. However, there are issues regarding the portfolio of existing Treasury notes and bills, which have interest rates almost double these, at around 7% to 8%.

Antigua and Barbuda's debt profile indicates high rollover risk.<sup>7</sup> This risk exposure stems from the country's large amount of short-term domestic debt, with debt securities becoming an increasing share. Foreign currency external debt poses significantly less risk because it is mostly denominated to the US dollar, which the Eastern Caribbean dollar has been pegged to for over 50 years. Unless there is a major shift in the exchange rate regime, only non-US currency debts represent foreign currency exposure. Antigua and Barbuda's medium-term debt strategy indicates a policy of capping this exposure at 15%.

Government-guaranteed debt (contingent liabilities) as a share of total public sector debt is relatively small, at 14%, but it is growing. These debts, of statutory bodies, pose a significant risk to the overall size of central government debt. In case of a default, these guarantees would be added to the government's balance sheet, worsening an already unsustainable debt position.

Antigua is challenged in how it can alter the structure of its debt, given the limited financing options that it has available. The government has made increasing use of the RGSM to finance the budget. Heavy reliance on issuing short-term securities places its debt costs at significant risk of increasing, should interest rates rise. Outside of intermittent project financing, however, there are few options available. In addition, the shift in composition towards securities rather than loans increases the potential difficulty of restructuring, should further payment difficulties arise. Securities, unlike loans, have multiple investors, making it far more difficult to obtain the required

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6 Under the terms of the initiative, Caribbean countries such as Antigua and Barbuda purchase oil and petroleum products on concessional terms. Beneficiaries pay for 60% of the oil upfront, while the remaining 40% is converted into a long-term loan with an interest rate of 2%.

7 This is the risk that the country will either have to pay higher rates of interest when debt is refinanced or that financing will be unavailable.

unanimous agreement in the event of the need to restructure terms. Holdouts – that is, investors who refuse to accept restructured terms – can delay the conclusion of debt restructuring for years.

With a debt-to-GDP ratio of over 70%,<sup>8</sup> Antigua and Barbuda's public debt has been assessed by the IMF as unsustainable. Although this ratio has declined since the end of the COVID-19 pandemic, the high stock of arrears is a major hurdle in achieving debt sustainability. The IMF stresses that, without comprehensive debt restructuring, paying down arrears will be 'infeasible' (IMF, 2024). Antigua and Barbuda's problems are further exacerbated by its limited access to concessional financing. This increases the risk that further arrears will be accumulated. The IMF estimates that arrears will likely grow by 3% after 2024, as this coincides with payments on restructured debts once more falling due. The increasing size of the arrears reflects not only the unpaid principal and interest on Paris Club debt, but penalty charges that have also been levied and continue to accrue. Without a comprehensive intervention, Antigua and Barbuda's arrears are projected to rise to 10% of GDP by 2028.

In addition to its unsustainable debt load, the IMF has identified three further potential sources of economic vulnerability. The first is the growing volume of contingent liabilities through the issuance of government guarantees. These off-balance sheet items could potentially threaten the recent downward trend in Antigua and Barbuda's debt-to-GDP and make the problem of achieving debt sustainability more intractable. The second is the ever-present threat of disasters, especially hurricanes and droughts. The third is a slowdown in activity in Antigua and Barbuda's major tourism markets, with debilitating effects on fiscal accounts, employment and economic growth. The IMF classifies the sovereign risk of debt distress as high, given these stressors.

In the 2024 Budget Statement, the Government of Antigua and Barbuda highlighted its intention to secure \$100 million in loan financing for rehabilitation and renovation works to its international airport. It also identified several other major projects to be implemented in 2024, which focus on education, roadworks, public utilities and building resilience. These projects highlight the heavy reliance on loan financing to achieve development priorities. Over the past decade, external loans have been used mainly to finance projects in road infrastructure, housing, education, transportation and communication. However, repeatedly, loans have had to be contracted to sponsor recovery and reconstruction after a disaster, rather than be directed towards advancing the development effort. Domestic debt has been used mainly for short-term cash management purposes (GOAB, 2019)

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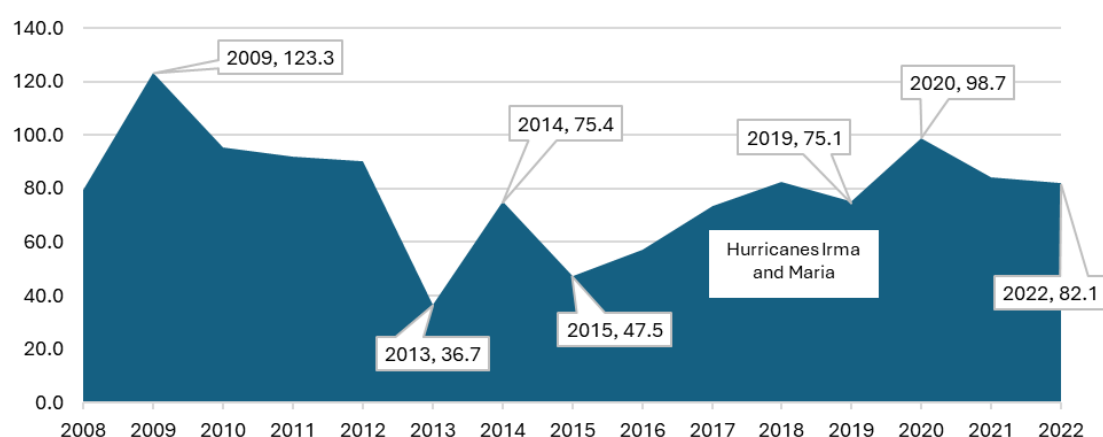
8 The IMF uses 60% as the benchmark for debt sustainability for market-access countries.

## 4 The debt service burden

By any standard, Antigua and Barbuda faces a heavy debt service burden. The country's narrow tax base provides little room for the country to service its debts, meet its sustainable development objectives, and implement countercyclical measures in the event of an external shock. Antigua and Barbuda has relied on the heavy accumulation of arrears to address its cash flow problems. External debt to exports, and goods and services (the debt service ratio) remains relatively high, and was 36% in 2020 and 34% in 2021 (GOAB, 2023a). This compares to 17.3% in 2009 just after the advent of the global financial crisis. The burden is even more pronounced when assessed against revenues.

Just prior to the onset of the global financial crisis, total debt service accounted for almost 80% of government revenues. In 2009, debt service-to-revenue exceeded 100%, reflecting the steep, recession-induced drop in revenue. For the period 2010 to 2015, the ratio averaged 48.4%, rising to an annual average of 66.2% from 2016 to 2020. In 2022, debt service accounted for over 66% of government revenue. The resurgence in economic activity post-COVID-19 has led to an increase in revenue; however, this is insufficient to alleviate the significant debt service burden. In the absence of a comprehensive debt reduction or debt restructuring programme, the Antigua and Barbuda authorities have had little recourse but to pursue an active strategy of accumulating additional arrears to manage its cash flow.

**Figure 5** Antigua and Barbuda: total debt service to revenue in %, 2008–2022



Source: IMF (2023b); ECCB.

Antigua and Barbuda's substantial debt service relative to revenues acts as a serious brake on its development agenda. The country has set an ambitious agenda to achieve the Sustainable Development Goals (SDGs) by 2030. In particular, it has tasked itself with building resilience to climate change amid worsening climate vulnerabilities. However, with significantly limited

resources, it is unlikely that these goals will be achieved without significant external financing on extremely concessional terms. The IMF notes that the gross benefit of building resilience in Antigua would amount to some 13% of GDP if 80% of the infrastructure was to become resilient to climate change. This would translate into an additional 0.6% in growth on average per annum. However, significant financing would be required that cannot be funded out of the budget given the level of debt servicing. Grant financing, even if available, is also unlikely to completely satisfy this financing requirement. The challenge, then, for Antigua and Barbuda is to finance the SDGs and climate resilience agenda without further increasing an already unsustainable debt.

### Box 1 Innovative instruments

Over the past decade, several Caribbean countries have been pioneering the use of innovative debt instruments as a tool to build resilience to disasters and climate change. In 2015, Grenada became the first country in the world to introduce hurricane clauses into its loan agreements, when it concluded a major restructuring exercise after a series of external shocks beginning with the horrendous Hurricane Ivan in 2004. Barbados further stretched the boundaries of these clauses when, in its 2018 debt restructuring agreement, it included provisions that triggered a halt in payments for not only hurricanes but other types of disasters as well.

Recognising that Hurricane clauses only provide temporary liquidity relief and do little to address underlying debt vulnerabilities, other countries such as Belize and Barbados have pursued other innovative options. In 2021, Belize undertook a complex debt-for-nature swap when it negotiated to buy back a \$553 million bond at a heavy discount through the issue of a \$334 million 'blue bond'. The transaction, which was supported by The Nature Conservancy, was the largest debt refinancing transacted for ocean conservation. This resulted in debt reduction equivalent to 10% of GDP. In 2021, Barbados also carried out a debt-for-nature swap using \$150 million in bonds. The swap generated \$50 million for marine conservation through The Nature Conservancy. The debt swap had the two-pronged effect of paying down expensive debt, while at the same time building climate resilience (The Nature Conservancy, 2023). While the debt swap mechanics are similar to those undertaken in the 1980s by Jamaica and many other Latin American countries, the novelty arises from the use of financing to mitigate the impact of the climate change on the marine environment: the 'blue economy.'

Antigua and Barbuda has sought to follow its Caribbean counterparts in the use of innovative financial instruments, particularly debt-for-climate swaps. In 2021, Antigua and Barbuda, in its capacity as chair of the Alliance of Small Island States (AOSIS), received a \$500,000 grant from the Open Society Foundation for the Finance for Acting on Climate Change in the Eastern Caribbean project to implement a pilot debt-for-climate swap (AOSIS, 2024). The overall aim was to transact climate swaps amounting to \$245 million, or around 20% of Antigua and Barbuda's debt, and use the implementation as a launch pad to initiate similar debt-for-climate swaps in other ECCU countries.

Progress, however, in finalising a debt-for-nature-swap in Antigua and Barbuda has been slow. The debts that qualify for debt swaps are mainly external bilateral Paris Club debts. Little appetite has been exhibited among this class of creditor to engage with Antigua and Barbuda to transact debt swaps. The reason for this, Antigua and Barbuda argues, is that Paris Club creditors insist that certain preconditions, such as having an IMF programme in place and clearing outstanding arrears, must be satisfied before debt swaps will be considered. While other bilateral debts may qualify for debt swaps, the relief is not estimated to be significant, unless China is also predisposed to participate in such a programme. Furthermore, it is doubtful that this would be pursued by Antigua and Barbuda's authorities, since China is its biggest donor after the CDB. Keeping this financing tap open is essential to the country's development programme.

Jamaica has also successfully utilised innovative instruments to mitigate the impact of disasters and climate change. Jamaica, mindful of its access to the financial market, has not opted for debt swaps nor implemented hurricane clauses in a new agreement. Instead, it has sought to cushion the impact of severe weather shocks with other innovative options. A major precedent was its landmark issue of a catastrophe bond: a first for the region.

## 5 Strategies to manage debt

Over the past two decades, Antigua and Barbuda has sought to tackle its high level of debt on two fronts. The first policy thrust attempted to seek comprehensive debt relief from its creditors, both domestic and external. The second policy thrust aimed to implement domestic policies that buoyed budgetary revenues as a means to address persistently high fiscal imbalances. To date, neither policy option has fully achieved the desired result of long-term debt sustainability.

Regarding the first strategy, securing comprehensive debt relief from its external bilateral creditors required Antigua and Barbuda to negotiate a Stand-by Arrangement with the IMF in 2010. The programme mapped out an ambitious reform plan that hinged on large fiscal adjustments. The stated objective was to improve the fiscal accounts through a combination of revenue-strengthening and expenditure-reduction measures. It was also designed to reduce risk in the banking system and strengthen public financial management. Importantly, the IMF programme satisfied the condition for Paris Club creditors to consider Antigua and Barbuda's request for debt relief.

In 2010, Antigua and Barbuda requested a rescheduling of its official bilateral debts to provide interim cash relief. It also sought to reduce its high interest costs by negotiating a reduction in rates. A significant component of the agreement was the restructuring and clearing of arrears. It was anticipated that the interest bill would fall to 4.5% of GDP from 9%, helping to restore the country's debt sustainability. Under the aegis of the Paris Club, creditors – including Brazil, France, Japan, the Netherlands, the UK and the US – agreed to reschedule their debts over 12 years including a 5-year grace period. \$133 million – or just over 26% of total external debt – was rescheduled (Club de Paris - Debt Treatments, 2010). Antigua and Barbuda also normalised its relations with its multilateral creditors by clearing outstanding arrears.

Antigua and Barbuda received a Paris Club debt restructuring treatment on so-called 'Classic terms'. This option represents the least generous of all the debt restructuring options available to debtor countries from the Paris Club, since it does not offer a debt reduction but simply a rescheduling of repayments at relatively short maturities. The terms implicitly implied that Antigua and Barbuda faced a short-term liquidity crisis, rather than a longer-term solvency issue. Due to its high-income classification, Antigua and Barbuda was not eligible for reductions in principal (haircuts), as have been obtained by many low-income countries under the Highly Indebted Poor Country initiative and the Multilateral Debt Relief Initiative. The twin-island state also did not qualify for more extended maturities of up to 20 years, which have been available to lower-middle-income countries under the so-called Paris Club Houston terms. At the same time, Paris Club creditors chose *not* to implement a widely used goodwill clause to their agreements, which allows for the consideration of further debt relief at the successful conclusion of an IMF programme. The Antiguan and Barbudan authorities suggest they made a concerted effort to have such a provision included so that further debt relief, including possible debt stock

reduction, could potentially be provided. However, this was to no avail. Notably, however, the UK Government subsequently cancelled all its debts to Antigua and Barbuda just two years after the 2010 Paris Club accord.

Paris Club debt treatments also place an obligation on debtors to seek comparable terms with their non-Paris Club creditors; and the authorities of the country did so. In 2011, China agreed to restructure all its loans to Antigua and Barbuda on notably more favourable terms than the Paris Club, extending rescheduled repayment terms of 15 years on an interest-free basis.

Given the size and burden of domestic debt – almost two-thirds of the total debt stock – Antigua and Barbuda adopted a similar strategy with its domestic creditors, wherein repayment terms were lengthened, and interest rates reduced. Debts to statutory bodies were restructured by significantly lengthening maturities over 30 years, with the understanding that no further arrears would be accumulated. A similar approach was adopted with domestic banks by lengthening maturities to 20 years from an original average term of five years. Interest rates were also substantially reduced, from 13% to 8%.

Antigua and Barbuda did not, however, restructure debt securities issues in the RGSM. This was a deliberate strategy to ensure continued access to market financing. This share of debt has more than doubled over the past 10 years. Antigua and Barbuda did not restructure its debt with its multilateral creditors either, as within the international financial architecture, these creditors are treated as ‘preferred creditors’, to whom payments are prioritised.

Antigua and Barbuda’s strategy on the domestic side was to generate additional revenues to free up fiscal space and to allow for growth-inducing spending. Antigua and Barbuda has been loath to implement expenditure-cutting measures, citing the potential to create a vicious cycle of slower growth and higher unemployment; a fiscal strategy that is at variance with its desire to sustain economic recovery. Antigua and Barbuda’s fiscal adjustment programme, therefore, included broadening the tax base, increasing existing taxes and introducing new taxes. Antigua’s expenditure cuts were on the budget’s capital side. However, the authorities strove to ensure that high-priority investment projects were protected. Antigua and Barbuda has as a general rule to avoid retrenching staff, unless it is through voluntary separation. The country has a well-established reputation of being an employer of last resort. This has meant that there is little room to make expenditure cuts on the recurrent side and, as a result, development projects bear the weight of fiscal retrenchment.

While Antigua and Barbuda successfully completed the IMF programme, the strategies it pursued during the 2010s did not reap the expected benefits. The IMF programme envisaged that agreed tax reforms to increase revenues, and reductions in spending would bolster the budget and reduce the growth in debt. However, delays in tax reform implementation and significant declines in public investment had the reverse effect. Revenues continued to underperform, arrears to accumulate and the debt to grow after the completion of the programme. By 2013, at the end

of the IMF programme, debt had grown from 92% of GDP to 100%. It further increased to 102% in 2014. The fiscal effort weakened in the wake of Hurricane Irma, when expenditures had to be redirected toward a massive recovery effort and revenues plummeted by 14%.

**Table 3** Antigua and Barbuda: effect of external shocks

	2009 Global Financial Crisis			2017 Hurricane Irma			COVID-19 Pandemic		
	Pre-event	Event 2009	Post-event	Pre-event	Event 2017	Post-event	Pre-event	Event 2020	Post-event
Real GDP	0.0	<b>-12.0</b>	-7.8	5.5	<b>3.1</b>	6.8	4.3	<b>17.5</b>	6.6
Debt-to-GDP	88.2	<b>109.8</b>	92.3	84.7	<b>88.3</b>	87.7	81.8	<b>98.2</b>	95.4
Debt service to revenue	79.5	<b>123.3</b>	95.3	57.1	<b>73.6</b>	82.7	75.1	<b>98.7</b>	84.4

Source: IMF (2023b); ECCB interactive data online.

The destruction wreaked by Hurricanes Irma and Maria in 2017 was a game changer for Antigua and Barbuda. Not only was Antigua and Barbuda hit by three hurricanes in quick succession, two were Category 5, and caused the resulting catastrophic effects. Infrastructure on the island of Barbuda was either severely damaged or destroyed and almost the entire Barbudan population had to be evacuated. Immediate damage from those storms amounted to \$136 million or 9.3% of GDP (International Monetary Fund, 2023). The hurricane starkly highlighted the lack of capacity to deal with extreme weather events. More importantly, it revealed the extensive weakness in Antigua's infrastructure, particularly roads and buildings. An emergent fact was that Antigua and Barbuda's housing infrastructure was built to only withstand a Category 3 hurricane – one with maximum sustained winds of 178–208 km/h.<sup>9</sup> Critically, this meant that future storms of greater intensity would potentially have similar catastrophic events on lives and infrastructure. Again, the cycle of high ex-post costs associated with recovery and repair, diverted budgetary resources, and further increases in public debt would be repeated. Once more, the lack of immediacy and the paucity of the international response to a disaster would be displayed.

A nascent economic recovery after the series of 2017 hurricanes was again cut short by the emergence of the COVID-19 pandemic, and fiscal relief was obtained once more by accumulating arrears. It is against this background that Antigua and Barbuda has framed its current debt strategy.

Antigua and Barbuda has stated that its debt strategy from 2023 onwards is to prioritise external financing on concessional terms from its multilateral and bilateral lenders (GOAB, 2023b).

<sup>9</sup> Category 5 hurricanes such as Irma cause winds of 252 km/h or higher.

The aim is to rebalance the portfolio in favour of external borrowing, particularly bilateral borrowing. Underpinning this strategy is the desire to extend the maturity profile of the debt and to reduce borrowing costs; actions that will help ease the cash flow burden of the debt. Some debt reduction is hoped to be achieved through implementing debt swaps.

The authorities have also indicated that they will establish a Fiscal Resilience Oversight Committee to assess and report on the government's compliance with fiscal responsibility guidelines. The government's decision to hold itself fiscally accountable reflects a concerted effort to grapple with and overcome its fiscal challenges; as evidenced in its continued high budget deficits funded by debt. At the end of 2022, the fiscal deficit amounted to 4.2% of GDP, lower than the -6.0% recorded at the height of the COVID-19 pandemic, but only minimally lower than in the years immediately prior to the health crisis.

A third facet of Antigua and Barbuda's strategy towards debt sustainability is to address the risks associated with extreme weather events *ex ante*, rather than *ex post*. The policy thrust is, therefore, to reduce the large costs associated with emergency response, recovery and rehabilitation in the wake of hurricanes and droughts, and instead to invest beforehand in climate-resilient infrastructure, including buildings and roads. Receiving grants from the Green Climate Fund to construct climate-resilient building has been a significant step towards this. Another has been the establishment of the Sustainable Island Resource Framework (SIRF) to provide funding for environmental, climate, mitigation and adaptation projects. The SIRF, established under Antigua and Barbuda's Environment Management and Protection Act, will be funded through various channels. These include the Green Climate Fund, the Caribbean Biodiversity Fund, bilateral donors and investment proceeds. SIRF is accessible to a wide range of stakeholders, including individual households, the private sector and non-governmental organisations; it represents a push to become more resilient to climate change, and ensure that vulnerable households and small businesses are able to access finance. It is expected that this will, in turn, help to mitigate the impact of weather events and the corresponding call for increasingly more budgetary resources. To date, however, budget constraints mean that these kinds of initiatives remain fairly small relative to overall need, despite positive intentions.

## 6 International engagement on debt

Antigua and Barbuda has played a leading role in advocating for SIDS in both regional and international forums. There has been high-level engagement in its call for climate justice, involving pressing the international community to provide climate financing for SIDS to meet their national requirements for climate adaptation and mitigation.

Over the past decade, Antigua and Barbuda's high-level engagement in the call for greater action on climate change has seen its prime minister, Gaston Browne, present the case for SIDS at US President Biden's two-day virtual summit on climate change in 2021; at the United Nations Climate Change Conference (COP28) in Dubai in 2023; and at various high-level summits of the United Nations. Antigua and Barbuda was chair of the AOSIS from 2021 to 2022. It played a pivotal role in negotiating commitments from the international community to cut greenhouse gas emissions and to implement debt-for-nature swaps in SIDS. The twin-island state has also been instrumental in establishing the Commission of Small Island States on Climate Change and International Law. Its principal objective is to seek advice directly from the International Tribunal for the Law of the Sea on compensation for loss and damage arising from adverse weather events. An agreement to establish the Commission was signed in 2021, and the Antigua and Barbuda prime minister, Gaston Browne, became co-chair along with the prime minister of Tuvalu.

A clarion call of Antigua and Barbuda has been for the international community to replace the single per capita income indicator used to determine a country's eligibility for concessional financing with a multidimensional vulnerability index. The primary argument is that countries that are highly vulnerable to disasters and other external shocks should not be excluded from access to concessional finance solely on the basis of their per capita income. The view is that per capita income by itself is not an indicator of a country's vulnerability, nor of the high costs it sustains in handling or recovering from a disaster or the substantial impact on its debt and debt service costs. On the other hand, a vulnerability index which takes into account exposure to climatic threats may open the door for high-income SIDS such as Antigua and Barbuda to gain access to concessional financing. At present, Antigua and Barbuda sits on a high-level United Nations panel to examine and make proposals for the broad adoption and implementation of such a vulnerability index.<sup>10</sup>

Antigua and Barbuda has also been a strong advocate for the establishment of a loss and damage fund to provide SIDS and other vulnerable countries with financing to address the costs associated with both extreme weather and slow-onset events. It has argued strongly and ardently that the process of accessing climate funds is difficult and expensive and that, like other SIDS, it continues to pay a high cost for a problem not of their making. Antigua and Barbuda was actively engaged in the negotiations for the loss and damage fund at COP27, arguing not only for itself but

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<sup>10</sup> It is part of a 12-member panel elected by member states of AOSIS.

on behalf of all SIDS under the aegis of AOSIS. The agreement at COP28 to establish a loss and damage fund highlights the successes of these advocacy efforts by Antigua and Barbuda and the wider SIDS community.

## 7 Looking forward

Antigua and Barbuda has an immediate and intractable debt problem. Its debt is unsustainable, and it faces a high risk of sovereign debt distress. Antigua and Barbuda also has substantial needs in terms of building resilience to disasters and climate change. Poverty alleviation and reduction of income inequality is also an urgent policy goal, especially given Antigua and Barbuda's stated policy to 'leave no person behind'. These problems cannot be easily resolved, either in the short or medium term.

Antigua and Barbuda's debt problems need to be addressed as a matter of urgency. The protracted high levels of indebtedness and the policy of accumulating arrears in the absence of fiscal space are incompatible with achieving the SDGs by 2030. The huge absorption of revenues to pay debt service leaves little fiscal space to pursue sustainable development. Further debt financing only exacerbates the problem.

A resolution of the debt problem requires a major debt restructuring that goes beyond providing short-term support through rescheduling. A programme to clear arrears and significantly reduce debt is imperative. To secure this, Antigua and Barbuda needs to engage its donors, particularly its Paris Club donors. This has not happened because Paris Club conditions require an IMF programme, and this is politically unpalatable to the incumbent government. They see an IMF programme, with its expenditure cuts and public sector retrenchment, as inimical to growth. Furthermore, there is an ingrained belief that implementing an IMF programme would not only repel investors but, more significantly, would be seen as a signal of political failure. In interviews conducted in Antigua and Barbuda, it was revealed that after the severe impacts of COVID-19, an IMF programme was reluctantly contemplated and negotiations initiated. In the end, however, the government eschewed finalising an IMF agreement, opting instead to secure what financing it could from China, Saudi Arabia and the CDB.

To foster longer-term debt sustainability, Antigua and Barbuda needs to take action to resolve the current stalemate with its Paris Club creditors. Both parties need to play their part. One option is to look to create a substitute for an IMF programme in the traditional sense. For example, Antigua and Barbuda could aggressively pursue a credible home-grown economic programme, such as the one done by Barbados and endorsed by the IMF. The authorities could champion their own structural reform programme, securing political buy-in from various domestic stakeholders, including the private sector and civil society. For their part, Paris Club creditors should in turn show some flexibility in the requirement to have an IMF programme in place before negotiations on debt swaps or other more comprehensive debt restructuring can be considered. For creditors, such an approach would also be in line with the many international statements of support for debt swaps which have been issued by the international community over the years.

Antigua and Barbuda is moving towards stronger governance and accountability and also to greater fiscal responsibility. This is evidenced by its recently established Fiscal Responsibility Framework and ensuing efforts to operationalise it. The Antigua and Barbudan authorities acknowledge that Antigua and Barbuda is significantly undertaxed relative to other ECCU member countries. Citing an average of 25% of GDP targeted in other ECCU countries, Antigua and Barbuda's tax revenues are only at 15%. Recent fiscal measures, including increasing the sales tax from 15% to 17%, increasing property tax on high-end properties, imposing a levy on remittances, and improving tax coordination and administration, have all been designed to increase revenues.

Undoubtedly, however, there is still work to be done. The IMF, in its latest country assessment (IMF, 2024), has urged Antigua and Barbuda to enshrine their medium-term fiscal strategy and fiscal resilience guidelines in legislation, to strengthen credibility and enforceability. It has also urged them to widen the tax net. Efforts are underway to do this. With Antigua and Barbuda moving towards stronger fiscal management, the time is opportune for the international community to lend its support so that these efforts advance and become concretised. It is essential that the international community – and especially the Paris Club – supports Antigua and Barbuda's efforts to build resilience, strengthen the economy and reduce its debt. This will help prevent the country entering another spiral of fiscal constraints, rapidly escalating debt, and a weakening response in the face of climate change.

There are also other policy options that can be considered. Decline in debt-to-GDP can be achieved by reducing debt or increasing GDP, or a combination of the two. In the absence of any significant declines in nominal debt, Antigua and Barbuda has implicitly adopted a policy of seeking to grow the economy to achieve debt sustainability. The problem for Antigua and Barbuda, as for most SIDS, is that economic growth is highly volatile. Economic activity is highly susceptible to external shocks, and the magnitude of the impact is sufficient to wipe out the economic gains made over many years. Sustainability for Antigua and Barbuda, given its narrow resource base and heavy reliance on a single sector for growth, requires a corresponding effort towards debt reduction. A proposal – raised in an interview in Antigua and Barbuda – was to consider treating any future spending on climate adaptation and mitigation as a credit against outstanding arrears. This is a strategy that could be a win-win for both creditors and the twin-island state in helping to resolve the current impasse.

Interviews conducted with individuals in Antigua and Barbuda indicate that there is a clear understanding that a 'business-as-usual' approach is not enough, and that stronger fiscal management is necessary. Interviewees also believe that enhanced fiscal responsibility – which was the theme of the 2024 Budget Statement – is essential. They noted the imminent establishment of a Fiscal Resilience Oversight Committee that will ensure compliance with recently drafted fiscal responsibility guidelines.

A factor that was not raised in discussions with interviewees, but is nevertheless eminently important to Antigua and Barbuda's success, is legislation. Enacting legislation on fiscal rules and public debt management could also significantly strengthen Antigua and Barbuda's policy framework and help to undergird discipline and accountability. While introducing fiscal responsibility guidelines contribute considerably to promoting stronger fiscal management, without the backing of the law to make them binding, violations can more easily occur without any legal sanctions for non-compliance. Well-designed legislation would not only promote discipline and accountability, but would also more likely instil confidence in investors and donors about Antigua's commitment to strong and sustained fiscal management.

Loan agreements are signed by two parties: the debtor and the creditor. Both parties have rights, responsibilities and obligations under the terms of the agreement, which apply in the normal servicing of obligations and in the event of default. However, the responsibility of creditors and the international community perhaps extend further when a country's debt is unsustainable and structural problems are at the root of it.

The evidence suggests that much of Antigua's debt has been accumulated in the aftermath of economic shocks, for recovery and reconstruction costs. Debt has been contracted mainly to rebuild as well as, to a more limited extent, spur recovery and development. There has been no evidence of profligacy. While there is recognition that the fiscal effort can be strengthened, the principal underlying factor has been the cycle of repeated external shocks and their magnitude. While relief extended to Antigua and Barbuda has provided some fiscal space, it has not been sufficient to achieve debt sustainability. Debt rescheduling in itself is also costly. Payments are not forgiven, but instead are backloaded to later in the repayment term. Interest payments falling due are capitalised, increasing the nominal debt stock, and then a new interest rate is applied. Debt rescheduling can therefore become costly and burdensome over time. It is a strategy that clearly has not worked for Antigua and Barbuda, and creditors also have a responsibility to recognise this.

As such, there is a compelling need for creditors to adopt a more flexible approach to SIDS that, like Antigua and Barbuda, are highly indebted due largely to external economic, climatic and pandemic shocks, and that lack the economic or financial capacity to weather them. Antigua and Barbuda's case is particularly difficult because of its high-income status.

The international community has to some extent stepped up its support for SIDS and designed policies and instruments that do provide assistance to climate-vulnerable, small island states when they most need it. For example, the increasing acceptance of pause clauses in the event of a disaster are a welcome recognition of the need for immediate fiscal space once a disaster or extreme climate event occurs. The provision of facilities such as the IMF's Resilience and Sustainability Facility offers long-term financing to help low-income countries and small states better prepare for shocks related to climate change and pandemics. Other multilateral financial institutions have followed suit. The loss and damage fund that was recently agreed to at COP28 will, if properly funded, help countries build climate resilience.

These initiatives however, while necessary, are not sufficient to provide the relief needed or the resilience sought by the country. Disaster clauses, while helpful, will not provide countries with significant relief unless they are widely included in both new and – crucially – existing agreements. The countries that will benefit most from these clauses are those that have included these provisions in a debt restructuring exercise. Such an exercise allows all the affected loan agreements to be amended and pause clauses included. Thus, a substantial amount of a country's portfolio becomes eligible to benefit from a stay of payments. Outside of the scope of a restructuring exercise, the portfolio impact in the short term will be small, and the relief negligible. While protection will build up over time, for many countries it will take years for such protections to make up a sizable share of their portfolio. For example, even if hurricane clauses were to be included in all Antigua and Barbuda's existing official bilateral loans, it would account for only 25% of the total debt. If World Bank loans included such provisions, protection would increase by less than 1%, given the negligible share of these debts in Antigua and Barbuda's portfolio. In addition, although credit ratings agencies may, in principle, be more accepting of these clauses and not consider them an act of default, many market access countries are still hesitant to have them included in their agreements.

A consistent call from Antigua and Barbuda is to provide concessional financing to SIDS regardless of their income status if they can be assessed by quantifiable, objective measures as being economically and financially vulnerable. The argument to introduce some form of vulnerability index has considerable merit and it needs to gain greater traction among the international community.

Antigua and Barbuda also argues for easier access to climate and other financing, and on more flexible terms. The lack of flexible financing options appears to be a widespread concern shared not only by Antigua and Barbuda, but by other SIDS.

When asked what would be the most impactful for Antigua and Barbuda in terms of its debt, the resounding answer from an interviewee was that the international community should provide 'affordable, easily accessible, resources that will support development, build resilience, and transform the country. At worst, if there is no new money, then the international community should provide debt forgiveness to all debts related to disasters. This would allow the fiscal space to be free to meet the SDGs.' This statement is pinpoint accurate in describing what Antigua and Barbuda needs to succeed.

In conclusion, SIDS can learn several lessons from Antigua and Barbuda's experience. The first is that SIDS need to significantly ramp up ex ante measures to mitigate the impact of disasters and climate change. Antigua and Barbuda lacks both financial and infrastructural resilience. SIDS need to proactively implement measures, from building climate resilient infrastructure – including road networks, buildings and telecommunications – to creating financial buffers, whether through

disaster insurance, contingency financing, or pause clauses. The international community must play an active role in making resources available to SIDS on concessional terms, to advance progress in building the required resilience.

The second lesson is that achieving debt sustainability requires both a growth and a fiscal effort. Economic growth, unless sustained and robust, is unlikely by itself to reduce debt-to-GDP unless there is a concerted effort to contain the growth in the debt. Fiscal discipline must coexist with economic growth.

Third, inflexibility hurts both parties. A key lesson from Antigua and Barbuda is that inflexibility both on the part of borrowers and creditors in the face of a steep debt burden and accumulated arrears benefits neither party. In the case of Antigua and Barbuda, the major sticking point is implementing an IMF programme. For creditors, the cost of that decision is the inability to have their debts repaid; for the borrowing country, potential avenues of financing are closed and debt relief unavailable. Adopting a more flexible approach may be a better path to re-establishing normalising creditor–debtor relations and achieving debt sustainability.

Fourth, where possible, SIDS must continue to advocate for climate justice. Antigua and Barbuda has unceasingly called for the international community to lend its ear and put its money where its mouth is in terms of providing climate financing and establishing a loss and damage fund. Some progress has been made, as evidenced by the agreement in December 2023 at COP28 to establish a loss and damage fund. SIDS can learn from and support the call for the implementation of a vulnerability index.

Finally, as the fourth International Conference on Small Island Developing States approaches, the international community needs to be bold. Tackling the extreme vulnerability of SIDS to external shocks and the weight of debt that it generates and perpetuates requires new thinking and strong commitment. One bold step that would be fitting to announce as the St. John’s initiative is an agreement by the international community to automatically write off the debt service payments of SIDS for a limited period in the event of a major disaster. The amount of debt to be forgiven and the period over which it would apply could be determined using a combination of parametric and non-parametric measures. The parametric data available from catastrophe risk insurers could be used to objectively determine which events qualify for relief, similar to what is obtained now for debt pause clauses. Such a step would be a resounding affirmation of the Antigua and Barbuda interviewee’s call to free up the fiscal space to achieve the SDGs and above all to ‘transform the country.’

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# Annex 1 Methodological approach

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This paper sourced its information from various publications, as well as interviews with officials in Antigua and Barbuda.

## Interviews

Interviews were conducted with officials in the Ministry of Finance. Efforts to speak with officials in the Department of the Environment as well as in civil society – such as the Chamber of Commerce and the Trade Union Congress – were not successful.

## Data

The primary data source was the International Monetary Fund. Data was requested from the Antigua and Barbuda debt management office. However, to date, this has not been provided.

### Source data

Complete timeseries data was obtained from the IMF World Economic Outlook (October 2023) database for the period 2008–2022 for the following economic variables:

- Debt-to-GDP
- Real GDP
- Overall Fiscal Balance to GDP

More granular debt data was obtained from IMF Article IV Consultation reports 2010, 2016, 2022 and 2022 for Antigua and Barbuda. Data on external debt disaggregated by creditor type and creditor was available, as well as domestic debt data disaggregated by instrument type.

Information on debt service was more difficult to extract from the IMF reports. As a result, the online ECCB interactive database was used to obtain data on debt service, and a complete time series was compiled.

### Data gaps

A complete time series could not be compiled for public debt. In this compilation, disaggregated debt data is missing for the years 2016–2019. Other sources were not used, to avoid data inconsistencies.

## Coverage

For the purpose of this case study, references to public debt include both central government debt and government guarantees. This is reported as total public sector debt. All figures in the case study include the stock of arrears. These are all payments of interest and principal that have fallen due and are unpaid.

## Currency and periodicity

All data is reported in US dollars and are on a calendar year basis. Where conversions have been made from Eastern Caribbean (EC) dollars to US dollars, these have been converted at an exchange rate of US\$1/EC\$2.70.