

Financing for development:

Finding ways to increase the Caribbean's access to climate finance and other innovative financing for development mechanisms

Unlocking Caribbean Potential: Enhancing Growth and Development through South-South Cooperation

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Initial Remarks

- Small Island Developing States (“**SIDS**”) are responsible for less than 1% of global greenhouse gas emissions, yet their climate vulnerability is among the highest in the world
 - Global warming will likely exacerbate future climate-related shocks
 - Hurricane Melissa is the most recent example of the type of devastation that a natural disaster can bring to the region
- SIDS need large investment amounts, not only for the rebuilding of damaged infrastructure, but to build resilience and climate adaptation as well
 - The IMF estimates the Caribbean needs **over US\$100 billion** in resilience investments
 - Unfortunately, this much needed funding is scarce and usually expensive
- We must collectively identify solutions, enhance cooperation, and focus on improving frameworks to access more and more efficient financial solutions
 - This is a collective responsibility of governments, policy advisors, multilateral agencies, and the private sector, including financial markets participants
- Climate finance is not only about adaptation, but also about fiscal resilience!
 - Providing access in a cost-effective manner with a view of long-term fiscal congruence
- Innovation is essential, not only in instruments, but also in how the region organizes itself to access financing solutions
 - There is encouraging evidence of how innovation can help fund sustainable and climate-resilient infrastructure and/or reduce fiscal pressures related to indebtedness; more is needed!

Traditional Sources of Funding

Commercial and investment banks, local and international capital markets, fiscal resources, development financial institutions (“DFI”), and global donors contribute to the funding of climate resilience and adaptation

- However, traditional finance alone cannot meet all climate investment needs
- Innovation requires imagination and strong collaboration among the different market participants
 - We need mechanisms to merge the different competitive advantages that each brings to the table, whether it is technical advice, structuring expertise, access to investors
 - Innovation reduces risk, aggregates small markets, and creates investable structures attractive to global capital, helping small or poorly-rated borrowers develop a relationship with the market
- DFI’s have been a leading force in the development of climate resilience and adaptation initiatives
 - Blending concessional finance and private capital can unleash large pools of funding

Barriers and structural challenges

- Caribbean SIDS often face barriers and challenges that limit their ability to access financing, even if available. For example:
 - Slow approvals and relatively high transaction costs (not a generalization)
 - Fiscal pressures (limited fiscal resources for investments) and low credit ratings
 - **Scale and fragmentation** across island states
- Caribbean countries are small and often act individually rather than as a unified market; this has consequences for finance, investment, policy coordination, and climate-project scale. For example:
 - Scale: Caribbean projects are typically small, and unattractive to some investors
 - Reduces bargaining power, among other considerations
 - Capacity & Costs: duplicated national processes increase transaction costs
 - Caribbean SIDS face similar climate-related challenges, yet each has independent processes to deal with them
 - Little or no standardization across the region; investors need to learn “the ways” of each country e.g., regulation
 - Limitations of technical teams
 - There would be immediate benefits from regional pools of experts
- **Regionalization** could be a powerful tool to present the region as a single large investment destination, rather than a combination of many small markets
 - Climate funds and private investors want scale, readiness, and consistency
 - What about a debt swap for resilient infrastructure that pools 2 or more countries?

What can Caribbean SIDS do?

Without limitation, regionalization can offer a path to solve some of the more pressing challenges, **unlocking access and lowering cost:**

A. Strengthen project evaluation, design, and monitoring capacity

- Pool of experts across the region (engineers, lawyers, financial advisors)
- Regional climate finance hubs (Caribbean Development Bank, CARICOM)
- Provide broad access to all Caribbean SIDS to multi-lateral financing e.g., IDB or CAF cannot support non-members

B. Scale available resources to mobilize private capital

- Structured deals e.g., first-loss or subordinated tranches
- Political risk insurance (World Bank, DFC), credit insurance, credit guarantees (CAF, IDB, EIB)

C. Successful cases and more innovation

- Sustainability-linked financings, thematic bonds
- Debt swaps for climate and resilient infrastructure. Let's think about the next iteration!
- Natural disaster clauses, parametric insurance (CCRIF)
- Catastrophe bonds
- Carbon credits e.g., Bahamas "Sovereign Carbon Securities"

What can Caribbean SIDS do? (continued)

D. Strengthening of regional and domestic institutions

- Debt sustainability analysis (“**DSA**”), incorporating climate risks, investment needs, and fiscal implications of climate change
 - Climate-informed DSAs prove that resilience investment improves fiscal stability and reduces long-term debt risk
- Monitoring of allocation of fiscal resources to climate change mitigation and adaptation projects
- Development of Integrated National Financing Frameworks, supported by UNDP and other agencies perhaps

E. Collaboration, regionally

- Joint initiatives e.g., debt swaps for climate adaptation and resiliency
- Homogeneous regulations and procurement rules
- Better coordination at global forums i.e., “single voice” to common problems
- Larger regional financings could attract more investors, increase liquidity and reduce costs
- The Caribbean could be positioned as a climate finance laboratory!

Other actionable initiatives

- Build multi-annual pipelines of national and regional projects
 - Nationally, prioritization of catalytic projects with feasibility studies
 - Regional, such as undersea fiber optic networks, unified carbon market strategy
 - Improve monitoring and transparency

- Institutional preparation and accreditation with existing funding providers
 - Creation or strengthening of climate units within each Caribbean country
 - Accreditation with multilateral entities (CAF, IDB, GCF, etc.) to ensure all SIDS can apply for grants, concessional loans, guarantees, and/or blended finance structures

Case Study: Debt Exchanges for Climate Adaptation and Resiliency

- SIDS can explore liability management exercises targeting relatively expensive debt for redemption with proceeds from new financing(s) obtained in better terms, including financial cost
- The combination of potential redemptions at a discount (when possible), lower debt service (lower coupon or interest rate) and/or maturity extension can provide substantial fiscal relief over the term of the transaction (10+ years)
 - Fiscal reform and long-term debt sustainability
- Transactions of this type require credit support, typically from a DFI and/or another highly-rated entity (insurance companies) to enable more attractive economic conditions
 - The new “credit-enhanced” financing can receive a materially higher credit rating than the one of the sponsoring SIDS
 - SIDS “borrow” the credit rating of the DFI to conduct this exercise
- Savings from the exercise can be redirected to climate resiliency and adaptation initiatives
 - Development of infrastructure projects, such as water sanitation, desalinization, etc.
- In summary, this type of exercises allow SIDS:
 - Improve debt sustainability, reducing financing costs
 - Free fiscal space for climate adaptation and resilient investments
 - Improve credit quality of the borrower
 - Attract long-term private capital through enhancements

Debt-for-Climate Exchanges

- New spin to the earlier debt swaps for marine conservation implemented by Belize in late 2021, and Barbados and Ecuador in late 2022 and mid-2023, respectively

			
Client	Republic of Ecuador	Barbados	Republic of Belize
Transaction	Debt-for-Nature Swap	Debt-for-Nature Swap	Debt-for-Nature Swap
Amount	US\$1,600,000,000	US\$146,500,000	US\$342,000,000
Team Role	Deal Manager, Arranger, Structuring Advisor	Deal Manager, Arranger, Structuring Advisor	Arranger, Structuring Advisor
Date	May 2023	November 2022	September 2021
Sustainable	Yes	Yes	Yes
DFI	IADB, DFC	IADB, TNC	DFC



- In late 2024, Barbados conducted a new debt swap, although focused on resilient infrastructure
 - \$300m in credit support from the IDB and EIB
 - Savings were ring-fenced for resilient infrastructure
- These case studies show that small economies can access cheaper, larger, and longer-term financing through credit enhancement and structured climate transactions; Caribbean SIDS can replicate and potentially regionalize these models

Belize \$364 million Blue Bonds



Government of Belize

\$364 million 2.1% Blue Bonds due 2040

Team Expertise: Arranger & Structuring Advisor

November 2021

On November 2021 the Government of Belize completed the repurchase of its \$553 million Bonds due 2034 with proceeds of a new \$364 million loan ("**Blue Loan**")

- Funding for the Blue Loan came from the issuance of \$364 million 2.1% step-up Blue Notes due 2040 ("**Belize Blue Bonds**"), issued by a special purpose entity in partnership with The Nature Conservancy
 - Platinum for Belize Blue Investments issued the Belize Blue Notes (Aa2), backed by the Blue Loan and credit-enhanced by a \$364 million political risk insurance policy from the U.S. International Development Finance Corporation (Aaa)
 - The Belize Blue Bonds were structured with a step-up coupon to provide additional fiscal relief during the first few years of the transaction
 - The transaction enabled Belize to repurchase its defaulted notes at a 45% discount resulting in material debt stock reduction
 - Debt service savings in excess of \$200 million over the lifetime of the deal

- Successful placement of the Belize Blue Bonds to institutional investors globally in all major regions on the back of strong demand for blue assets
- Belize committed to a number of conservation goals, such as the protection up to 30% of its ocean area by 2026, half of which are high biodiversity protection zones
 - Creation of an independent conservation fund to manage conservation funding, awarding grants to selected conservation initiatives
 - Independent board will set the fund's strategy and supervise conservation-related expenditures



Barbados \$146.5 million Blue Loan



Government of Barbados

Debt for Nature Swap

Modified Dutch Auction for \$74 million
of 6.50% 2029 Notes

\$146.5 million dual-currency Blue Loan

Team Expertise: Deal Manager,
Arranger & Structuring Advisor

September 2022

On September 2022 Barbados closed, in partnership with the Inter-American Development Bank (“**IDB**” Aaa) and The Nature Conservancy (“**TNC**”, Aa2), a \$146.5 million dual-currency blue loan (“**Blue Loan**”), as part of a debt-for-nature swap

- Barbados exchanged \$77.6 million of its 6.5% 2029 Notes (“**2029 Notes**”) and \$72.9 million of domestic Series E Bonds (BBD) with the Blue Loan
 - \$40 million of debt service savings over 21 years
- Modified dutch auction created scarcity value and enabled optimal price discovery given the limited secondary market liquidity of the 2029 Notes
 - Repurchase price of 92.50
- Blue Loan was co-guaranteed by the IDB and TNC, allowing Barbados to conduct this exercise while successfully achieving debt relief
 - Highly rated instrument vs. lower Barbados rating (Caa1, as of Sep 2021)
- Blue Loan includes a natural disaster or pandemic relief clause, allowing Barbados to defer repayments for up to two years (first of its kind)

- A repack vehicle⁽¹⁾ issued Blue Bonds, backed by the Blue Loan, which was placed among institutional investors globally
- Barbados committed to a number of marine conservation goals, such as protecting up to 30% of its ocean area by 2030, half of which are high biodiversity protection zones
 - Creation of an independent conservation fund to manage conservation funding, awarding grants to selected conservation initiatives
 - Independent board will set the fund’s strategy and supervise conservation-related expenses



(1) This entity combined the Blue Loan and the guarantees of the IDB and TNC into a “package” and then issued Blue Bonds against it

Republic of Ecuador \$1.6 billion Debt for Nature Exchange



Republic of Ecuador

Debt Exchange for Nature

\$1.6 billion of 2030, 2035, 2040 Notes
for a new \$656 million Impact Loan

Team Expertise: Deal Manager,
Arranger & Structuring Advisor

May 2023

On May 2023 the Republic of Ecuador (“**Republic**” or “**Ecuador**”) completed the World’s largest debt-for-nature conversion

- The Republic launched a modified dutch auction targeting its 5.5% 2030 Notes, 2.5% 2035 Notes, and 1.5% 2040 Notes, trading at considerable discounts
- Ecuador was able to exchange \$1.6 billion of notes for a new \$656 million 6.975% 18.5-year loan (“**Impact Loan**”) at a time when its 10-year yields were around 20%
- Funding for the Impact Loan came from the issuance of Galapagos Marine Conservation Linked Notes (“**GMCL Bond**”) by a repack vehicle ‘GPS Blue’
 - The GMCL Bond is backed by the Impact Loan and credit-enhanced with a \$656 million political risk insurance from the U.S. International Development Finance Corporation (“**DFC**”, Aaa), and an \$85 million guarantee from the Inter-American Development Bank (“**IDB**”, Aaa)
- Expected lifetime fiscal savings (debt service relief) in excess of \$1.1 billion, net of \$450 million in conservation funds

- In consideration of the DFC and IDB support, Ecuador undertook financial commitments towards the funding of marine conservation initiatives around the Galapagos Islands
 - Creation of Galapagos Life Fund, an off-shore trust fund that will manage the periodic conservation payments made by the Republic, awarding grants to selected conservation initiatives
 - Independent board will set the fund’s strategy and supervise conservation-related expenditures



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