The Evolution of ECLAC's Debt Initiative and Caribbean Resilience Fund

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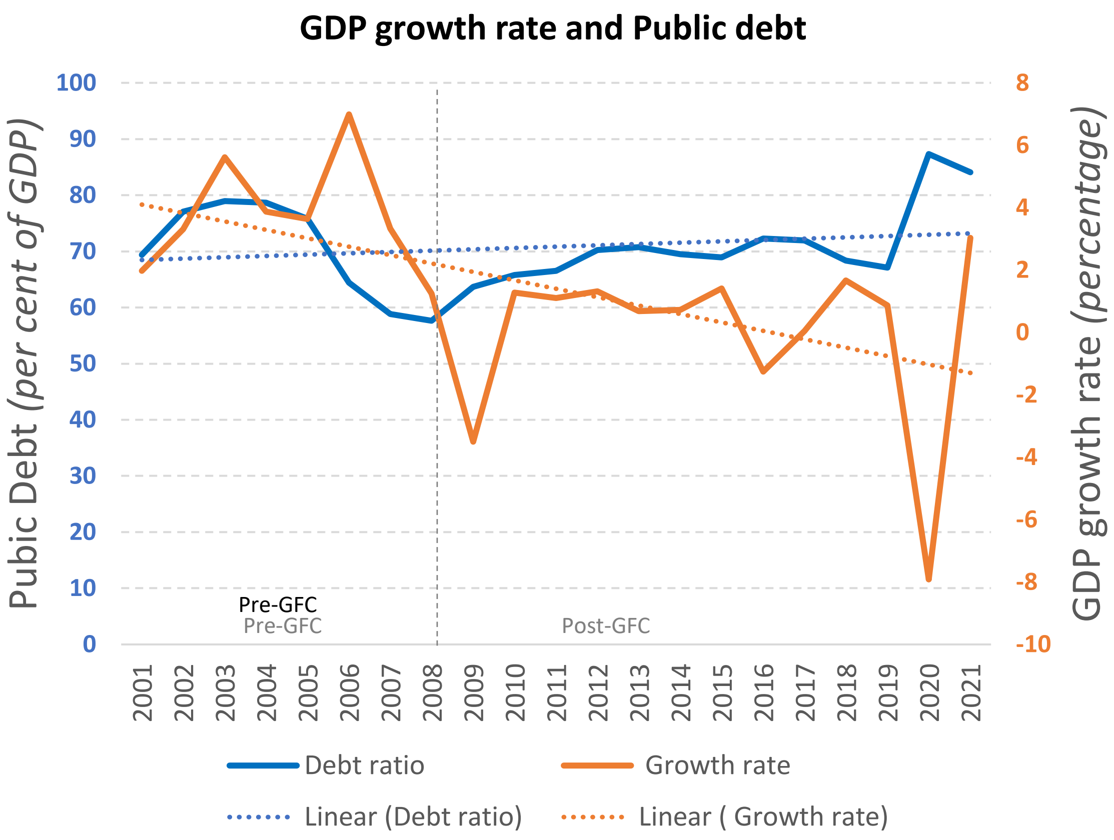
Outline of presentation

- Rationale
- Evolution of the Debt Initiative
- ECLAC projects
- Key questions on the way forward

Persistently high public debt and low growth following the GFC has been exacerbated by the pandemic

Recovery from the effects of the pandemic has been slow as growth remains below 2019 rates (excluding Guyana)



* GFC – Global Financial Crisis

- Public debt levels have been persistently high for some time. **Pre-GFC and post-GFC public debt levels are about the same at 70.1% of GDP and 71.3% of GDP**, respectively, but *are* above the internationally accepted threshold of 60% of GDP.

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Recovery from the effects of the pandemic has been slow as growth remains below 2019 rates (excluding Guyana)

	GDP growth rate (%)	Total Public Debt (% of GDP)
Pre-GFC (2001-2007)	3.7	70.1
Post-GFC (2009-2021)	0.0	71.3

* GFC – Global Financial Crisis

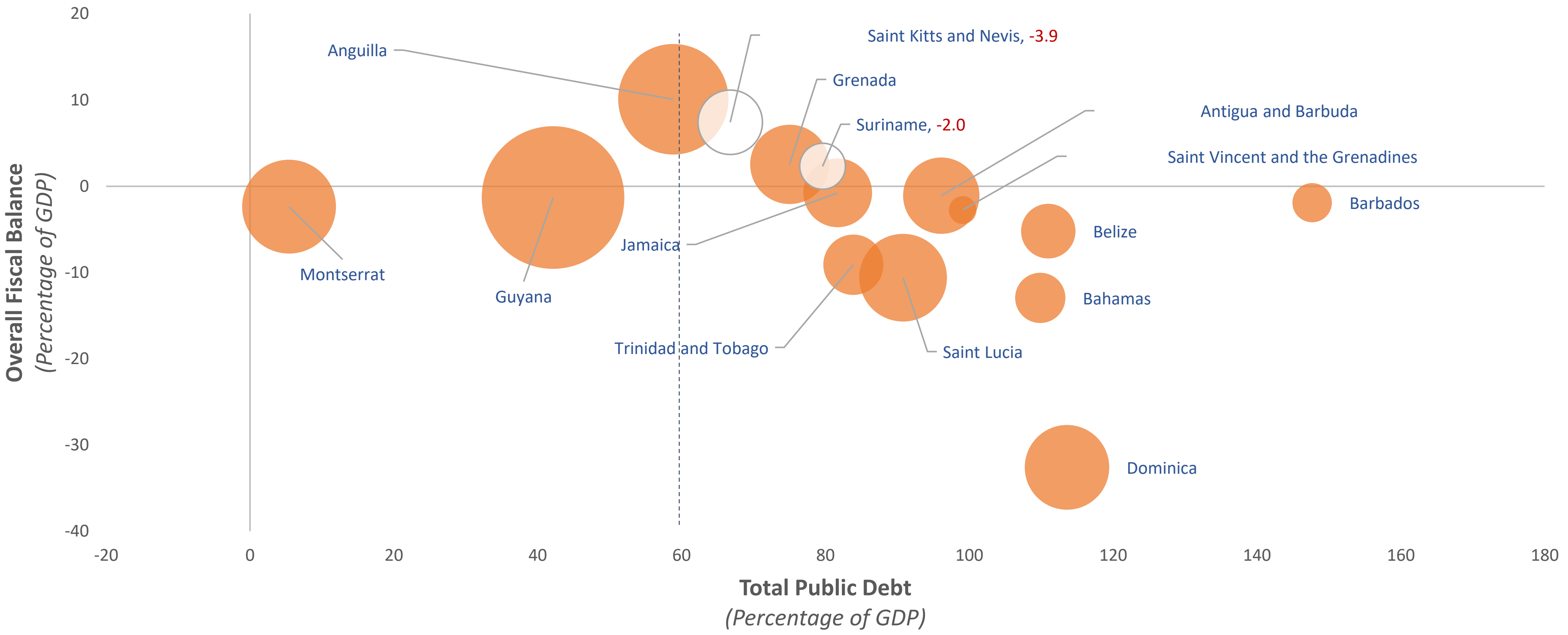
- Alternatively, **GDP growth pre-GFC averaged 3.7%** while post-GFC, the **average GDP growth rate plummeted to 0.0%**
- There has not been sustainable GDP growth across the region since the GFC and the effects of the pandemic will reduce the likelihood of returning to sustainable growth without critical interventions.

The current macroeconomic landscape

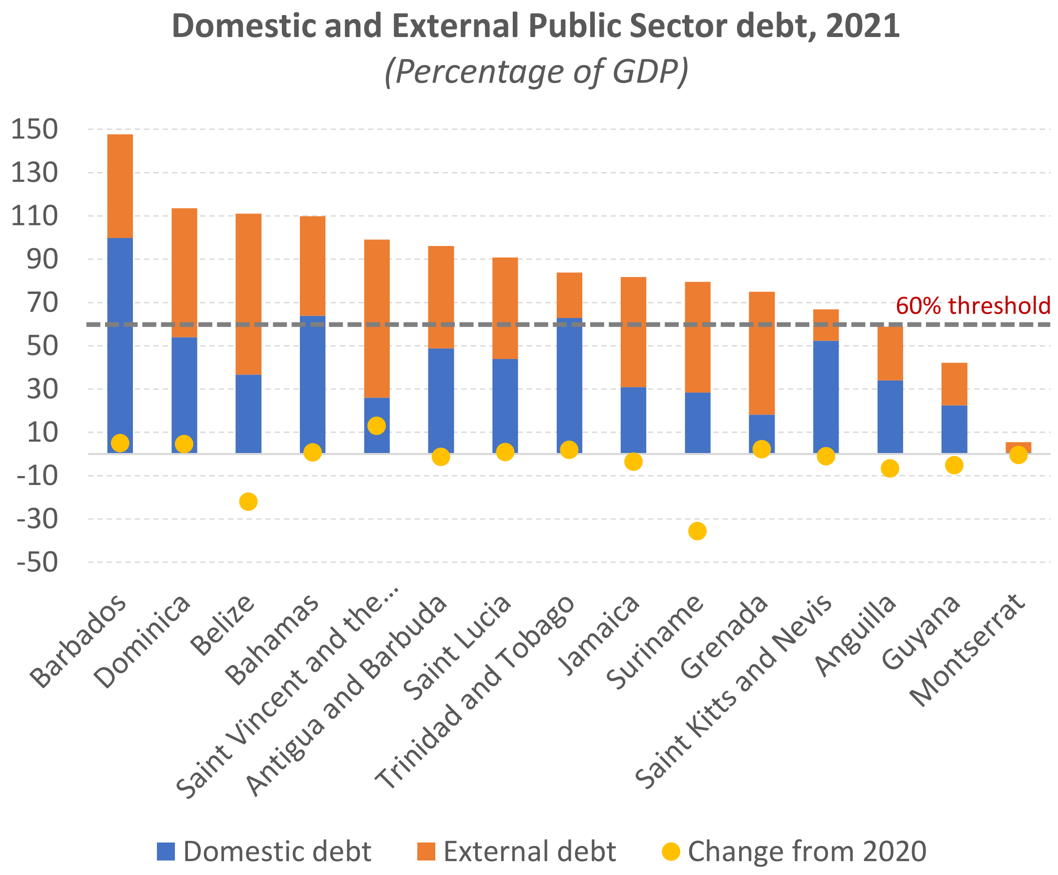
Slow improvement in GDP growth in 2021 but global issues pose risks in 2022, Public debt has significantly widened, and fiscal positions remain weak

Overall fiscal balance vs Total public debt in 2021

2021 GDP growth illustrated by bubble size

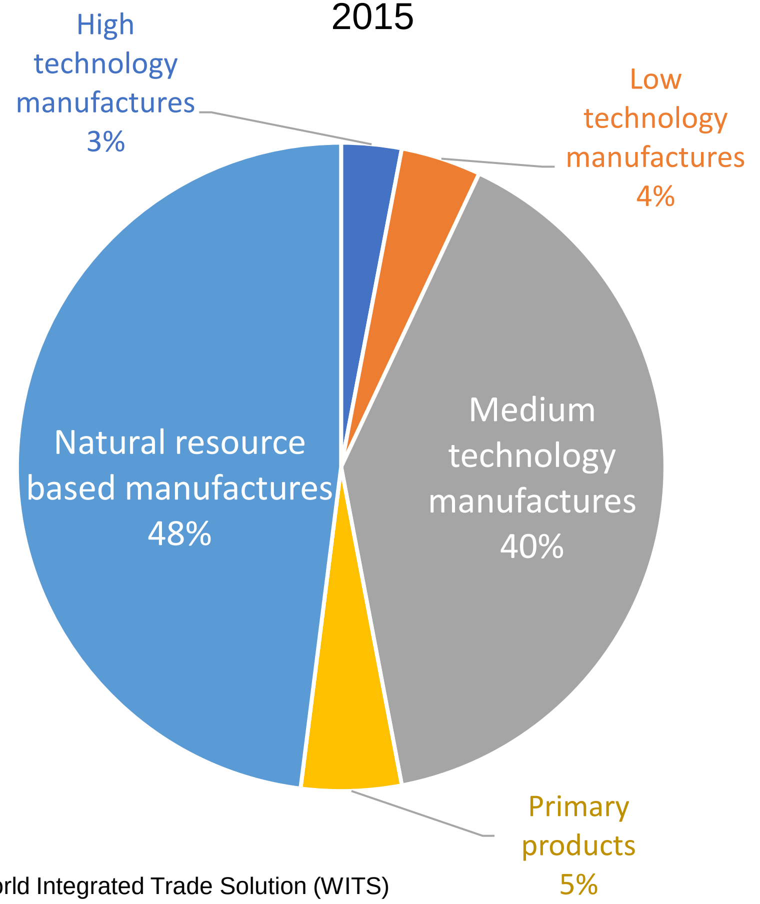


High public debt levels and rising debt service payments limits the fiscal space required to implement crucial economic development plans



- The public debt among Caribbean economies is heterogenous with domestic debt ranging from 0.7 – 99.7% of GDP and external debt ranging from 4.7 – 74.4% of GDP. **Eight of fifteen economies hold the majority of their debt as external debt**
- There is, however, an **increased focus on private debt** with declining attention to acquiring bilateral and multilateral debt
- Debt service payments across Caribbean economies remain high. In 2021, **debt service payments averaged 24.1% of government revenue**. Antigua and Barbuda has the highest debt service levels in the region at 76.6% of government revenue
- This unsustainably high debt and rising debt service payments **reduces the fiscal space required to sufficiently achieve the SDGs, address unexpected major economic shocks and invest for the future**.

The Caribbean needs substantial development and financial support to facilitate trade



Source: World Integrated Trade Solution (WITS)

- Only a small percentage of the Caribbean's technological intensity of exports focused on **high technology manufactures (3%)** which increases value added to the economy.

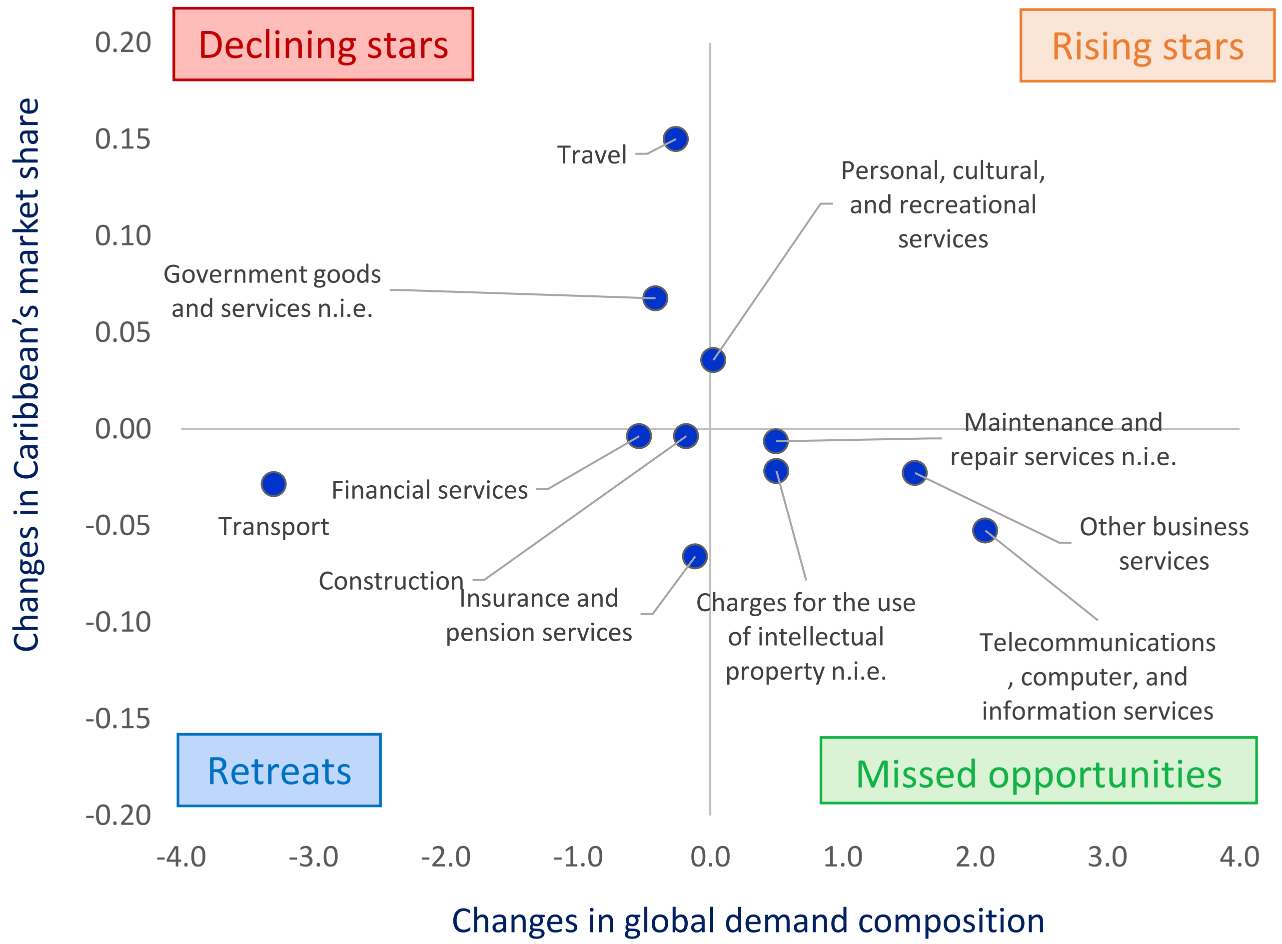
- Instead, 88% of the Caribbean's technological intensity of exports composed of natural resource-based manufactures (48%) and medium technology manufactures (40%)

- CARICOM's top 10 exports are also highly concentrated, accounting for an average of **73.6% of the overall value of its global shipments from 2010 – 2020** with a substantial increase to **91% in 2020**

- **The Caribbean needs substantial development and financial support** to diversify their exports and facilitate the trade needed to promote economic development.

Trade Competitiveness Matrix for Service Export for the Caribbean (from 2007-2009 to 2017-2019)

(Percentage points)

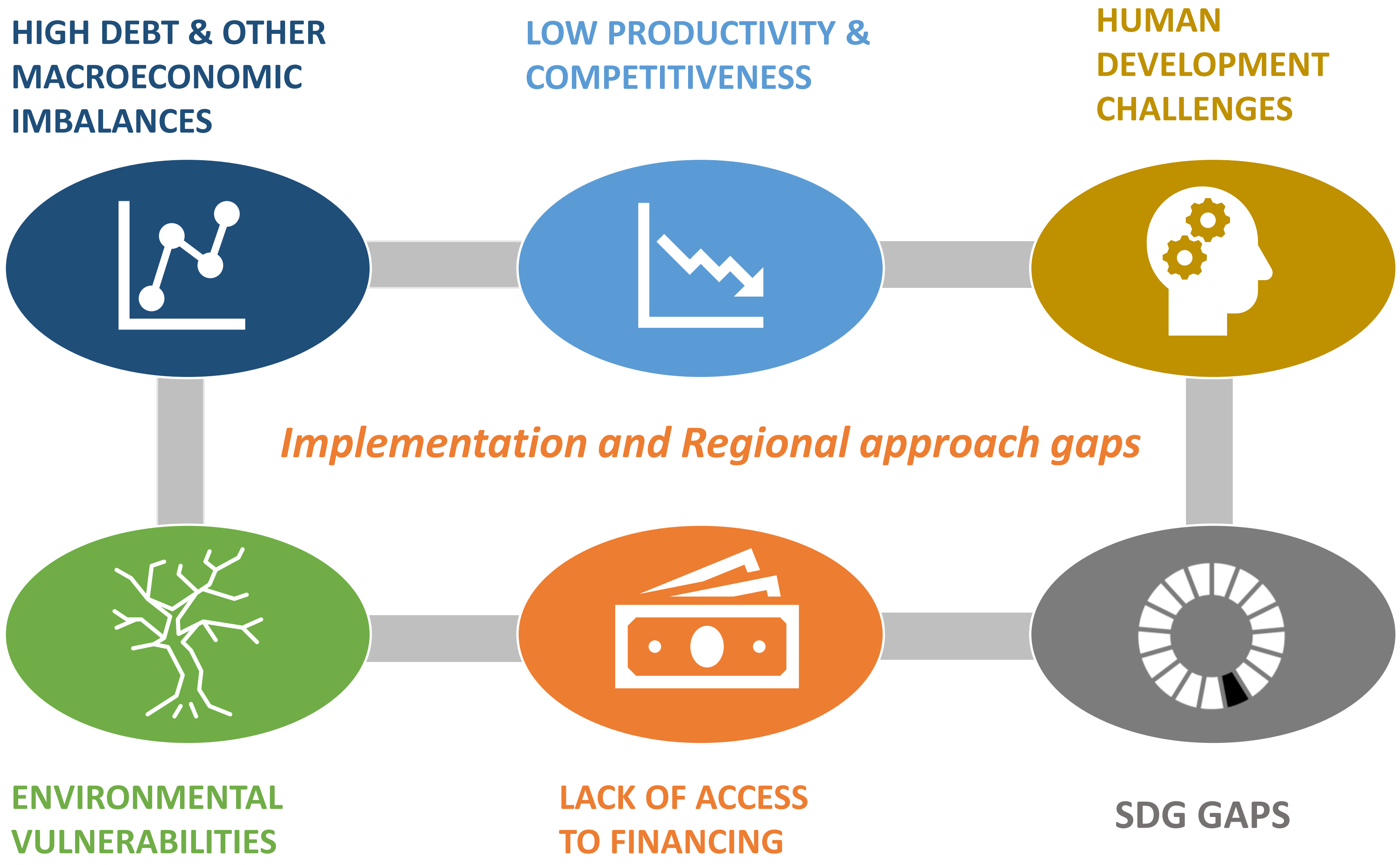


Opportunities exist to improve service export trade competitiveness

The subregion is highly vulnerable to: climate changes, natural disasters and weather events

- Caribbean countries are some of the most vulnerable to climate change
- Even among SIDS, natural disasters are more costly and more frequent in the Caribbean.
- In 2017, the cost of the hurricane season to Caribbean countries was US$93 billion (this includes Cuba US$13b and Puerto Rico US$68 billion).
- ECLAC has estimated that in 2017, damage and loss to Antigua and Barbuda, The Bahamas, Dominica and Saint Kitts and Nevis due to hurricanes were in excess of US$1.7 billion.
- Damage to infrastructure, agriculture and housing following the eruption of the La Soufriere volcano in Saint Vincent and the Grenadines estimated at US$300 million.
- Caribbean governments need to respond after these events, often through more debt

Major challenges driving the need for support to build economic, social and environmental resilience



What is the Caribbean Resilience Fund?

A financing mechanism to spur economic growth, build resilience, enhance liquidity and provide debt relief

PURPOSE

To finance strategic interventions across the Caribbean to counter its challenges, including environmental vulnerability; relatively low economic growth; SDG gaps; high debt; and limited access to financing.

STRUCTURE

The CRF is proposed as a special purpose financing vehicle intended to leverage long-term, low-cost development financing for the Caribbean.

BENEFIT

The CRF can facilitate economic and structural transformation to reduce long-term borrowing in the future.

ECLAC CRF timeline, 2015-2021

2015

Debt relief proposal includes establishment of CRF

2016

Proposal pivots to debt for climate swap using funds from the GCF

Debt Task Force formed at CDR

2017

Debt Task Force meets, agrees to start initiative with pilot countries

2018

Task Force identifies three pilot countries: ATG, LCA and VCT

GCF indicates reluctance for funding debt relief

2019

Scenario analysis estimates amount of debt reduction necessary for growth

2020

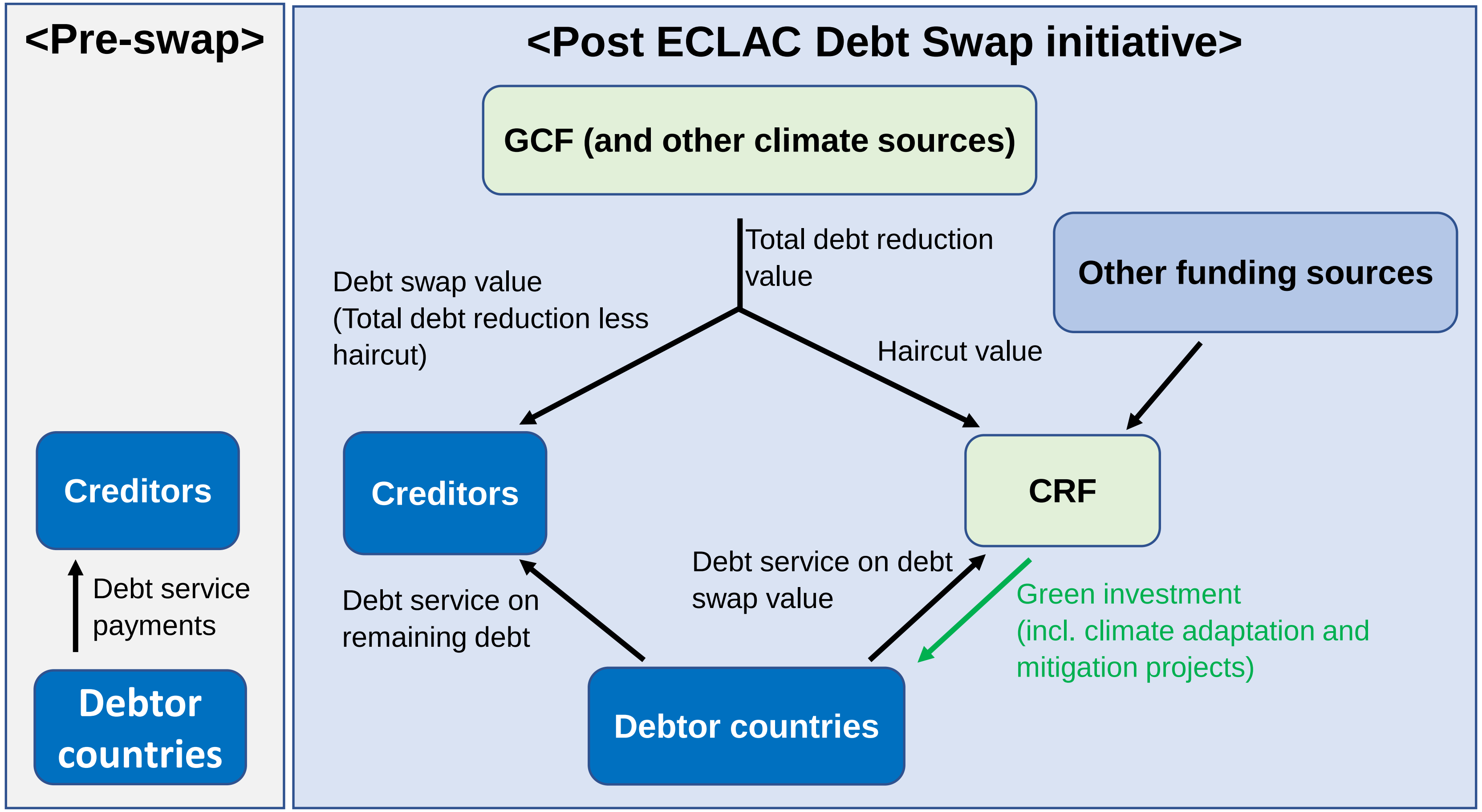
ECLAC tables CRF in Financing for Development in the Era of COVID-19 and Beyond

ECLAC meets with GCF and pilot country debt managers

2021

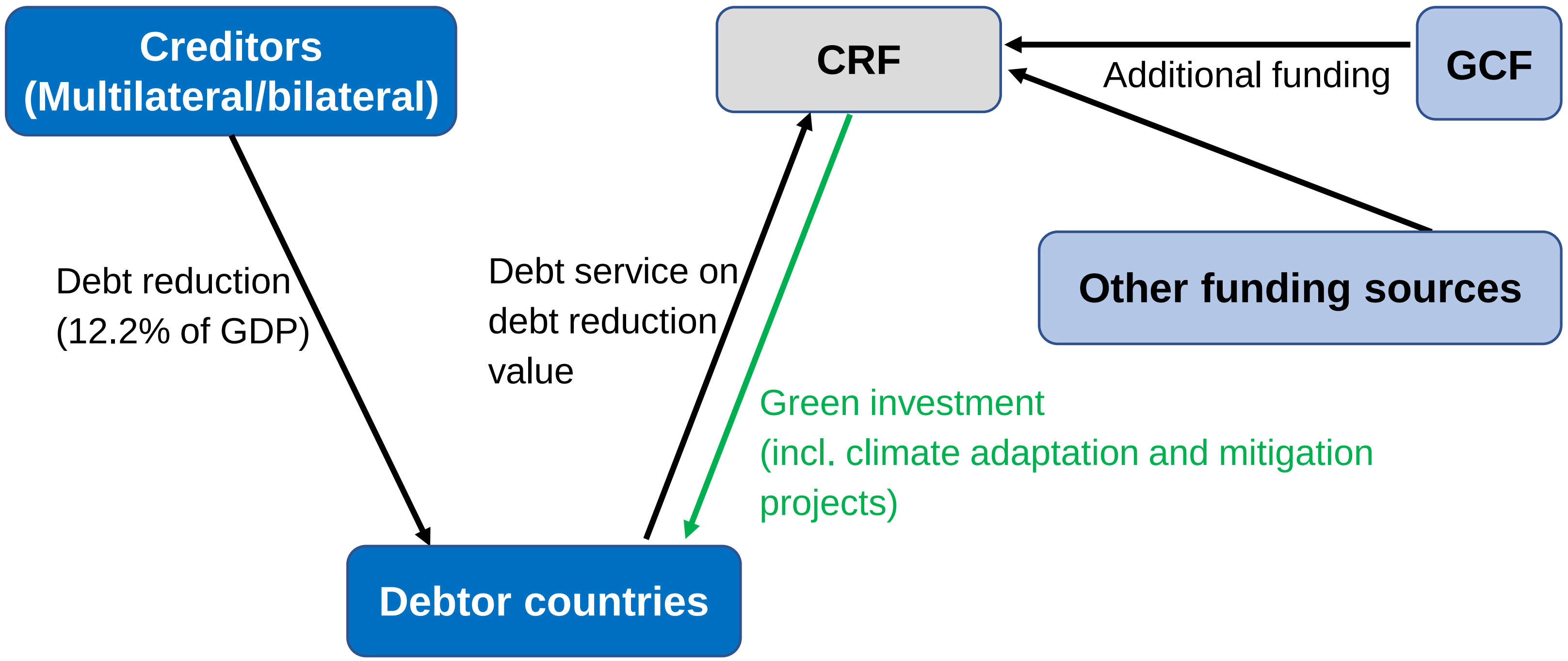
CRF reimagined as segregated portfolio trust fund with three windows of focus

Previous Strategy (1):
GCF finances a write down



Source: ECLAC.
Note: Arrows indicate financial flows.

Previous Strategy (2):
Debt reduced to boost growth



Source: ECLAC.

ECLAC's Debt for Climate Adaptation Swap

Initial CRF capitalization for Phase I countries - US$527 million

Target growth set at 1%

Long-term elasticity of debt on growth: 0.082

Required total debt reduction: 12.2% of GDP

Antigua and Barbuda

Required Total Debt
US $197 million
(15.7% of total debt)

Saint Lucia

Required Total Debt
US $231 million
(18.6% of total debt)

Saint Vincent and the Grenadines

Required Total Debt
US $99 million
(16.2% of total debt)

Previous Strategy (3):

A segregated portfolio trust fund supporting three critical development needs

WINDOW 1

ENVIRONMENTAL RESILIENCE BUILDING

A SEGREGATED PORTFOLIO CARIBBEAN RESILIENCE TRUST FUND

WINDOW 2

INCLUSIVE GROWTH AND COMPETITIVENESS

WINDOW 3

LIQUIDITY AND DEBT FACILITY

Initial Capitalization for Theme 1 & 2:
US$ 3.7 billion

Initial Capitalization for Theme 3:
US$ 6.9 billion

Where we are now: The CRF Mechanism

Window 1: Resilience building

Window 2: Growth and competitiveness

Window 3: Debt restructuring and liquidity enhancement

CRF hosted by the CDB and/or CDF
Funding sources:
1. domestic and international private sector,
2. multilateral agencies
3. Climate finance

CRF will invest in sustainability projects in the Caribbean

Liability Management Operations
1. Green bonds arranged by Credit Suisse to purchase existing debt
2. New debt issue guaranteed by DFI
3. Maturity of debt extended, and debt service reduced 50%
4. Parametric insurance in the event of a disaster
5. 3 Pilot countries, BLZ and JAM

Benefits of the CRF

WINDOW 1
Resilience building focus

- Investment in climate mitigation and adaption
- Modernizing infrastructure for resilience building
- Deepening capital markets, including insurance markets
- Policy reform and institutional strengthening

WINDOW 2
Inclusive growth and competitiveness focus

- Enhancing production and export of capital services
- Incentivizing investment in the blue and green industries
- Improving the environment for business
- Support to MSME and youth entrepreneurship

WINDOW 3
Debt restructuring and liquidity enhancement

- Provide debt restructuring and liquidity support
- LMO - Lowering overall effective interest rates and extending debt maturity to increase fiscal space
- Pursuing debt for climate adaptation swaps eventually

Upcoming ECLAC projects

Building back better in tourism dependent economies post COVID-19

- Community based tourism in select ECCU economies
- Creative tourism as an avenue for economic diversification
- Opportunities for diversification and economic transformation of tourism dependent economies of the eastern Caribbean
- Development of duty-free ports as a vehicle for increasing value-added and diversification in the tourism sector
- Entrepreneurship training

Advancing Innovative Financing Solutions

- Advance innovative financing solutions intended to increase volume of financing
- Develop new and strengthen existing partnerships among UN agencies, governments, and the wider private sector
- Enhance the enabling environment for more effective use of existing as well as new innovative finance;
- Strengthen indigenous capacity to further promote and develop innovative financing solutions

Mobilizing resources for greener development

- Strengthen the national capacities of selected vulnerable SIDS to mobilize affordable external financial resources for a greener, more equal, and sustainable development beyond the COVID-19 pandemic, simultaneously achieving climate priorities with external financial sustainability

Key questions on the way forward

What are the immediate sources of international and domestic support for capitalizing the CRF?

Can you identify country specific and/or regional climate resilience project ideas that can be developed into proposals as part of the CRF?

How do we solve the capacity issues: delivery of development funds, absorption of funds, and efficient implementation of projects.

What institutional and technical support would be required from ECLAC to implement the CRF and LMOs?

Is there a need for country specific dialogue on the categories of debt that are considered urgent for restructuring?

What is the optimal mix of countries to effectively implement LMOs: country, subregional, regional?

Thank you

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