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

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High-level meeting to advance consideration of the ECLAC 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).

- 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.

* GFC – Global Financial Crisis
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).

<table>
<thead>
<tr>
<th></th>
<th>GDP growth rate (%)</th>
<th>Total Public Debt (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-GFC (2001-2007)</td>
<td>3.7</td>
<td>70.1</td>
</tr>
<tr>
<td>Post-GFC (2009-2021)</td>
<td>0.0</td>
<td>71.3</td>
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* 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

Overall Fiscal Balance (Percentage of GDP)

Total Public Debt (Percentage of GDP)

-40 -30 -20 -10 0 10 20

Anguilla
Antigua and Barbuda
Barbados
Belize
Bermuda
Belize
Barbados
Bahamas
Saint Lucia
Saint Kitts and Nevis
Saint Vincent and the Grenadines
Suriname
Trinidad and Tobago
Guyana
Jamaica

5
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 heterogeneous 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.

![Domestic and External Public Sector debt, 2021](Percentage of GDP)
The Caribbean needs substantial development and financial support to facilitate trade

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.

Source: World Integrated Trade Solution (WITS)
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

- **High Debt & Other Macroeconomic Imbalances**
- **Low Productivity & Competitiveness**
- **Human Development Challenges**
- **Environmental Vulnerabilities**
- **Lack of Access to Financing**
- **SDG Gaps**

Implementation and Regional approach gaps
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
  - Proposal pivots to debt for climate swap using funds from the GCF
  - Debt Task Force formed at CDR

- **2016**: Debt Task Force meets, agrees to start initiative with pilot countries

- **2017**: Task Force identifies three pilot countries: ATG, LCA and VCT
  - GCF indicates reluctance for funding debt relief

- **2018**: Scenario analysis estimates amount of debt reduction necessary for growth

- **2019**: ECLAC tables CRF in Financing for Development in the Era of COVID-19 and Beyond
  - ECLAC meets with GCF and pilot country debt managers

- **2020**: CRF reimagined as segregated portfolio trust fund with three windows of focus
Previous Strategy (1):
GCF finances a write down

<Pre-swap>  
Creditors  
Debt service payments

Debtor countries

<Post ECLAC Debt Swap initiative>  
GCF (and other climate sources)

Debt swap value  
(Total debt reduction less haircut)

Creditors

Total debt reduction value

Haircut value

Other funding sources

CRF

Debtor countries

Debt service on remaining debt

Debt service on debt swap value

Green investment  
(incl. climate adaptation and mitigation projects)

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

A SEGREGATED PORTFOLIO CARIBBEAN RESILIENCE TRUST FUND

WINDOW 1
ENVIRONMENTAL RESILIENCE BUILDING

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**

**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

**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
Benefits of the CRF

**WINDOW 1**
Resilience building focus
- Investment in climate mitigation and adaptation
- 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