Debt Watch - Caribbean

Issue No. 19: July/August 2010

News

CDB disburses US$124.5 million in first half of 2010

The Caribbean Development Bank (CDB) disbursed the equivalent of US$124.5 million to its Borrowing Member Countries (BMCs) in the first half of 2010. This is up from the US$105.2 million disbursed for the same period in 2009. The CDB, in its recently concluded July meeting, also approved the equivalent of US$125 million in financing to the Bank's BMCs. The CDB has hailed this development as evidence of the CDB's commitment to assisting its member countries in the Caribbean to meet the challenges of the prevailing economic climate.

Source: *Caribbean Net News*

CDF approves first assistance funds

St. Lucia and Belize will be the first to benefit from the Country Assistance Programmes (CAPs) of the CARICOM Development Fund (CDF).

The CDF, which was established in July 2008 to help disadvantaged countries and sectors compete within the CARICOM Single Market and Economy, will provide US$4.7 million for St Lucia and US$3.37 million for Belize. Both countries will use the money to assist small- and medium-sized businesses.

Source: *Caribbean360.com*

Antigua meets CDB loan conditions

Antigua and Barbuda is expected to get some funds from the Caribbean Development Bank (CDB) now that the institution is satisfied with efforts to meet conditions tied to disbursement of the first tranche of a US$30 million policy-based loan (PBL) that was approved last year.

The conditions of the PBL mirror the measures set out by the government's Fiscal Consolidation Programme, which is aimed at curbing expenditure and enhancing revenue collection

The loan will be used to, among other things, reduce arrears to creditors, suppliers and contractors. In addition to this financial assistance, the CDB has expressed a willingness to provide technical assistance for the implementation of the government's National Economic and Social Transformation Plan.

Source: *Caribbean Net News*

Barbados negotiating US$10 million IADB loan for smart energy fund

The government of Barbados is negotiating a US$10 million loan arrangement with the Inter-American Development Bank (IADB) to finance a Smart Energy Fund which would be used to hasten the implementation of green initiatives. The five-component Fund is intended to reduce energy costs and improve energy security, while enhancing the island's environmental sustainability.

Source: *Caribbean Net News*

Dominica gets European bank support

The European Investment Bank (EIB) has agreed to provide US$10 million in assistance to ensure continued availability of public and private sector finance in Dominica during the ongoing financial crisis.

The EIB's line of credit to the Dominica Agricultural, Industrial and Development Bank is aimed at promoting growth, employment, competitiveness and economic diversification. Projects in the manufacturing, industrial, agricultural, infrastructure, energy, health, education and tourism sectors will benefit from the easier access to finance.

The package is mainly geared to support small- and medium-sized enterprises as part of the EIB's priority focus on private sector development. Renewable energy and energy efficiency projects will benefit from a dedicated US$1.3 million component and will further benefit from an interest rate subsidy to facilitate investment in these sectors.

Source: *Caribbean360.com*

Grenada to benefit from Libyan assistance to OECS

Grenada is to receive about EC$5million as part of a grant package from Libya to Eastern Caribbean countries. The package, an ongoing effort to strengthen and develop relations between Libya and the Organisation of Eastern Caribbean States (OECS), was finalised during a recent visit to the North African country by representatives of OECS nations.

Source: *Caribbean Net News*

IMF cancels Haiti's debts

The International Monetary Fund (IMF) cancelled Haiti's debt and approved a new programme to support reconstruction and economic growth in the quake-hit country. The IMF approved the cancellation of Haiti's outstanding liabilities of US$268 million to the Washington-based lending institution.

It will give the nod to a three-year programme to support Haiti's reconstruction and growth drive following the devastating January 12 earthquake that left hundreds of thousands dead in the impoverished nation.

Source: *Inter-American Development Bank*

IADB approves US$118 million in grants for Haiti

The Inter-American Development Bank approved grants totalling US$118 million for Haiti to improve electricity and water services in Port-au-Prince, which were severely affected by the January 12 earthquake.

A US$14 million grant will help speed up the recovery of electricity services in the capital while the additional resources will help to finance repairs to high, medium and low voltage circuits. It will also facilitate the construction of a new sub-station in the industrial district of Tabare. Additionally, the grant will finance the acquisition of IT hardware and software and the training of staff of the state-owned utility, Electricite d'Haiti.

Source: *Inter-American Development Bank*

IADB approves US$54 million in grants for Haiti's roads

The Inter-American Development Bank approved two grants for Haiti to repair highways and improve secondary roads. Transportation is a key sector in the Haiti government's economic recovery plan after the January 12 earthquake.

A US$29 million grant will help to complete rehabilitation work on RN1, one of the busiest stretches of the country's principal highway, while a US$25 million grant will finance work to improve the secondary road network in Haiti's southern peninsula.

Source: *Inter-American Development Bank*

IADB approves US$54 million in grants for Haiti's roads

The Inter-American Development Bank approved two grants for Haiti to repair highways and improve secondary roads. Transportation is a key sector in the Haiti government's economic recovery plan after the January 12 earthquake.

A US$29 million grant will help to complete rehabilitation work on RN1, one of the busiest stretches of the country's principal highway, while a US$25 million grant will finance work to improve the secondary road network in Haiti's southern peninsula.

Source: *Inter-American Development Bank*

World Bank helps Haiti close its budget gap

The World Bank approved a US$30 million grant that will provide Haiti with urgently needed funds to close its budget gap and support the government's efforts to increase public sector transparency and accountability. The US$30 million grant will leverage an additional US$25 million from the donor supported Haiti Reconstruction Fund (HRF) which is managed by the Bank.

The new funding is part of the Bank's commitment to support Haiti's recovery in the wake of the January 12 earthquake that killed more than 230,000 people and caused large-scale destruction in the capital, Port-au-Prince. The Emergency Development Policy Grant supports fiscal transparency in the electricity sector, strengthens budget controls and public procurement and supports anti-corruption measures.

Source: *The World Bank*

World Bank-managed Haiti aid fund only 20 percent full

The World Bank has stated that a US$500 million pledge of aid for Haiti quake relief is only 20 percent full. The US$500 million fund is part of a five-year, US$10 billion relief package that donor countries agreed to provide for Haiti in late March, half of which was pledged for disbursement in its first two years. Many of the big donors to Haiti have yet to release the aid as the funds have been tied up in recession-hit national budgets.

Source: *Caribbean Net News*

Jamaica, IADB sign US$200 million loan to strengthen fiscal policy

Jamaica and the Inter-American Development Bank (IADB) have signed a US$200 million loan for a fiscal consolidation programme. The government of Jamaica will strengthen the country's fiscal policy with support from the IADB.

Disbursement of this fiscal policy loan, the first in a series of as many as three operations, is based upon fiscal measures taken by the government since the end of 2009 and during the first semester of 2010 to restructure public debt, increase revenue and control spending to meet the targets set out in its reform agenda, also supported by a stand-by agreement with the International Monetary Fund.

The second and third operations would aim to support the government's efforts to undertake deeper, structural fiscal policy reforms in order to reduce the country's debt burden while financing needs in the medium-term.

The fiscal consolidation programme will support Jamaica's efforts to achieve stable, sustained growth in a context of sound macroeconomic policy and a consolidated fiscal balance, focusing on increasing tax revenue, streamlining expenditure and reforming the public sector.

Source: *Inter-American Development Bank*

EU provides budgetary support to Jamaica

The European Union is providing US$46.9 million in budgetary support to Jamaica to assist in the government's debt reduction programme and the sugar industry. The government will receive US$23.4 million for the Debt Reduction and Growth Enhancement Programme (DRGEP), while US$11.7 million will go towards support for the sugar sector. The DRGEP is part of a total package entered into with all the country's multilateral partners.

Source: Caribbeandailynews.com

Jamaica passes second review under IMF Stand-By Arrangement

The International Monetary Fund (IMF) has announced that all end-June targets have been met in a second review of the economic programme approved by the IMF in February 2010.

The announcement follows an IMF mission to assess the quantitative performance at the end of June 2010 under the Stand-By Arrangement (SBA) and review the ongoing macroeconomic and structural policies. The structural reforms aim at strengthening fiscal management and the financial regulatory and supervisory frameworks.

The IMF noted that risks to the programme remain high, such as the external economic environment, Jamaica's very high debt, and the economy's vulnerability to shocks. However, the institution indicated its confidence that the continued strong implementation of the programme will foster a stable macroeconomic environment and a marked improvement in the overall investment climate which will lay the foundations for long-term sustained economic growth.

Source: International Monetary Fund

Standard and Poor's reaffirms CDB's triple A rating

The international rating agency, Standard and Poor's (S&P), has again rated the Caribbean Development Bank as a triple "A" institution.

S&P identified the Bank's strong capitalisation, its diversified and well-performing loan portfolio, its prominent position as a lender in its borrowing member countries (BMCs), adequate liquidity, and the recent demonstration of strong shareholder support in the form of a large paid-in capital increase.

Source: Caribbean360.com

Anguilla borrows from ECCB to pay public servants' salaries

The government of Anguilla has borrowed Eastern Caribbean (EC) 10 million dollars from the Eastern Caribbean Central Bank (ECCB) to pay the salaries of its public servants for the month of August.

Source: Caribbean News Now

Feature

The greening of debt relief – Debt for nature swaps

In the Caribbean, two things are certain: (i) the majority of countries are small with populations of less than 1.5 million, and (ii) their economies are highly vulnerable to external shocks. Small vulnerable economies (SVEs), such as those in the Caribbean, face particular challenges. Foremost among these is that they are vulnerable to natural disasters and environmental shocks. Perhaps this is not surprising as most SVEs are island states.

A recent index of environmental vulnerability prepared by the United Nations Environmental Programme (UNEP) indicates that five Caribbean countries (Barbados, Dominica, Grenada, Jamaica, and St. Lucia) are extremely vulnerable to environmental shocks due to climate change, natural disasters and other environmental factors. A further three are highly vulnerable (St. Kitts and Nevis and St Vincent and the Grenadines) or vulnerable (Antigua and Barbuda) to environmental change.

Caribbean SVEs are also highly vulnerable to economic shocks. Because of their small size, many SVEs have limited prospects for trade and economic diversification and many are highly import dependent, particularly on strategic imports such as fuel and food. SVEs have limited scope to benefit from economies of scale, and must also contend with limited institutional and human capacity. Shocks, such as the current global financial crisis, are therefore felt more acutely in such economies, as not only do they more adversely affect growth and development, but recovery is also more likely to lag behind that of larger, more resilient, countries.

Many Caribbean SVEs are contending with an additional burden: they are suffering from high and unsustainable levels of public debt. By some international standards, a country's public debt is viewed as unsustainable if it exceeds 60% of GDP. Nine countries in the Caribbean breach this threshold, with public debt to GDP exceeding 65% as at the end of 2009. Three Caribbean SVEs (Barbados, Jamaica, and St. Kitts and Nevis) have public debt to GDP exceeding 100 percent.

A growing number of countries have had to resort to debt restructuring operations to secure debt relief. Since 2004 Belize, Dominica, and Grenada have all undertaken debt restructuring, joined more recently by Jamaica in 2010. Antigua and Barbuda are preparing to undertake comprehensive restructuring of their public debt later this year. All countries have, by and large, relied on the more traditional debt restructuring mechanisms, namely debt rescheduling and debt refinancing, to secure debt relief. A few, such as Jamaica, have also benefited from debt write-offs from sympathetic donor governments such as the UK and Norway.

Debt conversions or swaps, however, are another vehicle by with debt relief can be obtained. Debt swaps involve converting an existing debt or stream of debt service payments, at a discount, for some other form of debt obligation or type of asset in domestic currency.

In the mid-1980s to early 1990s, conversions were usually in the form of debt-to-equity swaps. These involved three parties: the creditor, the borrowing government, and a private investor. The investor would purchase the debt from the creditor at a deep discount. The investor would then have the government redeem the debt at close to face value, with the local currency proceeds used for private equity investment in a new or existing enterprise.

The benefits of debt conversions were twofold. First, it provided debt relief by cancelling all or part of an existing debt obligation. Second, it generated investment within the local economy, better enabling the government to grow and generate income to service future debt obligations.

Debt-to-equity swaps had their heyday in the mid-1980s. Many heavily indebted countries, particularly those in Latin America, used such debt conversions to reduce their outstanding external commercial debt. Jamaica was singular in the Caribbean in implementing a debt-to-equity swap programme. It was launched in 1987. Over the life of the programme, from 1987 to -1993, Jamaica retired US$107 million in debts owed to private banks and realised investments not only in the tourism sector but also in export agriculture and manufactures.

Debt-to-equity conversion programmes lost their appeal in the mid-1990s in part because the creditworthiness of many of the implementing countries improved and the price of their debt rose in the secondary market.

Now debt swaps have again become the cool kid in town. This time, however, it's not to convert debt into equity but to fund environmental programmes. In keeping with today's trends, swaps have gone green.

Debt-for-nature "green" swaps are transacted in much the same way as debt-to-equity swaps. A third party, typically an international non-governmental organisation (NGO), purchases a sovereign government's external debt from a creditor at a deep discount. The debt to the creditor is extinguished in exchange for the government's use of the local currency equivalent of the debt to fund an environmental project administered by the NGO.

Debt-for-nature swaps gained traction in the early 1990s when Paris Club creditors, including Belgium, Germany, Switzerland and the United States, initiated debt-for-nature swaps as a means of providing debt relief to eligible countries while also funding environmental conservation projects.

Jamaica was the first Caribbean country to benefit from debt-for-nature swaps under the US Enterprise for the Americas Initiative (EAI). This initiative allowed for the concessional debts owed to the US to be purchased and cancelled in exchange for financing environmental programmes. Between 1991 and 1993, US$311 million of USAID and PL 480 (food aid) debt owed by Jamaica was cancelled and the Environmental Foundation of Jamaica (EFJ) created. Under the EAI terms, interest payments due on the debt were instead channelled to the EFJ to help finance conservation efforts in Jamaica.

In 1998, the US government's Tropical Forest Conservation Act (TFCA) replaced the EAI. Modelled after the EAI, it twinned debt relief with the funding of environmental programmes. However, while the number of beneficiary countries was increased, funding was earmarked solely for tropical forest conservation.

In the Caribbean, Belize and Jamaica have been the notable beneficiaries under the TFCA programme. In 2001, Belize and the US government, in conjunction with The Nature Conservancy (TNC), transacted a debt-for-nature swap in which US$ 1.4 million in debt was cancelled, translating to a 50% reduction in its US debt. It is estimated that, combined with private funds, some US$9 million in local currency equivalent will be used to fund tropical forest conservation over the medium-term. In 2004, Jamaica, the US government, and TNC, also transacted a debt-for-nature swap. The swap, in addition to reducing debt owed to the US government, is expected to generate U$16 million over 20 years for tropical conservation.

Given the twin benefits of debt-for-nature swaps, debt reduction and environmental projections, small, vulnerable Caribbean countries may find swaps a useful mechanism for reducing their debt burdens as well as adapting to or mitigating the effects of climate change and other environmental factors. Some eight Caribbean countries can be classified as small and environmentally vulnerable as well as highly indebted, with debt-to-GDP above 60%.

There are two important determinants to undertaking such transaction: (i) the structure of the country's debt portfolio, and (ii) the willingness of the creditor to provide debt relief. Debts eligible for nature swaps are typically external debts owed either to commercial banks or donor governments. Countries highly indebted to external multilateral creditors (for e.g., World Bank, IADB) debt or with high levels of domestic debt highly indebted would therefore not be eligible for debt-for-nature swaps. At the same time, creditors are generally only willing to provide relief when they calculate that they can withstand the losses and at the same time a strong case for relief has been made by the borrowing government. Multilateral creditors customarily do not provide debt relief. They fear it may impair their ratings in the international capital markets from which they borrow and use the funds to on-lend to member countries.

But...things change. Low-income countries have benefited from multilateral debt relief under the 2007 multilateral debt relief initiative (MDRI). Maybe SVEs, including those from the Caribbean, could seek relief not only from banks and donor governments, but also from multilateral creditors as well in exchange for funding programmes to reduce their vulnerability to environmental shocks. Imagine a Caribbean with sustainable debt levels and better able to withstand environmental shocks. It's a green idea! *Michele Robinson*

Debt Statistics

Regional

The table below shows the environmental vulnerability of CARICOM countries at the end of 2009. This is based on an environmental vulnerability index developed by the United Nations Environmental Programme (UNEP) and South Pacific Applied Geoscience Commission (SOPAC).

Environmental vulnerability index - Status	
Extremely vulnerable	Barbados, Dominica[1], Grenada, Jamaica, St. Lucia
Highly vulnerable	St. Kitts and Nevis, St. Vincent and the Grenadines
Vulnerable	Antigua and Barbuda
At risk	The Bahamas, Belize
Resilient	---

[1] There is no data available for Dominica but it is ranked in line with other Caribbean States

Source*: United Nations Environmental Programme (UNEP)*

Recent Developments

Launch of the Commonwealth Secretariat's eLearning programme for debt managers

- The Debt Management Section (DMS) of the Commonwealth Secretariat has launched its flagship eLearning programme on CS-DRMS and debt management concepts. The package was developed by the Commonwealth of Learning in collaboration with the Secretariat. The eLearning course trains on general debt management principles and how to use the debt management software, CS-DRMS. Over 50 junior and middle-level debt officers from 19 Commonwealth countries comprise the first cohort. The three-month on-line course began in July 2010.

Upcoming Events/Courses

August 2010

- August 9-18: Commonwealth Secretariat – CS-DRMS IT Workshop for Eastern Caribbean Currency Union (ECCU) countries; Basseterre, St. Kitts and Nevis.

September 2010

- September 15-16: CFTI – Training for Effective Public Sector Debt Management; Dublin, Ireland.

October 2010

- October 4-15: Crown Agents – Advanced CS-DRMS User Training, Sutton, United Kingdom.
- October 9-11: IMF/World Bank – Annual Meetings; Washington, D.C., USA.
- October 21: Eastern Caribbean Central Bank - Meeting of ECCU Regional Debt Coordinating Committee; Basseterre, St. Kitts and Nevis.
- October 25-27: World Bank Treasury – Sovereign Debt Management Forum; Washington, D.C., United States.

If you have information about an important event or development related to public debt management in or relevant to the Caribbean, please email Michele Robinson at:

consult@michelerobinson.net