Debt Watch - Caribbean

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News

IMF completes first review of Antigua and Barbuda under Stand-By arrangement

The International Monetary Fund (IMF) has completed the first review of Antigua and Barbuda's economic performance under a programme supported by a 36-month Stand-By Arrangement. This completion has enabled the immediate disbursement of an amount equivalent to SDR3.375 million (US$5.3 million).

Source: International Monetary Fund

Barbados to preserve coastline with US$30 million in IADB support

The Inter-American Development Bank (IADB) has approved a US$30 million loan to help Barbados preserve and manage its coastline, a critical asset for the country's economy, from damage caused by natural disasters and risks associated with climate change.

Barbados' sandy beaches, reefs and coastal ecosystems, coupled with relatively calm waters and warm weather, create optimal conditions for a tourism industry that accounts for 39 percent of the country's Gross Domestic Product, 50 percent of total export earnings and 44 percent of employment.

The funds will help to preserve and manage the Barbados shorefront through three components: (i) coastal risk assessment, monitoring and management; (ii) coastal infrastructure, including building coastal revetments, offshore breakwaters and walkways; and (iii) institutional sustainability for the Integrated Coastal Risk Management.

The loan is for a 25-year period, with 5 year grace and maturity periods and an interest rate based on LIBOR.

Source: Inter-American Development Bank

Barbados to reduce fossil fuel consumption with IADB support

Barbados has received a US$10 million Inter-American Development Bank (IADB) loan to reduce its dependence on fossil fuels by creating a "Smart Fund" that will finance renewable energy technologies and energy efficiency measures. The loan is for 25-years with 5 years grace.

Source: Inter-American Development Bank

Belize to receive US$5 million IADB loan to tackle juvenile crime

The Inter-American Development Bank (IADB) has approved a US$5 million loan to help reduce juvenile crime in Belize by tackling violent behaviours at school, encouraging positive behaviours in youth from broken homes, improving the effectiveness of rehabilitation for juveniles and enhancing the government's ability to devise and implement policies.

The loan is for 25-years including a 5-year grace period and an interest rate based on LIBOR.

Source: Inter-American Development Bank

Belize gets US$10 million IADB loan to increase waste water collection

Belize is to build a new wastewater collection and treatment system in the Placencia Peninsula, its second most important tourist destination, with a US$5 million loan approved by the Inter-American Development Bank (IADB).

In addition, US$5 million will be provided to Belize from Global Environment Facility (GEF) resources under the "Testing a Prototype Caribbean Regional Fund for Wastewater" (CREW) project.

The loan is for 25-year term, with 5 years grace and an interest rate based on LIBOR.

Source: Inter-American Development Bank

US$3 million World Bank grant to help Haitian banks

The World Bank Board of Directors has approved a US$3 million grant to Haiti to support a partial credit guarantee programme to help local banks and cooperatives restructure the loans of borrowers affected by the earthquake. The grant will also help restart lending in anticipation of stronger demand for credit in the context of the country's reconstruction.

The grant will help reduce the credit risks of financial institutions on small loans to borrowers affected by the earthquake, and micro, small and medium enterprises and housing loans. In addition, the grant will provide technical assistance to the financial sector by designing and implementing measures to remove obstacles to credit growth.

Source: Caribbean News Now

IADB and Spain donate US$20 million to Haiti to combat cholera

The Inter-American Development Bank (IADB) and the government of Spain will provide US$20 million in emergency grants to help Haiti fight a cholera outbreak which has claimed more than 2,300 lives since late October.

The IADB approved a US$115 million grant while the Spanish Cooperation Fund for Water and Sanitation in Latin America and the Caribbean will provide a US$5 million grant for the programme which will be carried out by the Haitian Ministry of Public Health (MSPP), the Haitian water and sanitation regulating agency, DINEPA, and UNICEF.

S*ource: Inter-American Development Bank*

Jamaica to improve agricultural productivity with IADB support

Jamaica will improve the competitiveness of its agricultural sector through measures to improve the quality of food production, foster the development of agricultural and agro-processing value chains, and increase farmer's access to national and international markets using a US$15 million loan from the Inter-American Development Bank (IADB).

The loan is for a 25-year period, with 5 year grace and maturity periods and an interest rate based on LIBOR.

S*ource: Inter-American Development Bank*

Jamaica and IADB sign second loan for fiscal policy reform

The government of Jamaica and the Inter-American Development Bank (IADB) President, Luis Alberto Moreno, singed a US$200 million loan representing the second stage of IADB financing for the country's fiscal consolidation programme.

This operation brings IADB total loan approvals to Jamaica to US$600 million in 2010 in support of the Government's fiscal reform programme. A first operation, also of US$200 million, was approved in August 2010 to strengthen the country's fiscal policy.

Both unprecedented financings were based on fiscal measures taken by the Government in 2010 to improve public debt sustainability, increase public revenues, control spending and modernise customs.

S*ource: Inter-American Development Bank*

Guyana to get US$8 million grant from China

Guyana and China have signed an agreement for a grant of approximately US$8 million for still-to-be-determined projects in the social sector, which has seen a sustained and rapid developmental and infrastructural transformation in recent years.

S*ource: Caribbean News Now*

Guyana and the IADB sign contracts to advance transformation

The government of Guyana and the Inter-American Development Bank (IADB) signed agreements to enhance its public financial management system, and to commence works to transform the country's infrastructure and improve sanitation in the city.

More than US$30 million will be provided by the IADB for the three projects. The initiative to improve the country's public financial management system will continue the process of computerising government's management functions. This project will be funded through a US$750,000 grant. A second contract signed with the IADB was for the injection of US$20 million into work on extending the four-lane highway on the East Bank Demerara.

S*ource: Inter-American Development Bank*

Guyana improves financial supervision with IDB support

Guyana will strengthen the supervision and the regulatory framework of its financial system, as well as boost transparency, with the third and last programmatic policy-based loan of US$5 million approved by the Inter-American Development Bank (IADB).

The programme is helping to consolidate the supervision capacity of the Bank of Guyana, increase dissemination of financial sector information, and support the implementation of legislation to combat money laundering and financing of terrorism. In addition, the project is also supporting measures that will help expand access to financial services.

With this third loan, the IADB, since December 2008, has provided a total of US$15 million in budget support to accompany reforms of Guyana's financial system. Half of this latest financing is made up of a loan from the Bank's Ordinary Capital, with an amortisation of 30 years, a grace period of 6 years and a fixed interest rate. The other US$2.5 million will come from the IADB's Fund for Special Operations. This portion will have amortisation and grace periods of 40 years, and an interest rate of 0.25 percent.

S*ource: Inter-American Development Bank*

Antigua and Barbuda gets EUR 9 million in financial aid from EU

The European Union (EU) has approved Euro 9 million (EC$33.6 million) for Antigua and Barbuda under the EU's vulnerability assistance scheme to help African, Caribbean and Pacific (ACP) countries deal with the effects of the global financial crisis.

The vulnerability assistance package will enable the government to reduce the fiscal financing gap by 52 percent in 2010 in order to maintain priority expenditures, especially social spending. Antigua and Barbuda is the third country to benefit from financing under the mechanism.

S*ource: Caribbean News Now*

Suriname receives US$12 million IADB loan to improve water services

Suriname will benefit from a US$12 million loan from the Inter-American Development Bank (IADB) to improve potable water service for up to 50,000 people and improve the efficiency of water service operators.

The funds will finance a programme to improve the water supply distribution system in priority districts of the coastal area through rehabilitation works and measures that will reduce water losses and strengthen the financial sustainability of public service operators.

The loan is from the IADB's Ordinary Capital with a 25-year term, a 5 year grace period and an interest rate based on LIBOR.

Source: Inter-American Development Bank

Trinidad and Tobago signs US$100 million IADB modernisation loan

The government of Trinidad and Tobago signed an agreement for a US$100 million loan from the Inter-American Development Bank (IADB). The loan is to be used to support the government's efforts to enhance and modernise the management of its public capital expenditure.

The first of the programmatic series of three independent but related operations, the loan will lay the foundation for the rest of the programme.

Its objective is to enhance efficiency, effectiveness, transparency, and accountability in the use of public resources. The project will modernise the public sector investment management system; improve transparency and accountability in public procurement; and enhance public financial management and control systems.

The loan is for a 20 years, with a 5-year grace period and an interest rate based on LIBOR.

Source: Inter-American Development Bank

Trinidad and Tobago gets US$40 million IADB loan

Trinidad and Tobago will improve the living conditions of more than 50,000 people through a housing neighbourhood upgrading project financed with a US$40 million loan from the Inter-American Development Bank (IADB).

The programme will regularise the tenure of property for families in squatter settlements and provide subsidies for home improvements and construction of new housing. The loan will also finance the upgrading of eligible squatter settlements, including the provision of basic urban infrastructure accompanied by community development and land regularisation.

The loan is for a 25-year term, with a 6 year grace period and an interest rate based on LIBOR. Local counterpart financing will total US$10 million. The Ministry of Housing together with the land Settlement Agency will carry out the programme.

Source: Inter-American Development Bank

Feature

Debt Reduction Options for Small Vulnerable Economies – The ComSec Proposal

In September 2010, the Commonwealth Secretariat (ComSec) convened a Consultative Forum in Kingston, Jamaica. The objective was to obtain feedback from Caribbean member states on a set of proposals developed by ComSec to address the debt problems of small and vulnerable economies (SVEs) in the Commonwealth. The intent thereafter was to forward an agreed set of options for ministerial consideration to the Commonwealth Finance Ministers Meetings scheduled for the fall of 2010 just prior to the IMF/World Bank Annual Meetings.

The Consultative Forum came against the background of a mandate to the Secretariat from Heads of Governments and Finance Ministers at their 2009 meetings to devise options to reduce the burden of small vulnerable economies. ComSec has worked hard to develop a set of proposals to address the future financing and debt sustainability challenges of the Commonwealth's small vulnerable economies (CSVEs). Extensive data has been collected on CSVEs, an expert group has been formed, which met in June to examine debt relief options, and ongoing consultations have been held across CSVEs member countries.

CSVEs have received special attention for four main reasons.

- First, almost half of CSVEs have debt levels in excess of 65 percent, indicating solvency challenges, and a further 13 percent have potentially emerging solvency challenges.
- Second, debt difficulties in a significant number of countries are escalating, as indicated by the rate of debt accumulation. The IMF states that an annual increase of total public debt in or above 5-7 percent is cause for concern. Notably, one-third of all CSVEs experienced annual increases over 10 percent.
- Third, most CSVEs are environmentally vulnerable, whether to climate change, natural disasters, desertification as well as changes in human activity such as migration. The United Nations Environmental Programme (UNEP) has developed an environmental vulnerability index which indicates that almost all CSVEs, excluding Botswana and Namibia, are extremely vulnerable to environmental changes. In the Caribbean, seven Caribbean countries, including Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, have been identified as highly or extremely environmentally vulnerable.
- Finally, in addition to environmental vulnerability, CSVEs are generally acutely susceptible to external shocks. The recent impact of food, fuel and financial crises, as well as natural disasters, has markedly retarded prospects for growth and sustainable development.

ComSec's proposals seek to address two issues: (i) the existing solvency and liquidity challenges facing CSVEs; and (ii) the future and debt sustainability challenges facing CSVEs in light of their structural vulnerabilities.

ComSec has proposed four debt relief options to address CSVEs liquidity and solvency problems, namely:

- *Multilateral debt relief for climate change*. This option proposes swapping multilateral debt for investments in reducing climate vulnerability. The debt swap mechanism would entail multilateral creditors cancelling all or part of their debt, after which beneficiary CSVEs would pay the debt service in local currency equivalent to a trust fund to finance climate adaptation or mitigation projects. Given the high levels of indebtedness of CSVEs to multilateral institutions it is envisaged that even if such an option were confined to only the poorest CSVEs, a total of US$2.7 billion could be expected to be written off over the lifetime of the initiative. If all CSVES were eligible for this relief a total of US$192 million in multilateral concessional debt service could be cancelled annually and applied to climate change adaption. If applied only to the most environmentally vulnerable countries, both low and middle income, a total of US$127 million in debt service could be cancelled annually.

- *Commercial buy backs using the IDA Debt Reduction Facility*. This relief option is aimed at those CSVEs with relatively high levels of commercial bank debt. It proposes using the IDA Commercial Debt Reduction Facility (DRF) to buy back the commercial debt obligations of CSVEs with unsustainable debts and significant development needs. First introduced by the World Bank in 1989, the DRF has been used primarily by poor countries under the Highly Indebted Poor Country (HIPC) initiative. Only seven CSVEs are IDA-eligible and of these only two countries (both outside the Caribbean) have significant commercial debt.

- *Commonwealth Debt Relief Mechanism*. This proposal suggests an initiative whereby Commonwealth donor countries could support the payment of some portion of the multilateral debt service of CSVEs. Similar to an initiative undertaken in 2004, the proposal contemplates five Commonwealth donor countries – the United Kingdom, Canada, New Zealand, Australia and South Africa - providing support based on their 2008 share contribution to the International Development Association (IDA). It is estimated that 18.5 percent of multilateral debt service to all SVEs could be covered at an estimated annual cost of US$18.3 million. The overall cost of such an initiative would, of course, depend on the eligibility of countries - all SVEs, only CSVEs, or only low-income CSVEs - and the participation of donors.

- *Temporary debt moratorium*. This option proposes supporting the call made by the UNCTAD Secretary-General for a temporary debt moratorium on official debt servicing for countries that have been severely affected by the global economic crisis.

ComSec has also developed proposals to address how CSVEs should be financed in the future so as to ensure that long-term debt sustainability is achieved and maintained. Two proposals have been put forward:

- *Reform of Aid Allocation Criteria*. ComSec proposes that official multilateral and bilateral donors should include structural vulnerability factors to the already established performance based criteria (which uses GNI per capital, population size, and country performance) to determine aid allocation. More specifically they propose adding two new variables – an Economic Vulnerability Index (EVI) and a Human Assets Index (HAI). Including these criteria would satisfy aid allocation principles of effectiveness, equity and transparency.

- *Establishment of an Automatic Shock Facility*. The second option proposed is for multilateral development banks and the International Monetary Fund (IMF) to establish an Automatic Shock Facility (ASF) to enable CSVEs to access adequate levels of additional finance in the wake of an exogenous shock. While noting that multilateral institutions have substantially increased counter-cyclical lending to SVEs, the data show that even with a quadrupling of funds between 2007 and 2009, lending was concentrated on five SVEs which received 74 percent of the funds. The overall aim of the ASF would be to deliver assistance to SVEs, both Commonwealth and non-Commonwealth, on a sufficient scale, with sufficient speed and in sufficient volume to meet the specific needs of all SVEs.

Only about half of all Commonwealth Caribbean countries participated in the Consultative Forum held in Kingston. A few participating countries observed that the ComSec proposal does pose a difficulty for those SVEs which have access to the international capital markets. While lower debt levels would contribute to improved ratings, achieving debt reduction through a debt relief mechanism may actually close market access and impair credit ratings, at least in the short-term. For CSVEs reliant on external capital market financing, they are wary about the likely effect on future financing if they actively seek and secure wholesale debt relief.

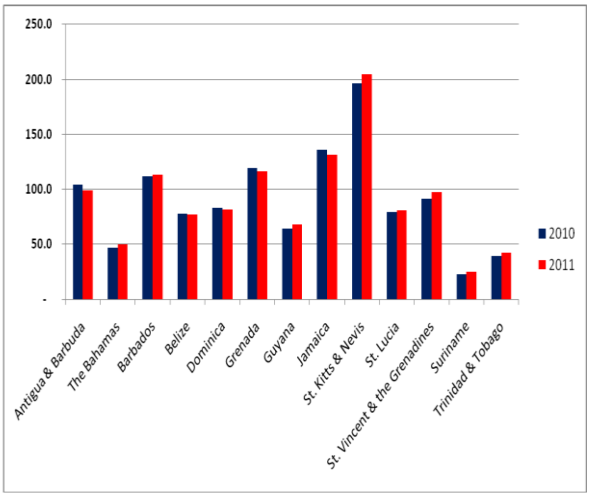
Despite these concerns, Caribbean constituents have been strong advocates for an international SVE debt initiative. Both the Prime Ministers from Grenada and St. Kitts and Nevis have made a case for SVE debt relief. At the 2010 IMF/World Bank Annual Meetings, the St. Kitts and Nevis Prime Minister, Denzil Douglas, made a special case on behalf of the Commonwealth urging special consideration for highly-indebted middle-income countries that no longer have access to concessionary support but are still in need of financial help.

With most Caribbean countries ranking among the most heavily indebted in the world, the ComSec proposal is a welcome intervention. Hopefully it will continue to gain global traction. *Michele Robinson*

Debt Statistics

Regional

The table below shows 2011 public debt to GDP projections for CARICOM countries at the end of 2009. Of concern is that, based on current projections, nine of thirteen CARICOM countries will see an increase in their public debt as a percentage of GDP when compared to 2010.



***Source**: Economic Commission of Latin America and the Caribbean (ECLAC), selected Annual Reports*

Recent Developments

IMF Revises Amounts for the Four Currencies that determine the Value of the Special Drawings Rights (SDR)

- Effective January 1, 2011, the value of the SDR will be the sum of the values of the following amounts of each currency:
  - US dollar = 0.660
  - Euro = 0.423
  - Pound sterling = 0.111
  - Japanese yen = 12.1

  This decision on the amount of each currency in the SDR valuation basket is the final step in implementing the results of the latest review of the method of valuation of the SDR.

Source: International Monetary Fund

Upcoming Events/Courses

January 2011

- January 27-28: International Monetary Fund/Central Bank of Barbados/UWI – Caribbean Conference on Options for the Caribbean after the Financial Crisis; Bridgetown, Barbados.

February 2011

- February 9-11: International Monetary Fund - Review Mission to Guyana on CS-DRMS Meeting of IMF Government Finance Statistics Advisory Committee; Washington, DC, USA.
- February 28 – March 4: CEMLA/World Bank – Joint Workshop on the Deb Management Performance Assessment (DEMPA) tool; Mexico City, Mexico.

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:

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