Debt Watch - Caribbean

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News

PetroCaribe food fund established

Representatives of the 18 PetroCaribe member countries have created a multi-million US dollar fund in an effort to hep ensure regional food security.

The PetroCaribe Food Fund is to provide US$400-$500 million annually to fund farm development and other projects in the Caribbean and Central America.

The fund is backed by a promise by the Venezuelan government to donate US$0.05 for every barrel of oil that Venezuela sells at prices of more than US$100 per barrel.

Source: Caribbean360

US$2 mn food grant received by PetroCaribe members

Eighteen PetroCaribe members are to benefit from a US$2 million grant to assist with rising food prices.

The grant is to be used to buy fertilizer for farmers and is part of a wider plan to bolster food security in the region.

Source: Caribbean Net News

Canada approves C$7 mn for ECCU debt management advisory services

The Government of Canada has approved funding of C$7.2 million for the establishment of a Canada – Eastern Caribbean Debt Management Service.

The Debt Management Advisory Service is intended to support measures to improve debt management in the Eastern Caribbean Currency Union (ECCU) and will help to establish appropriate institutional arrangements for effective debt management at the national level to aggressively manage and adjust debt portfolios.

The Service will also seek to increase awareness and understanding of the implications of debt on growth and development; establish consistent standards for debt management among ECCU member states; and ensure up-to-date statistics and data on national debt, including consistent application of the debt recording system developed by the Commonwealth Secretariat.

Source: Caribbean Net News

US$30 mn CDB policy-based loan for St. Lucia

The Caribbean Development Bank (CDB) has approved a US$30 million policy-based loan for the government of St. Lucia.

The policy-based loan is to help the St. Lucian government implement agreed policy reforms to improve its macroeconomic and poverty reduction performance.

Source: Caribbean Development Bank

World Bank US$35 mn loan for HIV project in Barbados

The World Bank has approved a US$35 million loan to Barbados in support of the Barbadian government's 2008-2013 National Strategic Plan for HIV/AIDS prevention and control.

This is the second phase of an HIV/AIDS programme which seeks to increase the adoption of safe behaviours and access to prevention, treatment and social care, especially among high risk groups.

In 2001, Barbados became the first country to its HIV/AIDS project approved by the World Bank under a US$155 million Multi-Country HIV/AIDS Prevention and Control Adaptable Programme Loan for the Caribbean.

Source: World Bank

Belize gets US$8.8 mn disaster rehabilitation loan

The Government of Belize is to receive US$8.8 million from the Caribbean Development Bank in support of disaster rehabilitation in the aftermath of tropical storms Alma and Arthur between May 30 and June 1, 2008.

Source: Caribbean Development Bank

IADB supports cultural development projects in the Caribbean

The Inter-American Development Bank's Cultural Centre is to award grants of US$3,000 to US$7,000 to 45 small-scale cultural development projects in 26 countries in the Caribbean and Latin America.

Preference was given to projects that emphasized the role of indigenous peoples, women, youth, community building, preservation of cultural heritage and creative education in development through culture.

Source: Inter-American Development Bank

Barbados receives IDB financing to modernize statistical services

The Government of Barbados is to receive a US5 million loan from the Inter-American Development Bank to help modernise its statistical services.

The loan is intended to strengthen the legal framework and will establish a statistics network including governmental agencies which produce relevant public data

The IADB loan has a 20-year term with a 4-year grace period, and attracts a LIBOR-based variable rate.

Source: Inter-American Development Bank

CariCRIS reaffirms high credit-worthiness ratings for Anguilla

The Caribbean region's credit rating agency, CariCRIS, has reaffirmed the "CariAA" ratings for both the Government of Anguilla's foreign currency and local currency debt.

Underpinning the high credit ratings were Anguilla's "prudent fiscal policy driven by the British Foreign and Commonwealth Office" that has resulted in low debt levels, continuous recurrent surpluses, and overall a favourable fiscal position. Despite the strong rating, Anguilla remains constrained by a narrow economic base and rising external accounts occasioned by the rising cost of fuel and food.

Source: CariCRIS Credit Rating Agency

Grenada unable to meet its budgetary expenses

The new finance minister of Grenada, Nazim Burke, has announced that the recently elected Government has insufficient funds in its treasury to meet it budgetary expenses.

The Minister announced that the government would have to rely on overdraft obligations to meet its obligations and that it was hoping from assistance from friendly governments.

Source: Caribbean Net News

Feature

"It's hurricane time again!" – Implications for managing public debt in the Caribbean

The Caribbean is vulnerable to an array of natural disasters - earthquakes, floods, volcanic eruptions and, most particularly, hurricanes. Most Caribbean countries lie in the direct path of hurricanes originating in the Atlantic Ocean and it is estimated that a major hurricane will hit the Caribbean every two and a half years.

Evidence suggests that the number of climate-related disasters in the Caribbean has increased in frequency and in intensity in recent years when compared to the previous decade. Between 1998 and 2004, Jamaica has been affected by five hurricanes, Belize by four, Antigua and Barbuda by three, and Dominica, Grenada and St. Kitts and Nevis by two. In 2005, Jamaica was affected by three hurricanes. Just mid-way through the 2008 hurricane season, Belize has already been badly affected by two tropical storms, while Jamaica, the Turks and Caicos, and Haiti have sustained severe damage to infrastructure with the passage of Hurricane Gustav in August.

Hurricanes and other natural disasters often result in large scale destruction of private and public property and infrastructure. Substantial public resources are usually required to finance relief, early recovery and rehabilitation efforts. These large unplanned expenditures are often accompanied by a slump in revenues, a consequence of widespread production losses. In the Caribbean where many countries have a very narrow economic resource base, at best, the resulting widening fiscal deficit ultimately leads to further debt accumulation. For some however, such as Grenada, the economic losses are more severe.

In the aftermath of the 2004 hurricane Ivan, Grenada incurred estimated losses of US$800 million or nearly twice the country's GDP. Government losses amounted to 30% of the total. Such was the extent of the revenue shortfall that it prompted a fiscal crisis. Not only did Grenada require significant emergency assistance but the government had to implement significant tax measures and embark upon a comprehensive debt restructuring campaign given its inability to meet its payment obligations as they fell due.

While regional governments may implement revenue-enhancing or expenditure-curtailing measures, their fiscal dynamics may significantly constrain their ability to do so. Traditionally, Caribbean governments have relied heavily on emergency assistance from donor governments and international financial institutions to fill their financing gap requirements. The IMF, World Bank, Inter-American Development Bank, and Caribbean Development Bank all provide emergency assistance through various facilities. However, not only do these borrowings add to the already high levels of indebtedness, but, oftentimes, such resources are slow to be disbursed and may be earmarked for specific projects rather than for general budgetary outlays. To bridge the gap, government's often have to issue domestic debt further aggravating their debt situation.

What are the alternatives to massive debt accumulation in the aftermath of hurricanes and other natural disasters? A fairly recent option has been the Caribbean Catastrophe Risk Insurance Facility. Following the devastation in Grenada, this facility was established in 2007 by the World Bank at the request of Caribbean Community (CARICOM) governments. Its key feature is that it provides immediate liquidity to Caribbean governments in the wake of a natural disaster. In addition, it allows governments to determine the coverage they wish to receive based on their exposure to risk and ability to pay; and payments are triggered by the occurrence of the event rather than the damage incurred thereby ensuring quick payment. While premiums are relatively high, ranging from US$200,000 to $2 million annually, and covers only relatively large, low frequency events, the facility can help Caribbean governments better insulate their debt portfolios from the effect of natural disasters.

Another option is for Caribbean governments to rely more heavily on grant rather than loan financing. However, in the past, the provision of grant financing has been ad hoc in nature, heavily dependent on the generosity of donors and largely inadequate to meet the financing requirements of affected Caribbean states.

One proposal has been to establish a grant-financed mechanism that will cover the reconstruction costs of government that are unable to be met by insurance payouts. The availability of such a mechanism, used in conjunction with the CCRIF, would go a long way in preventing further increases in the already heavy debt burden of Caribbean countries.

The 2008 hurricane season is not yet done and already the losses are significant across the Caribbean. It's a good time for Caribbean governments to further engage with international donors to develop non-debt creating mechanisms to address recovery needs when a disaster strikes.

Michele Robinson

Debt Statistics

Regional

The International Monetary Fund provides emergency assistance to countries that urgent balance of payments relief in the wake of natural disasters such as floods, earthquakes, hurricanes and drought. Such emergency funding is quick disbursing, has a 3-5 year term, an interest rate based on the SDR interest rate plus a margin, and is not subject to performance criteria. However, it is limited to 25% of a member's quota.

The table below shows countries in the Caribbean that have received emergency assistance from the International Monetary Fund since 1995.

IMF Emergency Assistance to the Caribbean 1995 - present

		Year	Event	Amount (US$mn)
1.	Haiti	1998	Hurricane	21.0
2.	St. Kitts & Nevis	1998	Hurricane	2.3
3.	Grenada	2003	Hurricane	4.0
4.	Grenada	2004	Hurricane	4.4
5.	Dominica	2008	Hurricane	3.3

Source: International Monetary Fund (IMF)

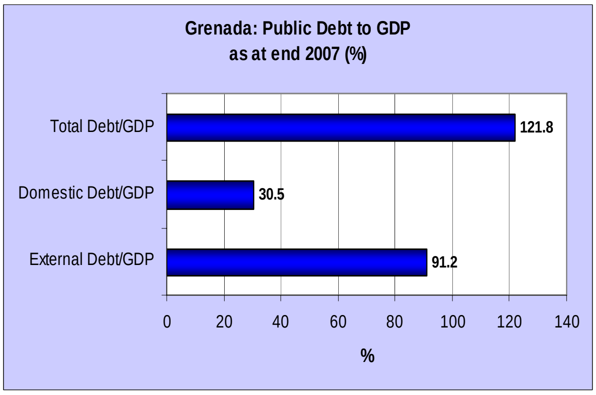
National

Grenada

The table below provides data on key debt ratios in relation to the total public debt of Grenada.

Grenada: Public Debt to GDP
in percent (%)

	2005	2006	2007
Total Debt/GDP	119.3	120.3	121.7
External Debt/GDP	88.0	89.8	91.2
Domestic Debt/GDP	31.3	30.5	30.5



Source: IMF, Eastern Caribbean Central Bank

In recent years, Grenada has accumulated significant levels of debt. At the end of 2007, Grenada's total public debt to GDP was 121.7% making the country the third most indebted country in the Caribbean and among the ten most heavily indebted middle-income countries in the world.

The origins of Grenada's debt are primarily the outcome of expansionary fiscal policies adopted in the early 2000s in an effort to stimulate economic activity after the September 2001 terrorist attacks and the consequential slowdown in the global economy. Fiscal policy became even more expansionary after the damage caused by Tropical Storm Lili in 2003 and Grenada's public debt surged. From a debt-to-GDP ratio of 63% in 2001, Grenada's debt jumped to 110% of GDP by 2003.

The passage of Hurricane Ivan in 2004 had devastating consequences for Grenada. Grenada sustained damage equivalent to EC$2.4 billion or more than 200% of GDP in the intermediate aftermath of the hurricane. The economy contracted by 3% and the fiscal accounts deteriorated further as revenues fell and priority was given to expenditures associated with post-hurricane relief. Significant emergency assistance was received from donors and international financial institutions. However, by October 2004, one month after hurricane Ivan, the authorities declared the public debt to be unsustainable. By the end of the year, public debt-to-GDP had risen to 131%.

Subsequent to Hurricane Ivan, the Grenadian authorities adopted a number of measures to improve their fiscal accounts and restore debt sustainability. A special levy was imposed on incomes over a 5-year period; fuel prices were increased by 13%, excise duties on alcohol and tobacco were also increased; and tax administration was also strengthened. Concurrently, the Grenadian authorities approached both its commercial and bilateral creditors and sought and obtained a comprehensive debt restructuring package.

While public debt-to-GDP levels in Grenada have fallen somewhat since 2004, progress remains halting. The effects of Hurricane Emily in 2005 and expenditure overruns associated with Cricket World Cup preparations in 2007 have led to notable fiscal slippages. Grenada's overall fiscal deficit was near 7% of GDP in 2006, significantly higher than the 4.8% and 2.8% recorded in 2003 and 2004.

The Grenadian government wishes to achieve a debt-to-GDP ratio of 60% by the year 2020. However, in its most recent Article IV Consultation with the Grenadian government, the IMF noted that without a much stronger, front-loaded fiscal adjustment, this debt-to-GDP target might not be realisable.

A new government was elected in Grenada in July 2008. They have stated that a key priority is a programme of efficient debt management and fiscal accountability to reduce the debt burden and stimulate economic activity. Embarking on a prudent debt management programme underpinned by a strong fiscal effort will lay the foundation for debt and economic sustainability over the long-term.

Michele Robinson

Upcoming Events/Courses

October 2008

- October 27-29: World Bank Treasury hosts *Fourth Sovereign Debt Management Forum* in Washington, DC.
- October 23: Eastern Caribbean Central Bank (ECCB) convenes *Meeting of Regional Debt Coordinating Committee* in Basseterre, St. Kitts, WI.

September 2008

- September 24: Organisation of Eastern Caribbean States (OECS) *High-Level Debt Management Forum* in Basseterre, St. Kitts, W.I.
- September 8-19: Crown Agents workshop on *Debt Reorganisation - Issues and Solutions* to be held in Worthing, UK.

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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