Debt Watch - Caribbean

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News

CDB to provide US$4.2 bn to Caribbean countries

The Caribbean Development Bank (CDB) is to provide US$4.2 billion to the Caribbean as part of a US$90 billion support package over the next two years for Caribbean and Latin American countries by leading multilateral development banks to spur economic growth.

The Caribbean Development Bank, the Inter-American Development Bank and Inter-American Investment Corporation (IDB/IIC), the World Bank Group (IBRD, IFC and MIGA), Corporacion Andina de Fomento (CAF) and the Central American Bank for Economic Integration (CABE) are working together to identify partnerships to increase their collective impact and explore new opportunities to protect the social and economic gains achieved in the region during the last five years.

The IDB/IIC is expected to provide US$29.5 billion of the total and the World Bank Group plans to provide US$35.6 billion over the next two years.

Source: Inter-American Development Bank

IADB may withhold funding for Guyana's electrification programme

The Inter-American Development Bank (IADB) president, Luis Alberto Moreno, has said that the IADB may hold bank funding for the commencement of the second phase of the unserved Areas Electrification Programme unless the Guyana Power and Light (GPL) Company can cut its losses from 42 percent to 30 percent.

An IADB team recently reviewed the operations of the power company in relation to losses and GPL agreed that reducing the losses was one of the benchmarks to be met.

Source: Caribbean Net News

CDB provides US$10 mn line of credit to Belize

The Caribbean Development Bank has approved a loan of US$10 million to Belize. The loan is to be used to provide funding to priority sector areas in Belize. These areas include: agriculture and industrial credit, low-income housing and microfinance.

Source: Caribbean Development Bank

Dominica signs US$7.6 mn Exchange of Notes with Japan

The government of Dominica has signed an Exchange of Notes and grant agreement in the amount of US$7.6 million with the government of Japan. The grant is to finance the construction of a new fisheries centre in the town of Portsmouth.

Source: Caribbean Net News

World Bank provides grant of US$5 mn to Haiti to rebuild schools

The World Bank has approved a US$5 million grant to help Haiti to rebuild public primary schools damaged by hurricanes and tropical storms that struck the country in August and September 2008. The grant is to rebuild schools and initiate a new strategy in safer school construction.

According to official statistics, it is estimated that 964 schools were damaged in the 2008 hurricane season, affecting more than 200,000 children.

Source: World Bank

Guyana receives US$27.9 mn IADB loan for low-income housing

The Inter-American Development Bank and the Government of Guyana have signed a loan agreement for low-income housing targeted to benefit 12,000 or 8 per cent of Guyanese households. The agreement is under the second Low Income Settlements Programme (LISP).

The loan consists of US$13.95 million from the IADB's ordinary capital for a 30-year term including a six-year grace period and USS13.95 million from the Fund for Special Operations (FSO) for a 40 year term with a similar grace period and a fixed interest rate of 0.25 per cent.

Source: World Bank

Jamaica's ratings downgraded by Standard and Poor's

Standard and Poor's rating agency has lowered the rating of Jamaica's long-term foreign and local currency debt from B to B-, and the rating on short-term debt from B to C.

Source: Caribbean Net News

Standard and Poor's downgrades Barbados economic outlook

The international ratings agency, Standard and Poor's, has downgraded Barbados' economic outlook and warned that it could fall further. The outlook has been revised from stable to negative despite Barbados foreign currency and local currency ratings remaining at a high grade.

Standard and Poor's warned that the situation with Colonial Life Insurance Company (CLICO), recently bailed out by the governments of Barbados and Trinidad and Tobago, could cause Barbados' economic outlook to be further downgraded.

Source: Caribbean 360.com

Moody's lowers Jamaica's credit ratings

The international rating agency, Moody's Investor Services, has lowered Jamaica's credit rating from B1 to B2, five levels below investment grade. The downgrade comes on the back of declining tourism and remittances from abroad, a major source of Jamaica's foreign exchange.

Moody's also noted that because of a high debt burden and large fiscal and external imbalances, Jamaica is facing significant challenges from a position of relative weakness. Moody's anticipates that the country's budget deficit and debt burden will increase amid the credit slump.

Source: Caribbean Net News

Jamaica not expected to return to the capital markets in FY2009/10

The Minister of Finance and the Public Service, Audley Shaw, has said that the government of Jamaica is not expected to return to the capital markets in the current fiscal year. Instead, the Government will rely on loan inflows from multilateral financial institutions to assist in meeting the government's financial obligations.

The minister stated that the country's multilateral partners strongly supported the Government's fiscal and monetary reform programme. He noted the Government's commitment to reduce the fiscal deficit in order to attain a balanced budget in the medium term.

Source: Caribbean Net News

Canada pledges C$18 mn to Jamaica in support of its justice system

The Government of Canada has pledged C$18 million to the Government of Jamaica to support its Justice Undertakings for Social Transformation (JUST) programme. Under a Memorandum of Understanding signed between the Canadian and Jamaican prime ministers, the funds will be channelled into Jamaica's justice system over the next four years. The funds will provide for capacity building, including the training of legal draftsmen to reduce the bottlenecks in the legislative process.

Source: Caribbean Net News

Donors pledge US$324 mn aid package for Haiti

A donors' conference of international lending institutions and countries pledged a US$324 million aid package for Haiti over the next two years. Of the total, US$41 million is for budget support in 2009.

The international donors' conference organised by the Inter-American Development Bank and the Haitian government drew about 28 countries and multilateral institutions, including the World Bank and International Monetary Fund. This fresh assistance complements the financing previously committed by international community partners, who are currently supporting projects totalling US$3 billion in Haiti.

Source: Inter-American Development Bank

British American Insurance gets US$80 mn in liquidity support from Caribbean governments

Caribbean ministers of finance, central bank governors and insurance regulators have agreed to establish a US$80 million Liquidity Support Fund to meet the short-term liquidity needs of British-American in conducts business in the Eastern Caribbean Currency Union. They also agreed to maintain the viability of British-American and Colonial Life Insurance Company (CLICO) in order to safeguard the interests of policy holders of the affected institutions.

Source: Caribbean Net News

ECLAC projects Caribbean and Latin America growth will fall in 2009

The Economic Commission of Latin America and the Caribbean (ECLAC) projects that the Caribbean and Latin America will have negative growth of -0.3 percent in 2009, the regions first setback after six years of continuous growth.

ECLAC indicated that the effects of the international crisis will impact the region harshly this year. There will be less tourism-related income and lower remittances in the Caribbean and Central American and there will also be a sharp drop in exports, particularly affecting countries with open economies.

Limited available international financing and the increasing prime risk of Latin America's sovereign debt will also take their toll on the region.

Source: Caribbean PressReleases.com

Guyana gets US$15mn from Petroleum Fund to assist with CLICO

Guyana is to receive US$15 million from the Caribbean Community (CARICOM) Petroleum Fund to assist with closing the liability gap with Colonial Life Insurance Company (CLICO). The government of Guyana has sought to protect policyholders following the financial collapse of CLICO.

Source: Caribbean Net News

Feature

Vulture Funds – We are not immune

Vulture funds are private companies that buy sovereign debt cheaply in the secondary market and then claim the full amount from the sovereign through the courts. Their objective is to maximise profit-taking by enforcing their rights through litigation rather than becoming a party to relief operations sought by the sovereign. Vulture funds usually target debt distressed countries, mainly heavily indebted poor countries (HIPCs) whose debt is heavily discounted. They time their court action usually to coincide with the country receiving significant debt relief, primarily from donor governments and multilateral financial institutions.

A number of recent developments have brought vulture funds into the spotlight.

In 2007, a vulture fund, Donegal International, hit the headlines when it was awarded US$15 million by a UK High Court for a claim it held on Zambia, a highly indebted poor country. As is the *modus operandi* of vulture funds, Donegal had bought Zambia's debt at a fraction of its face value (US$3 million) and then sued the country for its full face value, in addition to any interest and penalties accrued. The amount claimed was US$ million.

In May 2008, the US House of representatives introduced a bill to prevent vulture funds from making excessive profits of the debts of poor countries. The bill, The Stop Vulture Funds Act (HR6796), prevents excessive profiteering by capping the amount of profit that a vulture fund can secure through suing poor nations to collect defaulted debts. Under the bill, requires disclosures from any vulture funds pursuing activity through the US courts.

In May 2009, the UK similarly proposed a bill to curb vulture funds taking legal action to profiteering from the debts of poor countries. The Developing Country Debt (Restriction of Recovery) Bill stipulates that creditors must secure the consent of the UK courts before commencing recovery proceedings. The vulture funds would also be subject to disclosure requirements.

The ongoing agitation of debt relief campaigners, such as Jubilee Debt Campaign, and African advocacy groups has been instrumental in getting governments to act to restrain vulture funds.

As of early 2009, of the 24 mainly African countries that had received debt relief under the Heavily Indebted Poor Countries (HIPC) debt initiative, 12 have been targeted for litigation by private creditors. Claims amount to some US$1.5 billion. Currently, vulture action is proceeding against Ethiopia, Cameroon, Democratic Republic, and Argentina among others.

But what does all this mean for the Caribbean? The Caribbean should not consider itself immune from vulture funds. A number of Caribbean governments have high exposures to commercial creditors, many of whom have the legal right to trade the debts that they hold and transfer ownership without the country's consent or knowledge. Conceivably, should these debts trade at a low price, vulture funds may find it worth their while to purchase them. At the present, this is not the case. However, the recent spate of downgrades for Caribbean sovereign bond issues may spur investors to ditch holding what they perceive as risky paper. Vulture funds could step in to fill the vacuum, especially if the risk of debt distress increases.

Caribbean countries recently engaged in recent sovereign commercial loan and bond restructurings, are all too aware of sovereign debt litigation and its costs. Dominica, for instance, has yet to conclude its 2003 debt restructuring because a few debt holders have shied away from debt renegotiation in favour of litigation.

Caribbean governments need to protect themselves on two levels. In relation to their existing portfolio, governments need to be proactive in reviewing all commercial loan agreements which include assignment rights. Loans which include assignment rights need to be scrupulously monitored. Governments must be aware of the amounts traded and the holders of the debt. Many governments fail to act promptly when they receive a notice of possible court action against them to recover payments. This is a mistake. Governments can better protect themselves by taking quick action to avoid litigation. Should court action be pursued, governments must seek to obtain the best legal expertise for their defence. Notably, the Commonwealth Secretariat has established a Legal Debt Clinic to assist Commonwealth member states and heavily indebted poor countries (HIPCs) which are facing or are likely to face litigation by commercial creditors.

Caribbean governments can also be proactive in protecting themselves when negotiating new loan on a number of fronts. One of the first steps is to get the necessary legal expertise to vet the loan agreements prior to signing. It is not uncommon for governments' legal counsel to become aware of a signed loan contract only after the fact and when problems arise. It is crucial to involve legal counsel not only in the vetting of the agreement but in the negotiation to ensure that provisions drafted adequately protect government. While many agreements have standard provisions it is manner in which they are negotiated and drafted that offer the best protection. Increasingly, governments are being encouraged to include provisions that allow them the first right to buy back their debt or that stipulate a list of eligible institutions that can purchase their debts so as to avoid their debts falling into the hands of vulture funds. Finally, governments need to carefully consider the law and jurisdiction that governs their loan agreement. While it is usual for the governing law to be that of the creditor's country, it is possible to mutually agree that the law of another country govern the agreement. Governments could consider this option when it negotiates with countries whose legal processes are unfamiliar or unknown.

Vulture fund activity can be harmful to governments. This is the time to act to keep the vultures at bay. *Michele Robinson*

Debt Statistics

National

Guyana 

Guyana has made significant progress in reducing its debt levels in recent years. From a high of 262 per cent at the end of 2002, Guyana's total debt to GDP has fallen steadily over the past six years, amounting to 93 per cent at the end of 2008.

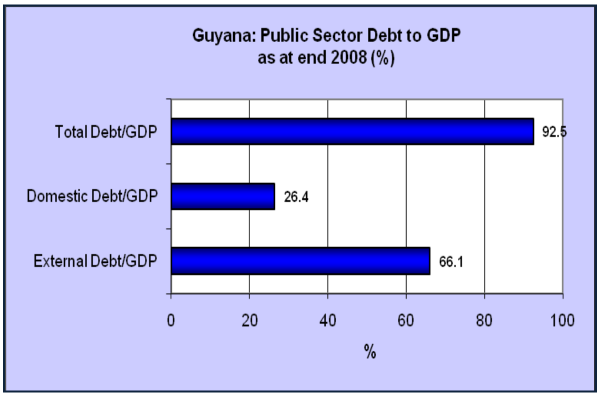
The table below provides data on key indicators in relation to the total public debt of Guyana.

Guyana: Public Debt Indicators

Total public sector debt in percent of GDP (%)

	2005	**2006**	**2007**	**2008**
Total Public Debt	183.9	148.5	94.2	92.5
External Debt	147.5	114.5	65.6	66.1
Domestic Debt	36.4	34.0	28.6	26.4

Source: International Monetary Fund



Like many of its Caribbean counterparts, Guyana's debt problems emerged in the 1980s. Amid a backdrop of low growth, high inflation and large fiscal and external imbalances, Guyana defaulted on its debt obligations in 1982 thereafter accumulating substantial payments arrears.

By 1985-86, the International Monetary Fund and the World Bank had both cut off access to financing from their institutions financing as Guyana continued in default on its payment obligations. Guyana's traditional donors followed suit and aid flows principally from the United States, the United Kingdom and the Caribbean Development Bank (CDB) dried up. By the late 1980s, not only was Guyana's debt burden severe and its creditworthiness completely eroded but the country's relations with the international community had been virtually severed.

In 1988, Guyana embarked upon a programme of structural adjustment and reform designed to develop a more market oriented economy. In addition to wide ranging economic measures to reorient the economy, Guyana also sought to normalise its relations with its external creditors. Over the period 1989 to 1993, Guyana restructured debt owed to its bilateral creditors through successive Paris Club rescheduling arrangements. While this provided short-term cash relief, over time these reschedulings proved costly. The capitalisation of interest arrears from repeated rescheduling led to an overall increase in Guyana's debt levels.

Since 1997 to 2006, Guyana has been able to benefit from more substantive debt relief, through a series of debt relief initiatives designed to ensure the long-term debt sustainability of the country rather than short-term breathing space. Guyana qualified for relief under the heavily indebted poor country (HIPC) initiative in 1997. As a result, it benefited from debt relief of US$256 million in net present value terms. Guyana obtained further relief in 2003 under the enhanced HIPC initiative when debts valued at US$334 million in net present value terms were cancelled.

In 2006, Guyana was able to secure relief from its main multilateral creditors under the Multilateral Debt Relief Initiative. In early 2006, the IMF cancelled all outstanding debts contracted by Guyana prior to January 1, 2004. An amount of US$65 million was cancelled. Later in the year, the soft-arm window of the World Bank group, the International Development Agency (IDA) cancelled US$223 million in outstanding debt contracted prior to January 1, 2005. This was later followed by the debt relief from the Inter-American Development Bank which cancelled all outstanding debts amounting to US$356.5 million contracted by Guyana prior to December 31, 2004.

Since graduating from the HIPC and MDRI debt initiatives, Guyana's debt has reduced to sustainable levels. Over the period 2005-2008, Guyana's external debt to GDP has more than halved, falling from 148 percent to 66 per cent due primarily to debt relief extended by its creditors. As a consequence, Guyana is no longer classified as a highly indebted country.

However, some challenges remain. A number of non-Paris Club creditors have refused to renegotiate their debts on HPIC terms as these involve substantial debt write-offs. Many of these debts remain outstanding. In addition, although Guyana is less heavily indebted, it still remains at moderate risk for debt distress. Traditional donors, having cancelled substantial debt sums, are less likely to make available new concessional financing to Guyana. The present global economic environment diminishes these prospects further. However, to maintain its debt at sustainable levels, Guyana will require continued access to concessional financing. Whether this will be forthcoming remains to be seen. Finally, like most Caribbean countries, Guyana remains vulnerable to external shocks. Lower worker remittances and declines in commodity export prices pose significant downside risks. Growth has already decelerated to 3 percent in 2008 given the slowdown in the global economy.

Nonetheless, Guyana continues to make progress. Formerly one of only two poor countries in the Caribbean, Guyana was reclassified as a lower middle-income country by the World Bank in 2007. In addition, the economy remains relatively stable even though growth has slowed.

Progress has also been made in relation to the Millennium Development Goals with the attainment of two indicators (eradicate extreme hunger and achieve universal primary education) with another two likely to be achieved by 2015.

On the debt front, some progress has been made with non-Paris Club creditors. In addition to China and India which both granted additional debt relief in early 2007, Venezuela cancelled 100 per cent of its outstanding debt in the amount of USS12.5 million in March 2008. In early 2009, Guyana's president, Bharrat Jagdeo, approached Libya, one of Guyana's major creditors in the 1970s and 80s, for debt relief. A favourable outcome is anticipated.

If Guyana maintains a programme of prudent macroeconomic and debt management policies supported by strong concessional flows, its debt is expected to remain sustainable over the medium term. Amid the rising debt levels in many other Caribbean territories this would be a significant achievement. *Michele Robinson*

Upcoming Events/Courses

May 2009

- May 4-13: Workshop on Debt Sustainability, Portfolio Review and Debt Strategy in Belize City, Belize.

April 2009

- April 17-18: Fifth Annual Meeting of the Group of Latin American and Caribbean Debt management Specialists in Montevideo, Uruguay.

Corrections

In our article on St. Lucia in our last Debt Watch Caribbean issue, Issue No 10, we stated that the time frame to achieve the targeted 60% debt benchmark as established by the Eastern Caribbean Central Bank was 2012. The correct year for achieving this target is 2020.

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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