Debt Watch - Caribbean

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News

CDB approves US$30 million policy-based loan to Antigua & Barbuda

The Board of Directors of the Caribbean Development Bank (CDB) has approved a policy based loan equivalent to US$30 million in support of Antigua and Barbuda's National Economic and Social Transformation Plan.

The policy-based loan is to support initiatives consistent with the imperative of restoring fiscal and debt sustainability. The CDB loan is also to cover reforms in the areas of macroeconomic management, expenditure and debt management, revenue enhancement, and social transformation.

Source: Caribbean Development Bank

IADB to lend Barbados US$400 million under new country strategy programme

The Inter-American Development Bank (IADB) is to lend Barbados US$400 million over the period 2009-2013 as part of the IADB's new country strategy for Barbados. Four sectors are to be benefit under the new IADB Country Strategy: coastal zone management and climate change adaptation, water and sanitation, energy and education.

Source: Inter-American Development Bank

Barbados secures US$10 million IADB loan to support business climate reforms

Barbados will receive US$10 million from the Inter-American Development Bank (IADB) to support productive development policies and business climate reforms aimed at improving the competitiveness of the private sector.

The IADB loan will support the expansion of private sector participation in the economy and increase government effectiveness by reducing transaction costs, modernising trade logistics and facilitation services and providing a sound environment for private sector development.

The IADB loan is for a 25 year term with a 4-year grace and disbursement period and a LIBOR-based interest rate. The government of Barbados will provide an additional US$1.8 million in local counterpart funds.

Source: Inter-American Development Bank

CariCRIS downgrades Barbados credit ratings

Caribbean Information and Credit Rating Services Limited (CariCRIS) has lowered its rating on the notional debt issue of US$300 million of the government of Barbados to "CariAA" from "CariAA+" (Foreign Currency Rating) and CariAA+ from CariAAA (Local Currency Rating).

The downgrade reflects the severe impact of the global recession on Barbados' macroeconomic performance which has resulted in contracting economic activity, a widening fiscal deficit, increasing public sector debt levels and a deteriorating current account contributing to a balance of payments deficit.

Source: Caribbean360.com

Standard and Poor's lowers the outlook for Barbados

The international ratings agency, Standard and Poor's, lowered its outlook on Barbados to negative from stable, with the possibility of a future downgrade due to a worse-than-anticipated recession in the country. The ratings agency cited the rapid deterioration in Barbados' public finances and sharp economic contraction as the basis for its outlook.

Source: Wall Street Journal

Belize receives US$3.5 million from CDB for water project

The Caribbean Development Bank (CDB) has provided a US$3.48 million loan to the government of Belize for a project to provide potable water to the residents of the Belize River Valley.

The project is intended to reduce the risk to human life of water and food borne diseases and to provide increased access to a quality water supply. The government of Belize is providing counterpart funding of US$0.403 million which represents 10% of the project.

Source: Caribbean Development Bank

IADB provides US$5 million to Belize to promote agricultural innovation

The Inter-American Development Bank (IADB) has approved a US$5 million loan to promote Belize's agricultural innovation and animal and plant health protection to boost competitiveness, stimulate growth, and expand market access for its products.

The IADB loan is for a 25-year term with a 5-year grace period and carries a LIBOR-based rate of interest. The government of Belize will provide US$500,000 in counterpart funds.

Source: Inter-American Development Bank

CDB lends US$362,450 to Dominica in support water supply upgrading

The government of Dominica is to receive a US$362,450 technical assistance loan from the Caribbean Development Bank (CDB) for a feasibility study and final designs for a Water Supply Upgrading and Expansion project.

A major objective of the study involves finding alternatives sources of water for people who live in the capital, Roseau, and its environs, as well as providing technical solutions for upgrading and expanding the existing water distribution network.

Source: Caribbean Development Bank

Grenada to receive Euro 5.3 million in financial assistance from the EC

Grenada is to receive Euro 5.29 million in financial assistance from the European Commission under the Commission's vulnerability assistance scheme. This scheme was adopted in August 2009 as a quick response to help eligible African, Caribbean and Pacific (ACP) countries deal with the effects of the global financial crisis.

Grenada is the first Eastern Caribbean country to benefit from financial assistance under the mechanism. Haiti is the other Caribbean country to benefit and will receive Euro 30 million.

The funds, which are non-reimbursable, are to be used by the Grenadian authorities at their discretion and convenience. The vulnerability instrument is based on forecasts of fiscal losses and other vulnerability criteria, helping to ease the impact rather than acting after the damage is done. It provides rapid and targeted grants and acts as a complement to the loan-based assistance of other development institutions, with whose support it was developed.

Source: Caribbean Net News

IMF completes fourth review under Grenada's Poverty Reduction and Growth Facility

The International Monetary Fund (IMF) completed its fourth review under Grenada's Poverty Reduction and Growth Facility (PRGF) which allows for the immediate disbursement of an amount equivalent to Special Drawing Rights (SDR) 3.9 million (about US$6.2 million) to the island nation.

Total disbursements to Grenada under the PRGF currently amount to SDR 14.7 million or approximately US$23.5 million.

Source: International Monetary Fund

EU extend US$25.6 million grant to Guyana under EDF initiative

The European Union (EU) and the government of Guyana have signed a Euro 17.1 million (US$25.6 million) grant agreement to advance sea and river defence works as part of the European Development Fund initiative with the country.

The funding is expected to facilitate the reconstruction of 1.5 kilometres of sea defences as well as the rehabilitation and maintenance of 18 kilometres of the same defences.

Source: Caribbean Net News

Guyana poised to receive as much as US$250 million to support LCDS implementation

With the signing of a Memorandum of Understanding (MoU) between Guyana and Norway to protect Guyana's tropical forests, Guyana could receive as much as US$250 million by 2015 to support the implementation of the Low-Carbon Development Strategy (LCDS).

The MoU is a declaration of the two countries determination to work together to provide the world with a working example of how partnerships between developed and developing countries can save the world's tropical forests.

The partnership between Guyana and Norway is part of the Norwegian government's International Climate and Forest Initiative that was first launched in 2007 during the climate negotiations in Bali. The initiative seeks to achieve cost-effective and verifiable reductions in greenhouse gas emission from deforestation and forest degradation in developing countries.

Under the partnership, Guyana will accelerate its efforts to limit forest-based greenhouse gas emission and protect its rich rainforest as an asset for the world. Norway will provide financial support to Guyana at a level based on Guyana's success in limiting emissions. Norway has already pledged up to US$30 million in support of Guyana's effort for the year 2010.

Source: Caribbean Net News

Haiti benefits from US$5.5 million IADB grant

The Inter-American Development Bank (IADB) has approved a US$5.5 million grant to Haiti to help improve infant and child health and nutrition and improve the safety nets to fight extreme poverty in Haiti.

The IADB resources for the project include US$3 million from its Food Crisis Response Fund and US$2.5 million from its Grant Facility.

Source: Inter-American Development Bank

Jamaica receives US$21 million IADB loan to increase public security

Jamaica is to improve public security with a US$21 million loan from the Inter-American Development Bank (IADB). The facility will finance crime prevention and strategic interventions to address the risk factors that lead youth into a path of crime and violence.

The loan, denominated in US dollars, has a 25-year term and a four-year disbursement and grace period.

Source: *Inter-American Development Bank*

Jamaica signs US$16 million World Bank loan for education

The government of Jamaica is to benefit from a US$16 million World Bank loan to support reforms to the education system.

The Education Transformation Capacity Building Project will support the implementation of the national education transformation programme. It will make operational the emerging key agencies that will ensure the delivery of high-quality education and improve the efficiency, accountability, and performance of the education system.

Source: *World Bank*

Jamaica gets US$10 million IADB loan to help improve road safety

Jamaican citizens are to benefit from reduced traffic fatalities, safer journeys and lower transport costs as the Inter-American Development Bank (IADB) has approved a US$10 million loan to help Jamaica increase road safety and improve its highway system

The loan is one of the first provided by a multilateral development institution that specifically focuses on road safety as one of its prime objectives. It is part of a broader effort, recently commenced at the IADB, to increase road safety in all of Latin America and the Caribbean.

The loan has a 25-year term with a 5-year disbursement and grace period and carries a LIBOR-based interest rate.

Source: *Inter-American Development Bank*

Jamaica downgraded by Standard and Poor's

The international ratings agency Standard and Poor's downgraded its long-term foreign currency and domestic currency rating on Jamaica from "CCC+" to "CCC". The downgrade followed on the heels of the abrupt resignation of the Bank of Jamaica governor, Derick Latibeaudiere, the lead negotiator for Jamaica in its negotiations with the International Monetary Fund (IMF) for a US$1.2 billion Stand-By facility.

Source: *Caribbean360.com*

Moody's cuts Jamaica's rating on possibility of debt restructuring

Moody's International Services downgraded Jamaica's credit rating to "Caa1" as the possibility of debt restructuring became more likely. Moody's also changed the outlook to negative to reflect the uncertainty associated with the potential consequences of protracted delays in reaching a final agreement with the International Monetary Fund (IMF).

Moody's said that while no official details about a possible restructuring have been disclosed, the very high cost of servicing Jamaica's debt – estimated at over 55% of central government revenues - may force the authorities to enter into discussions with local creditors. Placing Jamaica's debt rating at the top of the "Caa" range, therefore, reflected the expectation that if a debt restructuring were indeed to materialise it would likely involve limited losses.

Other ratings affected included downgrades of the foreign-currency country ceiling for bonds to "B1" from "Ba3" and the foreign currency ceiling for deposits to "Caa1" from "B3", both with a negative outlook

Source: *Reuters.com*

Fitch Ratings downgrades Jamaica citing heightened risk of default

Fitch Ratings joined Standard and Poor's and Moody's Investor Services in downgrading Jamaica's creditworthiness, citing the heightened risk of debt restructuring as the underlying cause for the revision.

Fitch downgraded Jamaica's long-term foreign and local currency Issuer Default Ratings (IDRs) to "CCC" from "B".

The downgrade reflects the country's increased macroeconomic pressures and a sharp fiscal deterioration, which has resulted in unsustainable debt dynamics and heightened the risk of some form of debt restructuring, said Fitch, in its press statement.

Source: *Caribbean360.com*

St Vincent & the Grenadines gets US$2.3 million zero-interest World Bank loan

The World Bank has approved a US$2.3 million zero-interest credit for St. Vincent and the Grenadines to implement an Organization of Eastern Caribbean States (OECS) regional e-government integration programme. The OECS e-Government for Regional Integration Programme will help harmonise regional e-government frameworks and applications by automating and pooling resources across the region.

The US$2.3 million zero-interest credit from the International Development Association (the soft arm of the World Bank Group) is repayable in 35 years including a 10-year grace period.

Source: *The World Bank*

Feature

A Clause for Thought – Collective Action Clauses

Over the past decade, a number of highly indebted Caribbean countries have had to comprehensively restructure their debt to private external bondholders. Dominica (2004), Grenada (2005), and Belize (2006) have all undertaken sovereign debt restructuring through a debt exchange.

Undertaking a debt exchange can be a lengthy and difficult process. By convention, many sovereign bond issues are issued under New York law, which among other things, requires that any amendment to the terms of an existing agreement must be unanimously agreed by all bondholders. Securing a unanimous decision is extremely difficult even in the best of circumstances. Communicating with each bondholder and convincing them to accept the proposed changes is difficult if not impossible. And, too, bondholders are rarely homogenous which makes it all the more difficult to achieve full consent.

The sovereign's next best bet is to seek to have bondholders exchange their existing bonds for new bonds which provide debt relief through some alteration in the bonds terms. With a sovereign bond held by many investors, often widely dispersed, a sovereign borrower cannot be assured of success in a debt exchange. Bondholders may holdout and, in effect, refuse to accept the new bond on restructured terms. Moreover, holdout bondholders may litigate to enforce their rights under the terms of the existing bond. The smallest number of holdouts can be disruptive or slowdown the restructuring process even when majority of bondholders have accepted the restructuring terms under the debt exchange. Several countries have found it difficult to restructure unsustainable debts because of a minority of holdout bondholders.

Collection action clauses (CACs) have become a means of overcoming the hurdle of holdouts by a minority of bondholders. They allow a super majority of bondholders to agree to a debt restructuring that becomes binding on all holders of a particular bond issue. This helps to facilitate a more orderly and prompt restructuring of unsustainable sovereign bond debt.

CACs contain two significant provisions:

- *The majority restructuring provision*. This provision allows a super-majority of bondholders to change the payment terms of a bond contract and make that decision binding on all bondholders within the same issue. Supermajority thresholds that have been used for amending payment terms have typically ranged from 66-2/3% to 75% of either the outstanding principal or of the claims of bondholders present at a duly convened meeting.
- *The majority enforcement provision*. This provision enables a majority of bondholders to prevent a minority of bondholders from disrupting the restructuring process by enforcing their claims or initiating litigation after a default.

These two provisions help to provide debt strapped countries with a less troublesome and quicker debt workout.

Collective action clauses are not new. They have been a feature of bonds issued under English law since the nineteenth century. Bonds issued under Japanese and Luxembourg law also routinely include CACs. However, this has not been so with sovereign bonds issued under New York law. Yet, bonds issued under New York law constitute almost half of all international bond issues. Up until the 2000s, few of these bond issues included CACs.

Fears were that including CACs was tantamount to an admission of future default and that, if nothing else, they would negatively impact the pricing of bond issues. However, this changed in February 2003 when Mexico included CACs in its new bond issue governed by New York law. Including CACs was viewed by the authorities as a useful mechanism in resolving a debt crisis especially in the aftermath of the 1994 Mexico debt crisis.

Several countries have since included CACs in their bond issues. However, in 2003, Belize was the first Caribbean country to include CACs in its sovereign bond issues in the international capital markets.

But how have CACs helped? Consider that seven Caribbean countries (Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica and Trinidad and Tobago) have issued sovereign bonds in the regional international capital markets over the past 15 years. Consider further that since 2004 three of these countries – Dominica (2004), Grenada (2005), and Belize (2006) – have had to restructure their bonded debt through a debt exchange. Of the three countries, only Belize's bonds included CACs.

Both Dominica and Belize encountered holdout creditors in undertaking their debt exchange. Dominica's debt exchange ran into significant difficulties as a result. The offer to exchange, opened on April 6, 2004 and scheduled to close on April 30, was extended on more than one occasion to encourage participation in the offer. However, three months after the scheduled closing, only a participation rate of 70% in the new bonds had been achieved. Despite efforts by the authorities to negotiate an agreement, a number of these holdout creditors decided to litigate to enforce their rights under the terms of the old bond.

Without a unanimous consent to the new terms, Dominica could not conclude the implementation of its debt exchange. The authorities, as an act of good faith, channelled the debt service payments owed to holdout creditors into an escrow account. The payments, however, are on restructured terms to be paid out once the holdout creditors agree to the new terms. To date, Dominica's restructuring initiated in 2004 is incomplete.

Belize undertook a debt exchange in December 2006. The closing date of Belize's exchange offer was also extended by a few weeks to encourage participation. On closing, the Belizean authorities reported a participation rate of 87.3% in one bond. So as to conclude the restructuring, the authorities triggered the collective action clause embedded in the affected bond. The clause – an exit consent clause – allowed a supermajority of the original bondholders to amend the terms of the old bond on acceptance of Belize's exchange offer. The restructuring terms were therefore applied to the old bond increasing participation to 100%. The overall share of debt restructured rose from 98% to 99%. Belize was the first country in over 70 years to use CACs to amend bond terms governed by New York law. As a result, the authorities were able to successfully complete the exchange and achieve their debt restructuring objective.

Collective action clauses have since become the market standard in sovereign bond issues governed by New York law. As illustrated in the case of Belize, they do help to avoid some of the delays and costs associated with restructuring sovereign bonds. Most recently, the Seychelles triggered CACs in their sovereign bonds to achieve virtually 100% participation in their 2009/10 debt exchange.

No doubt, countries want to maintain sustainable debt levels and avoid restructuring their debts. However, in cases of debt distress when there is no option but to restructure, CACs are an important component of prudent public debt management. Maybe, for Caribbean countries venturing into the international capital markets in the future, this is clause for thought!

Michele Robinson

Debt Statistics

Regional

The table below shows the terms of sovereign bond restructurings of selected Caribbean countries over the period 2004-2009

Terms of Sovereign Debt Exchange

1.	Belize	• Exchange Offer launched - December 18, 2006
		• Affected debt - US$550 million
		• Old bonds exchanged for – Single new bond with a final maturity of 2029.
		• Participation rate 99.0%
2.	Dominica	• Launched April 6, 2004
		• Affected commercial debt - US$144 million
		• Old bonds exchanged for three new bonds – short, intermediate and long bond maturing in 2014, 2024, and 2034 respectively.
		• Participation rate 72% at closing.
3.	Grenada	• Launched November 2005
		• Affected debt - US$237 million
		• Old bonds exchanged for two new bonds – new US$ bonds and new EC$ bonds maturing 2025.
		• Participation rate 91.0%

Source: IMF, Offering circulars

The table below shows recent sovereign bond issues by Caribbean countries in the international capital markets.

		2006	2007	2008
	In millions of US dollars			
4.	Bahamas	-	100	-
5.	Barbados	215	-	-
6.	Belize	-	-	-
7.	Grenada	-	-	-
8.	Jamaica	930	1900	350
9.	Trinidad and Tobago	500	-	-

***Source**: ECLAC 2009*

Upcoming Events/Courses

February 2010

- February 11: Eastern Caribbean Central Bank – Meeting of the ECCU Regional Debt Coordinating Committee; Basseterre, St. Kitts.
- February 15-26: Commonwealth Secretariat – Training of Trainers Workshop on CS-DRMS; London, United Kingdom

March 2010

- March 2-4: Commonwealth Secretariat – Round Table on Public Debt Analytical Tool; London, United Kingdom
- March 19: Inter-American Development Bank – IADB-IIC Annual Meetings; Cancun, Mexico.

April 2010

- April 19-30: Crown Agents – Loan Evaluation and Negotiation; United Kingdom.
- April 24-25: IMF/Wold Bank – Annual Spring Meetings of the International Monetary Fund and the World Bank Group; 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:

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