Debt Watch - Caribbean

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News

The Paris Club reschedules Antigua and Barbuda's debt

Paris Club creditor countries met with representatives of the government of Antigua and Barbuda and agreed on a restructuring of its public external debt. The agreement reduces by over 86 percent the debt service due to Paris Club creditors over the duration of the Stand-By arrangement with the International Monetary Fund (IMF).

The Paris Club rescheduled roughly US$117 million consisting of US$98.1 million in arrears due as of 31 August 2010 as well as maturities amounting to US$18.9 million falling due between 1 September 2010 and 30 April 2013.

These consolidated amounts will be repaid over 12 years including 5 years of grace. Official Development Assistance (ODA) loans will be rescheduled at a concessional rate. Due to the uncertainties in the macroeconomic environment, Paris Club creditors agreed to consider Antigua and Barbuda's external financing situation if required.

Source: *Paris Club*

Antigua and Barbuda reschedule debt with OPEC

The government of Antigua and Barbuda have reached agreement with the OPEC Fund for International Development (OFID) to reschedule its country's debt. The authorities reached an interest-free rescheduling agreement with OFID for its US$850,000 debt to that organisation.

OFID representatives indicate that having normalised the debt, Antigua and Barbuda can begin to explore avenues for re-engagement that would make new resources available for private and public sector projects.

Source: *Caribbean News Now.com*

Barbados credit rating lowered by Standard and Poor's

The international credit ratings agency, Standard and Poor's lowered Barbados' credit ratings from BBB+ to BBB_ with a stable outlook. Standard and Poor's cited the continued weakening of the government's fiscal profile and increasing risk that delays in fiscal consolidation may lead to debt surpassing the currently projected peak in 2012.

Source: *Caribbean News Now.com*

Barbados gets IADB loan to boost its use of renewable energy

Barbados will boost its use of renewable energy sources and reduce its reliance on fossil fuels with assistance from a US$45 million loan from the Inter-American Development Bank (IADB).

The programme will help Barbados to introduce renewable energies in its energy mix, improve its energy efficiency, cut down on greenhouse gas emissions, promote climate change adaptation measures and energy conservation initiatives, and also reduce its exposure to oil price volatility. Additionally, the loan will support institutional strengthening as well as public education and awareness building campaigns to promote sustainable energy and energy conservation initiatives among the population.

The loan is for a 20-year term, with a five year grace period, and carries a variable interest rate based on LIBOR. It is expected to be followed by a second loan of similar characteristics.

Source: *CaribbeanPressReleases.com*

Barbados increases local borrowing limit

The Barbados government has introduced legislation to increase its local borrowing limit from BB$4 billion (US$2 billion) to BB$ 5 million (US$2.5 billion). The government announced its intention to concentrate on borrowing from local institutions rather than from international agencies.

Source: *CaribbeanPressReleases.com*

Bahamian PM to chair IMF/World Bank 2011 meetings

Prime Minister of the Bahamas, Hubert Ingraham, has been selected to chair the Boards of Governors of the International Monetary Fund (IMF) and World Bank Group (WBG). The announcement was made during the IMF/World Bank 2010 Annual Meetings.

As the chair of the 2011 Annual Meetings, PM Ingraham will be a primary channel of communication between the executives of the institutions and the shareholder countries.

Source: *Caribbean360.com*

Grenada PM makes appeal for small vulnerable countries

While meeting with Norway's Prime Minister, Jens Soltenberg, Grenada's Prime Minister, Tillman Thomas, reiterated an appeal for special support for small economies like Grenada. Prime Minister Thomas noted the vulnerabilities of small island states, citing recent catastrophes affecting Caribbean countries, including Grenada and Haiti. He observed that the social, economic and natural systems of Small Island Developing States (SIDS) are among the most vulnerable in world and warranted special treatment.

Source: *Caribbean360.com*

Grenada to receive Morocco aid

Grenada has received a commitment of direct financial assistance and offers of government scholarships from the government of Morocco.

As part of an initial package of assistance, Grenada is set to receive US$370,370 (EC$1 million) and 10 scholarships annually for the next three years.

Source: *Caribbean360.com*

Grenada signs US$8.5 million OFID loan agreement

The government of Grenada and the OPEC Fund for International Development have signed a US$8.5 million loan agreement for the second phase of the Agricultural Feeder Roads Project.

The second phase of this project will cost approximately EC$52 million and provides for the rehabilitation or upgrading of 30.6 kilometres of agricultural feeder roads throughout Grenada. The works will include the rehabilitation or construction of drainage systems, sea defences and bridges.

The other funders of the project are the Kuwait Fund for Arab Economic Development and the Government of Grenada

Source: *Government of Grenada*

EU approves funds to help Caribbean countries under V-FLEX

The European Commission approved the first financing decision under the EUR 264 million 2010 allocation for the Vulnerability FLEX (V-FLEX) mechanism to help the most vulnerable African, Caribbean and Pacific (ACP) countries cope with the impact of the global financial crisis and economic downturn.

The V-FLEX mechanism is the European Union's swift response to help countries most affected by the global economic downturn due to their poor resilience to economic shocks. The mechanism will help vulnerable countries maintain their level of public spending in priority areas, and therefore mitigate the social impact of the economic downturn. It previously provided EUR 500 million over two years (2009-2010). In 2010, upon their request, the mechanism will provide support to Antigua and Barbuda, Grenada and Haiti.

Source: *CaribbeanPressReleases.com*

Jamaica to raise US$400 million in international capital markets

Jamaica intends to re-enter the international capital markets next year in a bid to raise at least US$400 million to repay debt maturing in May 2011. The finance minister, Audley Shaw, reportedly said that Jamaica was seeking to pay 7 to 8 percent yield on any new debt issue.

Unlike many other countries hit by the global recession, Jamaica previously opted not to go to the capital market, choosing instead to borrow from the multilateral agencies and placing itself under a disciplined fiscal regime sanctioned by the International Monetary Fund.

Source: *Jamaica Observer*

US to release US$120 million for Haiti projects

The United States will provide US$120 million for education, rubble removal and housing in earthquake-shattered Haiti, as well as help rebuild the state university hospital.

The United States has been among the donor nations criticised for their slow response to provide more than US$5.3 billion in promised aid to help Haiti rebuild following the devastating January 12 earthquake. The projects should aid more than a million Haitians.

Source: *Caribbean News Now.com*

IADB cancels Haiti's remaining debt

The Inter-American Development Bank announced the cancellation of Haiti's debt outstanding debt of US$484 million with the IADB, after receiving a US$204 million advance contribution from the United States to the Bank's soft loan window, the Fund for Special Operations.

The IADB is Haiti's leading multilateral donor. IN response to the devastation caused by the January 13 earthquake, the Bank's Board of Directors agreed to provide Haiti US$200 million a year in grants over the course of the next decade, subject to annual approvals.

Since the earthquake the IADB has approved grants totalling US$166 million for Haiti, providing resources for repairing key infrastructure such as water distribution systems and the electricity network, as well as for building roads and provisional schools. Other projects support agriculture and job-creation through private sector development.

Source: *Inter-American Development Bank*

IADB US$9.5 million loan to Guyana

The Inter-American Development Bank (IADB) has approved a US$9.5 million loan to Guyana to improve sewage service to 52,000 people in the capital city of Georgetown and to help to eradicate neglected tropical diseases.

Source: *CaribbeanNewsNow.com*

IADB provides grant to Haiti for partial credit guarantee programme

The Inter-American Development Bank (IADB) has made a US$20 million grant available to Haiti to help the country establish a partial credit guarantee fund to facilitate the restructuring of loans to business affected by the January 12 earthquake.

The Programme which will be run by the Banque de la Republique d'Haiti's Industrial Development Fund will enable banks and credit unions to restructure loans and provide additional financing to viable companies that suffered damage or losses due to the earthquake and face difficulties in servicing their current loans.

Source: Inter-American Development Bank

Guyana to receive first tranche under deforestation agreement

The World Bank announced that the newly establish Guyana REDD Investment Fund (GRIF) will soon receive approximately US$30 million as first payment from Norway. The GRIF is a financial mechanism for the ongoing cooperation on climate change between Guyana and Norway, whereby Norway will pay for Guyana's performance on limiting greenhouse emissions from deforestation and forest degradation, and for progress made against governance-related indicators.

Guyana will invest the payments it receives, and any income earned from them, in its Low-Carbon Development Strategy (LCDS). Norway's payments to Guyana may amount to US$250 million over the period to 2015, depending on Guyana's performance, based on a methodology agreed by the two countries.

The World Bank acts as a trustee to the GRIF at the request of the governments of Guyana and Norway.

Source: CaribbeanNewsNow.com

St. Kitts and Nevis PM appeals for Caribbean debt relief

The Prime Minister of St. Kitts and Nevis, Denzil Douglas, made a case for debt relief while visiting Washington for the IMF/World Bank Annual Meetings. He urged that special consideration be given to those highly-indebted middle-income countries that no longer have access to concessionary support but are still in need of financial help. The St. Kitts and Nevis leader presented a paper on behalf of the 54 member Commonwealth which addressed the debt issue.

Source: CaribbeanNewsNow.com

Feature

Protecting against disaster – Catastrophe Bonds

The Caribbean is not immune to disaster. It is quite the contrary. Predominantly small-island economies, the Caribbean region is particularly susceptible to natural disasters.

Take this year, 2010, for example. In January, Haiti suffered an earthquake of catastrophic proportions with the loss of life and damage to infrastructure and agriculture at mind-boggling levels. Recovery in this already poor country will take years and will require financial resources of a huge scale.

Disaster was not confined to earthquakes. The 2010 Atlantic Hurricane season which impacts the Caribbean, tied for third (with 1887 and 1995) as the most active on record. Nineteen storms were named, twelve of which became hurricanes and five of which reached a Category 3 status or higher (with winds of 111 miles per hour or higher). The passage of Hurricane Alex in Belize early in the season, then Hurricane Earl in Anguilla and Hurricane Tomas in Barbados, Haiti, Jamaica, St. Lucian and St. Vincent and the Grenadines wrought extensive damage to infrastructure and crops and cost lives in many of the affected countries.

The high vulnerability of the region to natural disasters, including earthquakes, volcanoes, hurricanes, flooding, and drought, has serious economic consequences. In 2004, it is estimated that Grenada sustained losses equivalent to almost 200 percent of GDP in the wake of Hurricane Ivan. Belize sustained losses estimated at 33 percent and 30 percent of its GDP with the passage of Hurricane Keith in 2000 and Hurricane Iris in 2001. Hurricane Tomas in 2010 has destroyed St. Lucia's entire banana crop and damage to roads, buildings, facilities and crops has been extensive in Barbados, St. Lucia, and St. Vincent and the Grenadines. Hurricane-related flooding and landslides in Jamaica and Haiti have racked up significant economic losses.

Natural disasters severely impact a country's public finances. Government spending abruptly increases. Funds earmarked for planned social and economic expenditure services have to be redirected towards relief activities and rehabilitating and restoring infrastructure that has been damaged or destroyed. Such expenditures are usually substantial and occur amid marked declines in government revenues, as economic activity declines due to hurricane losses and tax intake falls. Fiscal deficits generally widen significantly as a result and are financed primarily through debt.

The accumulation of debt triggered by natural disasters is often both rapid and significant. For countries already highly indebted it is often the push to debt levels that are unsustainable. The Caribbean is replete with such examples. The devastation meted out by Hurricane Ivan in 2004 resulted in losses equivalent to 200 percent of GDP in Grenada. The losses precipitated a fiscal and debt crisis in Grenada and eventually, in 2005, led to a comprehensive debt restructuring in order to ease fiscal pressures and ease the debt burden. The jump in Belize's public debt to over 100 percent by the end of 2002 from 84 percent two years earlier was due in part to the series of hurricane that hit Belize between 1999 and 2002. The worsening fiscal position and increasing unsustainable debt ultimately led to a comprehensive debt restructuring of the country's external in 2006. While not all natural disasters may prompt a debt crisis requiring resolution through a debt restructuring, there is no doubt that the impact on the fiscal accounts and public debt levels can be severe.

Most Caribbean countries are already highly indebted. The challenge for governments is how to protect the public finances against natural disasters. Significant headway has already been made by insuring natural disaster. Through the Caribbean Catastrophe Risk Insurance Facility (CCRIF) Caribbean governments are able to receive immediate financial assistance after a catastrophic hurricane or earthquake once they trigger their policy.

CCRIF, in itself, is a trail blazer. It is the world's first multi-national risk facility where insurance payments are parametrically determined. In effect payouts are not determined by the estimates of losses – which take time to be calculated, can be dodgy and are often disputed – but rather by the occurrence and scale of the disaster. A parametric index is used to convert wind speed (for storms) and ground acceleration (for earthquakes) into a loss estimate upon which payments can be determined. In 2010, four CCRIF member countries (Anguilla, Barbados, St. Lucia and St. Vincent and the Grenadines) received payments as a result of hurricanes, while Haiti received the full policy limit payout as a result of the devastation 7.0 earthquake on January 12, 2010.

Caribbean governments have utilised one innovative means to cushion their public finances against the risks posed by natural disasters, so why not another? There are financial instruments that also can protect against further increases in debt in the event of a natural disaster. These instruments are knows as catastrophe bonds or "cat" bonds.

Catastrophe bonds belong to that family of securities known as indexed bonds, where debt payments are indexed to a specific variable, such as gold, oil, foreign currency, GDP, and, in this case, natural disaster. Typically structured as floating rate securities, "cat" bonds are designed to pay an attractive yield to investors but waive all or part of interest and principal repayments when a specified disaster occurs.

Catastrophe bonds are generally issued through a special purpose vehicle (SPV) which writes parametric insurance contracts. The SPV issues the bond on behalf of the sponsor (for example, a government) and invests the capital in low-risk securities. The return on these investments is paid to investors along with a premium paid by the sponsor. If the bonds mature without a pre-specified catastrophe occurring, principal is repaid to the investors. However, in the event of the pre-specified disaster occurring, then investors forfeit part or their entire claim.

The government benefits in primarily two ways:

- First, debt service payments on these securities decline in the event of a catastrophe, promoting debt sustainability.
- Second, "cat" bonds provide more fiscal space for disaster recovery and rehabilitation without governments being forced to tighten budgeted expenditures because of a catastrophe induced economic slowdown. Such a bond acts as an "automatic stabiliser", reducing pressures on government to tighten during a slowdown and forcing fiscal restraint, when debt service payments increase, during an upturn.

Investors purchasing catastrophe bonds also benefit. "Cat" bonds usually pay higher rates of interest that their conventional "plain vanilla" counterparts. So, as long as no disaster occurs, investors enjoy higher returns on their investment. This added premium compensates them for the risk that debt payments will be small or disappear entirely in the event of a disaster. Investors

Despite the obvious benefits, "cat" bonds have not been issued widely by sovereign although they have been issued by the private sector for almost two decades. Part of the problem with government issuance is the cost. Catastrophe bonds pay higher interest rates to compensate for the risk of loss of interest and principal if the catastrophe occurs. If the event does not occur governments would have incurred increased costs. Market size is another concern. The fear is that there may not be sufficient demand for catastrophe bonds especially in the issuer's market. For Caribbean countries this would be a real concern given the small size of their capital markets.

Investors also share concerns. The choice of trigger is a major concern as investors fear that issuers may design triggers that readily call the bond and place them at a disadvantage. As a result, parametric triggers are generally preferred by investors because these are more likely to be manipulation proof and can be readily verified. Investors may also be concerned about the liquidity of the "cat" bond market especially in comparison to conventional bond market. Notably, the catastrophe bond market has grown rapidly in recent years. In 2009, market size was an estimated US$14 billion.

In part to overcome these hurdles, the World Bank, in a major initiative, launched its catastrophe bond issuance "MultiCat" programme. The programme not only helps governments protect themselves against natural disaster but it also enlarges the traditional investor base for catastrophe bonds by offering yields that are not correlated to financial markets and it ensures governments can immediately access financing for emergency relief and restoration after a natural disaster. The programme is the first of its kind.

The MultiCat programme allows participants to insure against earthquakes, floods, hurricanes and other natural disasters. In addition, the World Bank acts as the arranger and thus countries, such as those in the Caribbean, can benefit from the Bank's expertise in identifying and pooling risks as well as in structuring the highly complex transaction and attracting a wide range of investors.

In 2009, Mexico was the first country to issue a series of bonds under the World Bank's MultiCat programme. Four bonds were issued and designed to protect against earthquake as well as pacific and Atlantic hurricanes risks in three regions around Mexico City. Each bond has a maturity of 3 years. All transactions were oversubscribed and distributed among investors in Bermuda, Europe, Japan and the United States.

With the success of Mexico, perhaps this is another financial innovation that the Caribbean can pursue. Think of it. A storm passes, an earthquake occurs, losses arise, but here's the surprise; a cat bond is issued, a trigger is called, public finances are protected, no debt crisis at all! *Michele Robinson*

Debt Statistics

Regional

The table below shows the environmental vulnerability of Caribbean countries due to natural disasters, such as earthquakes, hurricanes, volcanic eruptions and flooding, as well as, climate change, loss of biodiversity, and human activities.

Extremely vulnerable	Highly vulnerable	Vulnerable	At Risk
• Barbados • Grenada • Jamaica • St. Lucia	• Dominica • St. Kitts and Nevis • St. Vincent & the Grenadines	• Antigua and Barbuda	• The Bahamas • Belize

Source: United Nations Environmental Programme (UNEP) and South Pacific Applied Geosciences Commission (SOPAC).

Recent Developments

Guiding Debt Management Principles

Over the period July 1-2, 2010, debt managers from 33 countries were brought together by the International Monetary Fund at the 10th Annual Debt Managers' Forum in Stockholm.

The debt managers agreed a set of principles for effective and transparent debt management. The 10 principles reaffirmed a set of practices and principles already embraced by most countries' debt managers. The principles are organised around three main areas:

Operations – preserve sufficient flexibility to minimise the risk associated with the execution of issuance programmes and liability management operations, while accounting for their financial stability implications, and supporting information sharing at the domestic and global levels.

Communications – maintain an open dialogue among debt managers and with other policy makers as well as financial markets, and share any changes that may occur to avoid surprises and support a predictable operational framework.

Risk Management – Adopt and communicate with investors a strategy to keep a broad range of risks at prudent levels, while minimising funding cost over the medium to long term.

Debt managers agreed that reaffirming a number of best practices would increase confidence in public debt management and send a strong signal to reassure financial markets and investors.

Source: International Monetary Fund – IMF Survey Magazine (Sept 2010)

Upcoming Events/Courses

November/December 2010

- November 8-17: Commonwealth Secretariat – In-country workshop of Introduction to CS-DRMS; Bridgetown, Barbados.
- November 29 – December 10: Crown Agents – Domestic Debt Management Challenges and Techniques; Sutton, UK.

October 2010

- October 25-27: World Bank Treasury - Sovereign Debt Management Forum; Washington DC, United States
- October 9-11: IMF/World Bank - 2010 Annual Meetings; Washington, DC, USA.
- October 7-8: Commonwealth Secretariat - Finance Ministers Meeting; Washington, DC, USA.
- October 4-15, 2010: Crown Agents - Advanced CS-DRMS User Training; Sutton, 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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