ECLAC's Caribbean Resilience Fund:

Alleviating debt while increasing access to climate finance

7 November 2022

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SEVENTH MEETING OF THE
CARIBBEAN DEVELOPMENT ROUNDTABLE

Outline

The Caribbean's Vulnerability

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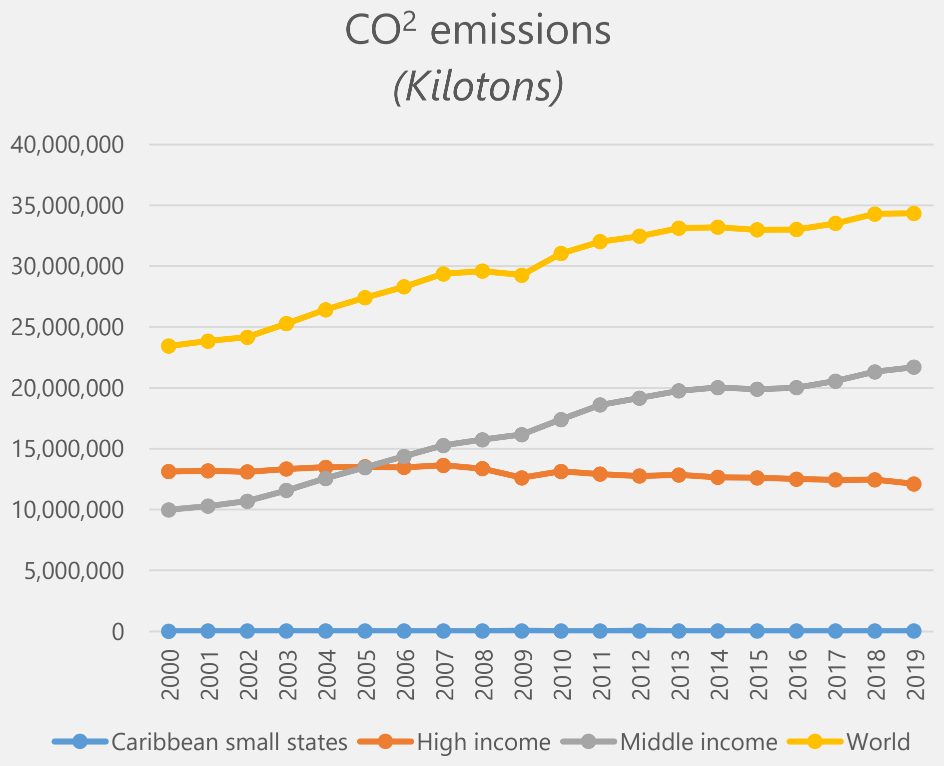
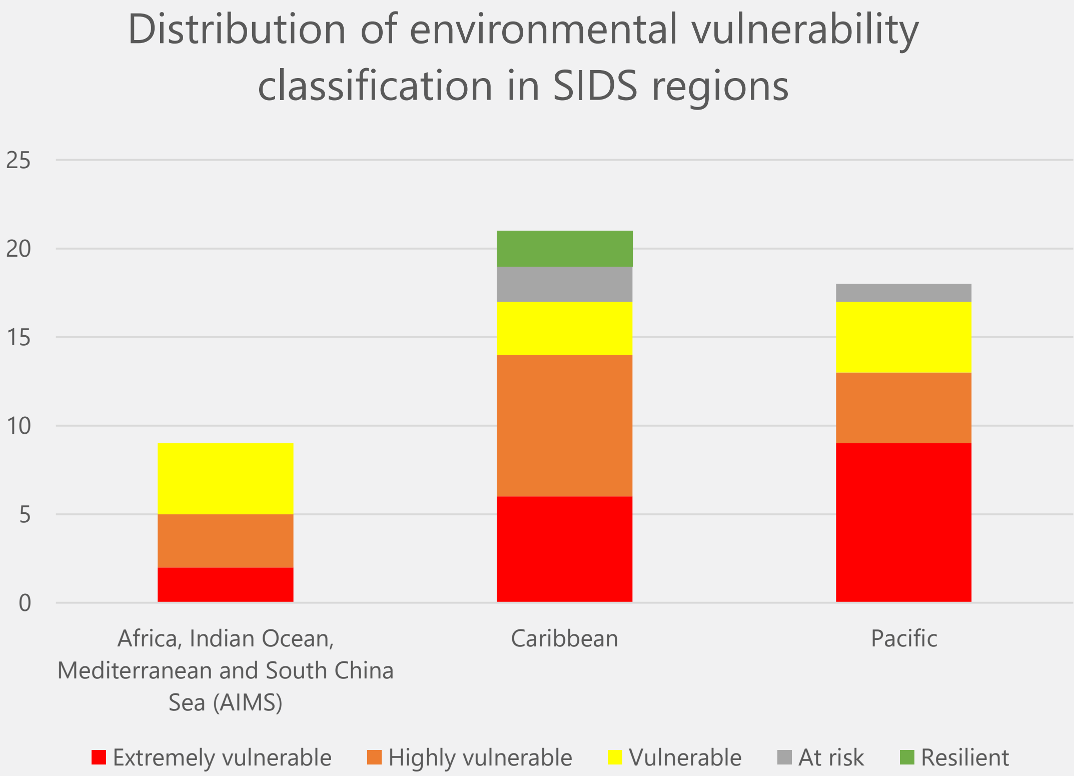
Caribbean countries are some of the most vulnerable to Climate Change, to which it has contributed minimally



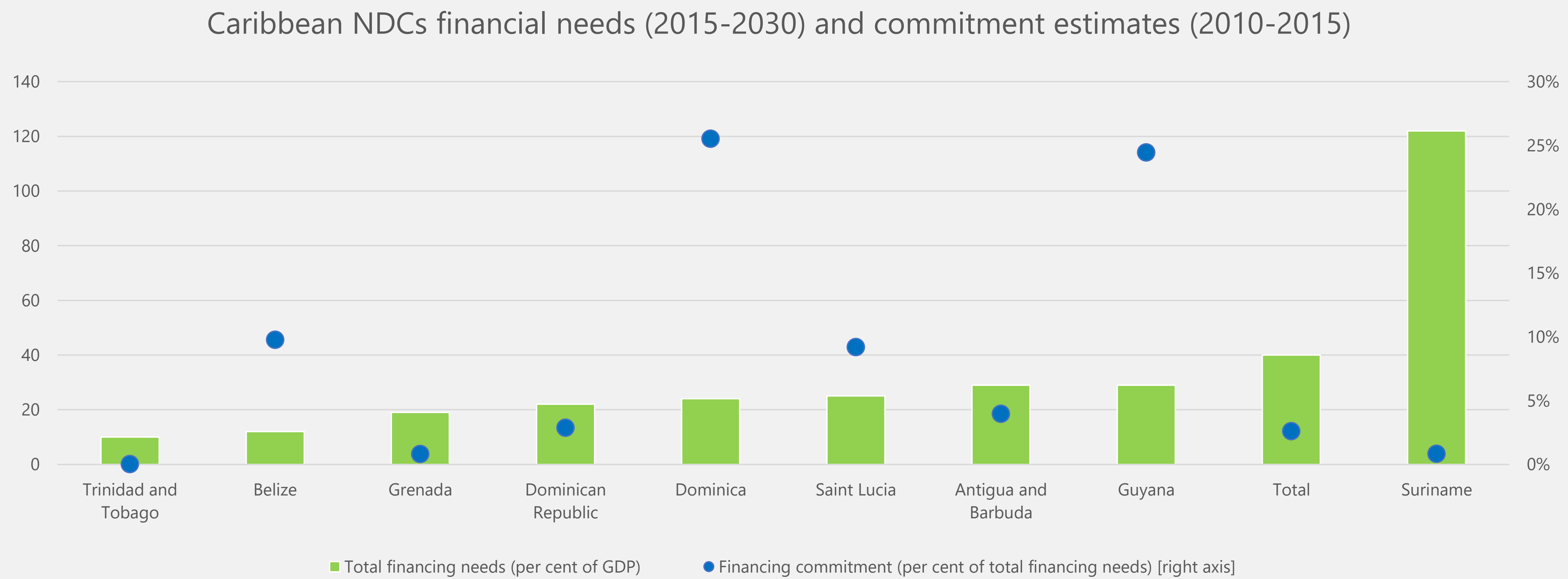
Source: World Bank World Development Indicators database



Source: South Pacific Applied Geoscience Commission, Environmental Vulnerability Index 2004

Major financing gap hampers investment in resilience

Median financing gap for Caribbean countries is US$800 million



Source: Authors calculations based on Mohan, Preeya S. 2022. Implementing nationally determined contributions under the Paris agreement: an assessment of climate finance in Caribbean small island developing states.

Support for the highly vulnerable Caribbean subregion should be considered an international public good

The subregion is highly vulnerable to: climate change, natural disasters and weather events

Caribbean countries are some of the most vulnerable to climate change and natural disasters are more costly and more frequent in the Caribbean

In 2017, damage and loss to Antigua and Barbuda, The Bahamas, Dominica and Saint Kitts and Nevis due to hurricanes were >US$1.7 billion.

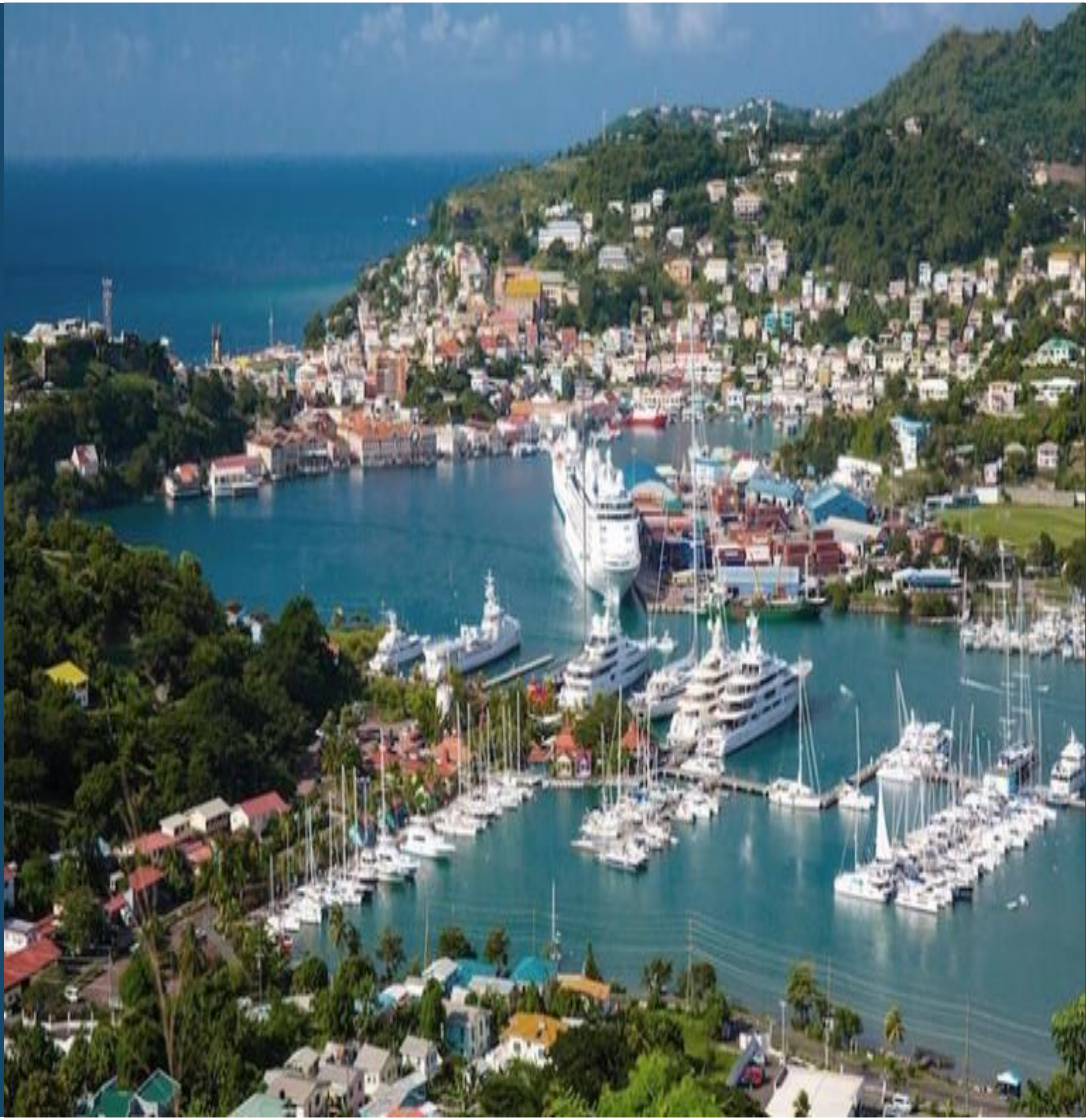
The damage and loss costs of climate change to the Caribbean are estimated to be US$11 billion by 2025 and US$22 billion by 2050 (CCCCC, 2011)

Caribbean governments are required to respond after these events, often through more debt at market rates

Keys areas of focus for the Caribbean heading into COP27

- Develop a new adaptation financing target
- Greater ambition to cut emissions in line with climate estimates
- G20 countries can develop a disbursement mechanism to honor annual climate financing commitment for developing countries most affected by climate change
- G20 countries can develop a financing facility to provide additional funding for loss and damage particularly for SIDS
- G20 countries can develop an improved framework with concrete steps for providing risk financing

The Current Macroeconomic landscape



The current macroeconomic landscape

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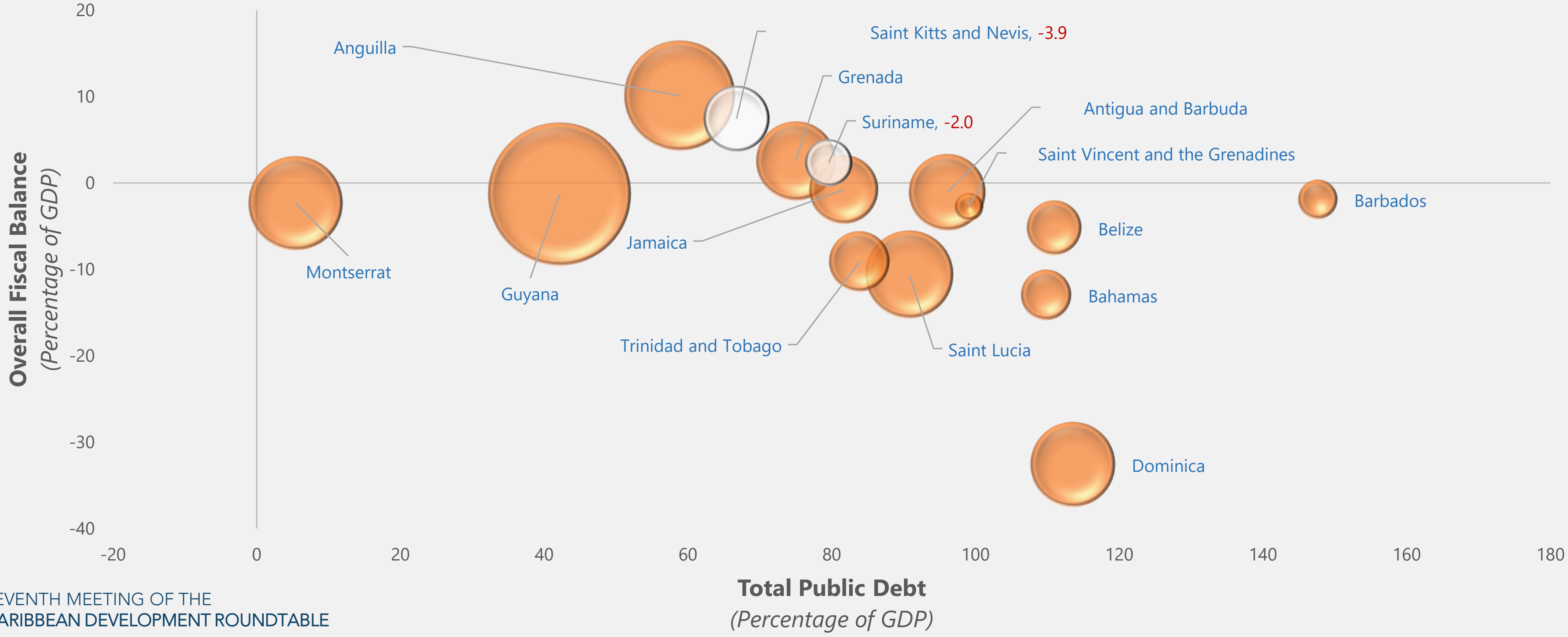
Slow improvement in GDP growth in 2021 but global issues pose risks in 2022, public debt has significantly widened, and fiscal positions remain weak

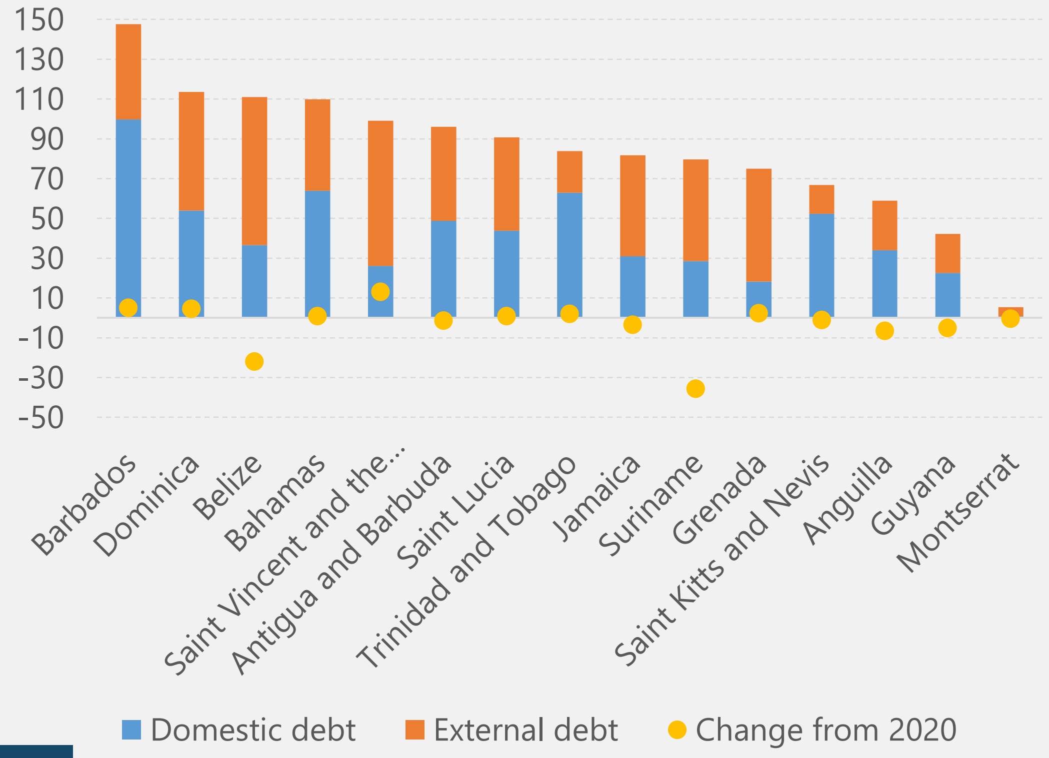
Overall fiscal balance vs Total public debt in 2021

2021 GDP growth illustrated by bubble size



High public debt levels limit the fiscal space required to implement crucial economic development plans

Domestic and External Public Sector debt, 2021
(Percentage of GDP)

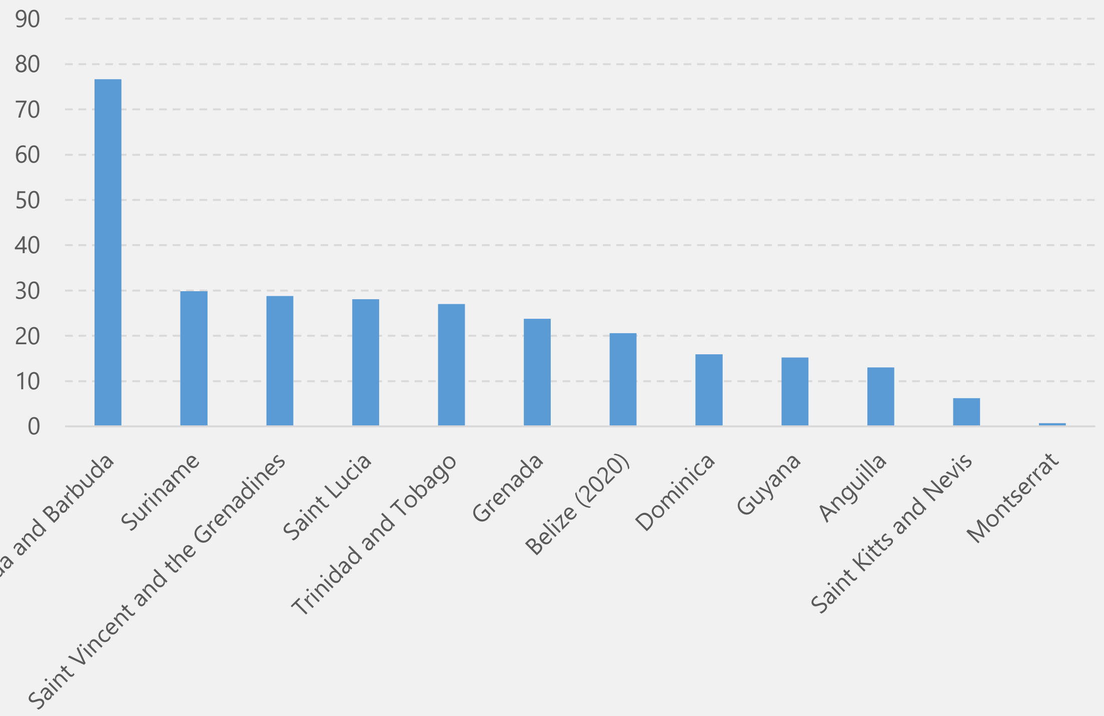


- The public debt among Caribbean economies is heterogenous with domestic debt ranging from 0.7 – 99.7% of GDP and external debt ranging from 4.7 – 74.4% of GDP. **Eight of fifteen economies hold the majority of their debt as external debt**
- There is, however, an **increased focus on private debt** with declining attention to acquiring bilateral and multilateral debt
- This unsustainably high debt **reduces the fiscal space required to sufficiently achieve the SDGs, address unexpected major economic shocks and invest for the future**.

Debt Service payments as per cent of government revenue among Caribbean economies at or above 20% in more than half ECLAC member States

Total debt service payments, 2021

(Percentage of government revenue)



- Debt service payments across Caribbean economies remain high. In 2021, **debt service payments as a percent of government revenue among Caribbean economies averaged 23.8%**
- **Seven out of 12 economies** with available data have debt service payments at or above 20% of government revenue
- **Antigua and Barbuda had the highest debt service levels in the region in 2021** at 76.6% of government revenue
- **The COVID-19 pandemic increased debt service payments as a percentage of government revenue across the Caribbean economies (based on 12 economies) by 3.8%.** Persistently high debt service payments leaves the subregion fiscally exposed given the current uncertain global economic environment.

Challenges with Trade across the Caribbean

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Progress with the Caribbean Resilience Fund

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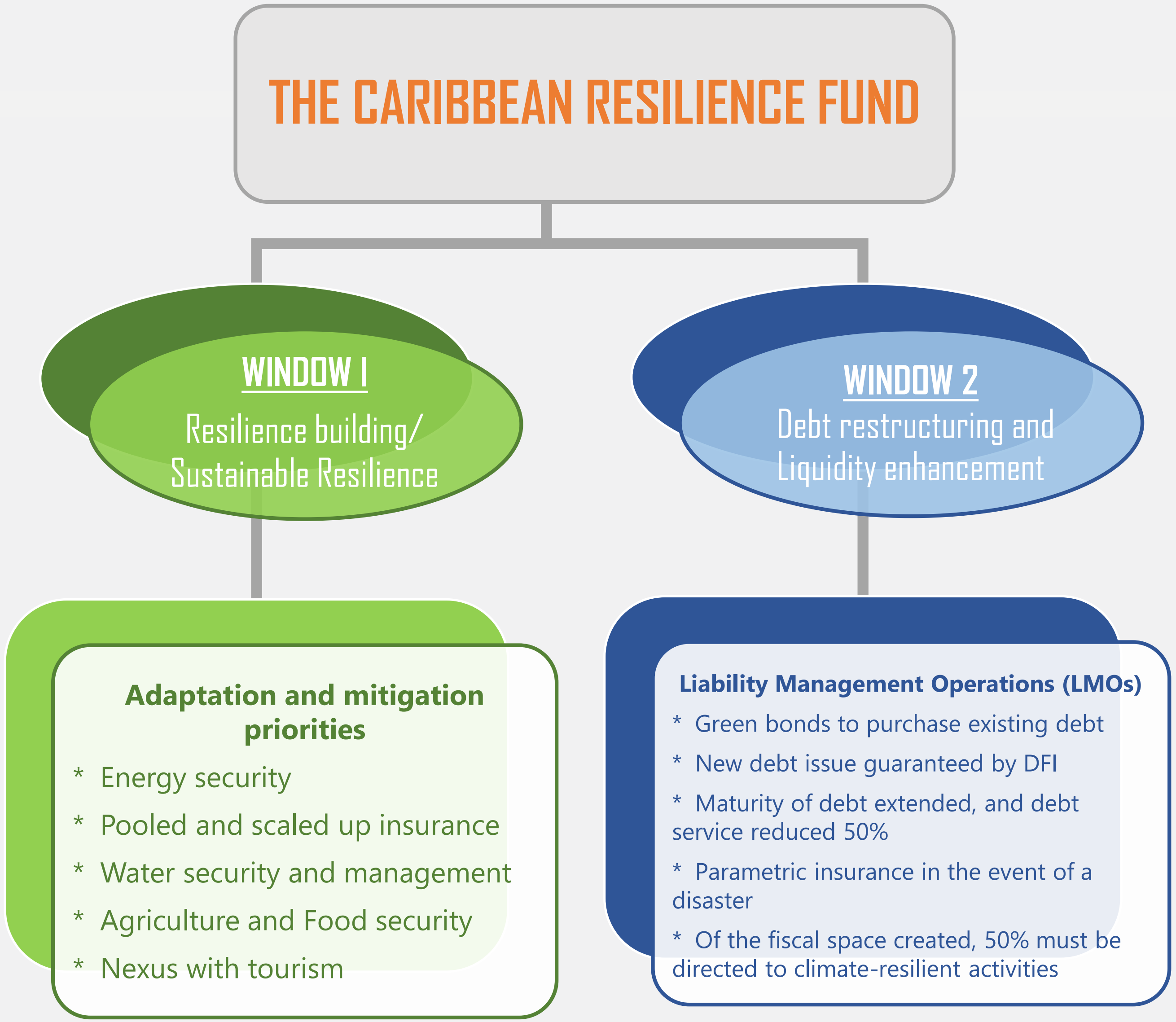

The Caribbean Resilience Fund (CRF)

A special purpose financing vehicle intended to leverage long-term affordable development financing for the Caribbean

Key areas of focus for Window I

Resilience building / Sustainable Resilience

Areas for investment in resilience building should be driven by their sectoral potential for economic diversification

Initial projects under the CRF should focus on diversifying energy sources and lowering energy costs

Partner with the CCRIF to promote the use of parametric insurance

Integrate the use of loan guarantees or "credit enhancement mechanisms" to engage and attract private sector investors

Incorporate the provision of capacity building for beneficiary countries to address project implementation challenges and facilitate sustainable operations

Pursue a two-track approach focused on raising short and long-term resources for both adaptation and mitigation based on both grants and loans in accordance with the commercial viability of the investment projects

Window II: Debt restructuring and liquidity enhancement

How it works

A Special Purpose Vehicle (SPV) will be formed comprising of various stakeholders including the government of the participating pilot country and a Project Finance Company (PFC)

The PFC will be established by the government of the pilot country with the aim of providing reliable and long-term funding in the form of grants and loans for climate adaptation and mitigation activities

The Debt Exchange: The SPV will borrow a principal amount of debt while the existing debt held by the government of the participating country will be repurchased by the SPV.

Interest rates will depend on the interest of the debt borrowed by the SPV. The ultimate goal being for the transaction to produce interest savings for the government.

The SPV will be required to purchase parametrically triggered catastrophic insurance to cover one semi-annual principal and interest payment in the event of a covered catastrophic event

The government will be required to invest in specific climate adaptation and mitigation activities

Financing instruments through the CRF windows

Each window will offer a range of instruments
to meet unique needs of member states. These include:

- Blended finance and syndicated loans
- Concessional finance for agriculture and food security
- Infrastructure bonds for retrofitting and resilience
- Green bonds for renewable energy and LMOs
- Credit guarantees
- Issuance of new or reallocation of unused developed countries SDRs to climate vulnerable developing countries

Recommendations

Scale up of resources under international climate finance mechanisms such as the Green Climate Fund

Streamline access to climate funds in order to rebalance funding in favor of SIDS

International Monetary Fund and regional development banks can play a greater role in offering loan guarantees and risk financing for the LMOs

Develop concrete proposals to address Caribbean debt which is a major constraint to climate adaptation

Creation of other specialized mechanisms to target critical gaps in climate finance such as debt for climate swaps and travel taxes

Next steps towards establishing the CRF

- Conduct a mission to convene the consortium comprising ECLAC, CDF, CCCCC, CCRIF, and CARICOM Secretariat. Other possible partners include CDB and CARICOM Competition commission
- Engage the domestic and international private sector
- Engage in the development of the articles of agreement and seek consensus from Member States
- Collaborate with CARICOM to ensure that COFAP includes the establishment of the CRF on the agenda for Heads of Government
- Launch the CRF

Thank you!