

Economic Commission for Latin America and the Caribbean

ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN



Report on a meeting of the Task Force to advance the ECLAC debt for climate adaptation swap initiative



UNITED NATIONS





UNITED NATIONS



Economic Commission for Latin America and the Caribbean
Subregional Headquarters for the Caribbean

Meeting of the Task Force to advance the ECLAC debt for climate
adaptation swap initiative
23-24 November 2017
Port-of-Spain, Trinidad

LIMITED
LC/CAR/2017/18
20 December 2017
ORIGINAL: ENGLISH

**REPORT ON A MEETING OF THE TASK FORCE TO ADVANCE THE ECLAC DEBT FOR
CLIMATE ADAPTATION SWAP INITIATIVE**

This report has been reproduced without formal editing.

This document was prepared by Machel Pantin, Economic Affairs Assistant, under the supervision of Sheldon McLean, Coordinator, Economic Development Unit, ECLAC subregional headquarters for the Caribbean.

The views expressed in this document, which has been reproduced without formal editing, are those of the authors and do not necessarily reflect the views of the Organization.

CONTENTS

CONTENTS	1
A. ATTENDANCE AND ORGANIZATION OF WORK	1
1. Place and date.....	1
2. Attendance	1
3. Meeting Agenda.....	1
B. REPORTING THE PROCEEDINGS	2
1. Opening of the meeting.....	2
2. Consideration of the ECLAC Debt for climate adaptation swap initiative	2
3. Establishment of the task force	3
4. Issues of advocacy: identifying a strategic approach to promote the initiative.....	4
5. Developing criteria for participating in the debt swap initiative.....	4
6. Refining the Caribbean Resilience Fund.....	5
7. The next steps and timelines as they relate to the phases of the initiative	6
Annex I	7
List of participants.....	7

A. ATTENDANCE AND ORGANIZATION OF WORK

1. Place and date

1. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean hosted a meeting to establish a task force to advance the ECLAC Debt for Climate Adaptation Swap Initiative from 23-24 November 2017 in Port of Spain, Trinidad and Tobago. This report summarizes the main outcomes of the meeting and outlines the next steps.

2. Attendance

2. Representatives of the following institutions attended the meeting: The Sustainable Energy Unit of the Organization of Eastern Caribbean States (OECS), the Ministry of Finance, Saint Lucia, the CARICOM Development Fund (CDF), the Economic Planning and Research Division of the Planning Institute of Jamaica (PIOJ), the Eastern Caribbean Central Bank (ECCB), the Caribbean Community (CARICOM) and the United Nations Development Programme (UNDP).

3. Meeting Agenda

Day One

1. Welcome remarks by Ms. Diane Quarless
2. Consideration of the ECLAC Debt for climate adaptation swap initiative
3. Establishment of the Task Force
4. Issues of advocacy: identifying a strategic approach to promote the initiative.

Day Two

1. Developing criteria for participating in the debt swap initiative
2. Refining the Caribbean Resilience Fund
3. Reflecting on projects for the debt swap initiative
4. Refining the road map
5. Financing task force activities
6. The next steps and timelines
7. Closing the meeting

B. REPORTING THE PROCEEDINGS

1. Opening of the meeting

3. In opening the meeting, the Director of the ECLAC subregional headquarters for the Caribbean gave a brief history of the evolution of the debt swap initiative and expressed her eagerness for the meeting to move the initiative forward. The Director highlighted the fact that the response by affected economies to the recent spate of storms in the subregion would further reduce Caribbean government's fiscal space. She also alluded to the negative impact of the debt on the economic performance of the region and challenges to achieving the Sustainable Development Goals (SDGs).

2. Consideration of the ECLAC Debt for climate adaptation swap initiative

4. The Deputy Director of the ECLAC subregional headquarters for the Caribbean outlined the expected outcomes of the two-day meeting. These included the development of a TOR for the Task Force, the refining of the road map to advance the initiative and identifying tasks which individual Task Force members and organizations were to complete, in preparation for the next meeting.

5. The Coordinator of the Economic Development Unit of the ECLAC subregional headquarters for the Caribbean then outlined the rationale for and the essential elements of the debt for climate adaptation swaps initiative. He argued that the debt challenge in the Caribbean was linked to vulnerability arising from negative external shocks and inherent vulnerabilities. He indicated that a salient feature of the debt challenge facing the Caribbean was the high debt servicing costs, which reduced their fiscal space and would likely restrict a country's ability to achieve the SDGs. For instance, in 2016, total debt service payments averaged 29.5 per cent of government revenue; and 10.4 per cent of receipts from exports of goods and services. This level of debt service payments depletes vital foreign exchange earnings that could be used for intermediate and capital goods and technology imports to boost growth, or to bolster foreign reserves. The Coordinator informed the meeting that empirical work undertaken by ECLAC suggested that debt also hindered economic growth in the region: using panel data ECLAC modelled the influence of debt on economic growth in the Caribbean. The full panel included Antigua and Barbuda, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. The results revealed that a one per cent increase in the debt to GDP ratio caused a 0.02 per cent decline in the GDP growth for the countries in the panel.

6. Furthermore, the meeting was informed that the level and composition of public debt among Caribbean SIDS was highly heterogeneous, with economies such as Jamaica, Antigua and Barbuda, and Barbados having high levels of domestic debt. As such, the debt initiative takes a menu approach to use pledged funds from the Green Climate Fund (GCF) to write down Caribbean debt. For multilateral and bilateral creditors the funds would be used to write down debt at a negotiated discount, and for private creditors debt buyback schemes and debt for equity swaps would be utilized. The beneficiary debtors would then make payments into the newly formed Caribbean Resilience Fund (CRF), which would in turn be used to finance climate change adaptation and mitigation projects. The Coordinator indicated that the CRF would also be capitalized through contributions from bilateral and other donors and interest could be earned on these funds until such time as they are spent on climate related projects.

7. Moreover, the Coordinator spoke to the benefits of the ECLAC approach to debt relief, which include the following: the debtor country reduces its total outstanding external debt and cuts its debt service interest payments; the debtor country improves its technical and social capacity to make its current account balance sustainable; the improvement is linked to the methods of inclusive assessment used in public expenditure reviews; if the interest savings are sufficiently large, the debtor country reduces the constraint of the current account on the budget balance and hence the fiscal space; the debtor

country improves its carbon footprint and climate resilience; and national sovereignty is not affected.

8. In the ensuing discussion some key points emerged:
- Participants endorsed the initiative in principle;
 - Participants supported the view that there was need for restructuring Caribbean economies to produce competitive exports that generate foreign exchange. The economies must grow fast enough to outpace interest costs on accumulated debt and reduce the current account deficit;
 - Participants explored what was necessary to get buy-in from multilateral financial agencies and the GCF itself for the initiative; and
 - It was agreed that the project would be presented as a regional initiative but would be operationalized at the individual country level. At least two pilot countries are to be identified in the first instance.

9. The Economic Affairs Officer of the ECLAC subregional headquarters for the Caribbean gave a presentation on green industries, which formed the basis of the economic restructuring strategy under the debt initiative. He opined that fiscal consolidation alone is not enough to tackle the region's debt challenge and therefore a new growth strategy is needed. Competitive green industries could provide a growth platform that could, in turn, improve export performance and promote balance of payment and debt sustainability. The meeting was informed that green industries are defined by the United Nations Environment Programme as industries that entail investments in environmentally significant sectors, while contributing to sustainable development and poverty reduction through improved human well-being and reduced inequalities. The presentation spoke of the growing consumer preference for green products, and the international drivers for green industry growth, including the COP21 climate agreement. It highlighted the need for a "Marshall Plan" for countries at risk from climate change. It was suggested that the ECLAC debt relief initiative should be accompanied by technical assistance in building capacity in green industries in which the Caribbean has a competitive advantage.

10. In the ensuing discussion participants raised the following concerns, as well as areas of uncertainty:

- The issue of capacity to carry out these green projects at the country level;
- The need to include initiatives across all Caribbean countries in order to make use of the funds from the GCF;
- The importance of greening in the private sector as well as the public sector;
- The possibility of greening imports;
- The role of housing as part of a green strategy and disaster risk assessment; and
- The role of agriculture in a green strategy.

3. Establishment of the Task Force

11. The Task Force was formally established, and the following Terms of Reference to govern it were agreed to:

- Identify the scope of the debt swap initiative, including the countries to be considered and the criteria for eligibility of member States;
- Elaborate the proposed road map, and determine clear time lines for completion of each phase;
- Identify resources to facilitate the advocacy, research and the technical work of the Task Force;
- Consult with member States to get their buy-in and approval to proceed;
- Provide the technical and strategic guidance and support for advocacy;
- Establish the criteria for the management of a Caribbean Resilience Fund, taking into account the views of member States;
- Create a compendium of viable green projects that are aligned with the strategic plans of member

States;

- Make the case for the establishment of the CRF and proposed modalities of operation;
- Prepare the requisite documentation to initiate consultation with the GCF and other partners of interest; and
- Compile debt sustainability analyses for member States to justify the need for the debt swap.

12. The specific roles of the various institutions were identified as follows:

- Compilation of debt sustainability profiles for countries that would be part of the pilot: ECCB, PIOJ, Jamaica Ministry of Finance, Saint Lucia Ministry of Finance, ECLAC and the Caribbean Development Bank (CDB), which was not present.
- Development of a number of risk resilience and green industry Projects: CDF, ECCB, CARICOM, 5Cs, ACP, OECS, ECLAC.
- Advocacy role: CARICOM, OECS, African, Pacific and Caribbean (ACP) Secretariat, ECLAC.
- Elaboration of modalities for the creation and operation of the CRF: CDF, ECLAC, PIOJ.

4. Issues of advocacy: identifying a strategic approach to promote the initiative

13. The Director of the ECLAC subregional headquarters for the Caribbean introduced the issue of advocacy for the debt swap initiative. In so doing, she indicated that the first step would be to engage the GCF to garner feedback on the initiative. Two of the agencies in the region that are accredited by the GCF, the CDB and the Caribbean Community Climate Change Centre (CCCCC), should be included in the Task Force before contact is made. A portfolio of climate projects must also be developed beforehand. The creditors should be engaged strategically, at multilateral forums such as annual meetings of the World Bank and International Monetary Fund (IMF) and other development banks. Bilateral creditors should be addressed at major country donor forums like the Paris Club meetings.

The Director opined that a common regional voice was needed to drive the initiative hence it would be important to secure the support of the CARICOM Heads of Government. In addition, representation was needed at regional meetings such as ECLAC's Caribbean Development Roundtable (CDR) and Caribbean Development and Cooperation Committee (CDCC). The member States should also advocate for the initiative in every available forum, such as the United Nations General Assembly, high level political forum on SDGs, the Economic and Social Council (ECOSOC), the Conference of the Parties of the United Nations Framework Convention on Climate Change (COP-UNFCCC) and others. Throughout all the avenues of advocacy, a uniform and consistent message must be presented.

14. During the ensuing discussion, participants pointed to the need to engage the World Bank and the IMF as early as possible. The level of engagement should be at the executive level, since they were responsible for policy. It was emphasized that champion-donors should also be identified from the onset so as to commence the debt for climate swap process.

15. The United Nations Resident Representative for Trinidad and Tobago then presented a vision of the Caribbean as the first climate resilient region in the world. He said the Caribbean could become a laboratory for climate resilience projects. He suggested that there was need to identify new sources of funding and champions from the international community who would advocate on behalf of the Caribbean.

5. Developing criteria for participating in the debt swap initiative

16. Participants discussed the draft criteria for inclusion of countries in the debt swap initiative as presented by ECLAC. It was decided that these criteria should be used for the sequencing of participation

in the proposed debt swap arrangements. Some of the criteria that were agreed are as follows:

- Countries that have difficulties restructuring their economies to transform exports, to achieve sustainable growth rates and promote climate resilience;
- Countries that would face considerable difficulties in pursuing climate adaptation strategies due to high debt service costs;
- Countries experiencing low growth (relative to average interest rate on debt and a sustainable primary balance, over a five year period) despite significant reforms aimed at fiscal consolidation;
- Countries with high debt that have established a track record of reforms either with IMF or World Bank support or under home grown strategies; and
- Countries having difficulty meeting their debt service payments (as a percentage of government revenue) which have reduced their fiscal space and retarded infrastructural investment.

17. A strategic plan of action, or road map, was outlined for the functioning of the Task Force. Participants reviewed the draft plan submitted by ECLAC and agreed that the road map would consist of four phases. The first phase - which entailed organizing the Task Force and establishing the Terms of Reference - was addressed at this meeting.

18. The second phase includes developing the debt profiles of the selected pilot countries and initiating advocacy. This phase would have two dimensions, the first being domestic consultation. This would involve preliminary data analysis and preparation of the country profiles; seeking member States approval for participation and collaboration with the relevant government bodies; analysis on the feasibility of the debt swap; and identification of a list of green projects. The second dimension is international advocacy, which would involve engagement with principal international financial institutions, major bilateral donors and other international stakeholders. These stakeholders could include members of the G20, Commonwealth and European Union, Caribbean political representatives and decisive voices in the global South. Advocacy would take place through high level missions at global fora.

19. The third phase of the road map would include engaging the GCF. This engagement, which is to be made in collaboration with member States, would discuss the feasibility of establishing the Caribbean Resilience Fund. It is envisaged that any necessary modifications would be made at this point to bring the initiative in line with the views of the GCF and secure its support.

20. The fourth and final phase of the road map involves assessing the extent to which the initial initiative or pilot phase can be implemented; modifying the initiative in line with what is feasible and preparing additional member States for participation.

6. Refining the Caribbean Resilience Fund

21. Initial capitalization of the fund was the main point of discussion with respect to the issue of refining the Caribbean Resilience Fund (CRF). Funds intended to service the repayment of loans would instead be deposited in the CRF. It was acknowledged that payments from member States would be insufficient to capitalize the fund in the first instance. Co-financing of the CRF could therefore be accomplished through advocacy efforts targeting institutional investors, high income countries and private donors. This strategy's success would be dependent on the strength of the lobbying effort made by regional principals.

22. Participants then considered the application of the CRF as a fund for green investment. To this end, it was suggested that a haircut would be negotiated with creditors as it would be highly unlikely that the GCF would agree to pay down the debt of Caribbean States as donors would object and this would

receive pushback from the World Bank and IMF. It was suggested that the GCF could provide a grant to create the fund with a contribution equal to the sum of Caribbean debt (minus haircut); but this would require a firm commitment from all member States and a proper governance structure. It was resolved that the several funding mechanism scenarios would be developed and then cleared by the principals before being presented to the GCF. This final conceptual strategy to be presented to the GCF would include a range of options for the mechanics of the debt swap, green project options, the types of green industries to be promoted as well as the advantages for member States, the GCF and creditors.

23. Participants agreed that the Caribbean Development Bank (CDB) seemed the best option to house the CRF, as it is one of two regional organizations accredited by the Green Climate Fund (GCF). It was noted that the sole drawback to utilizing this organization was its accreditation limit of US\$50 Million, and it was decided that either other hosting options would need to be explored, or the CDB could partner with a larger institution for project execution, but would remain the core organization charged with management of the CRF.

24. The governance structure of the CRF would require negotiations with the GCF and related institutions with interests in climate resilience, including the CDF or Caribbean Community Climate Change Centre.

25. It was agreed that green projects would be financed through grants in lieu of loans as the latter arrangement would only defeat the purpose of the debt swap initiative by increasing the debt stock of member States. It was envisioned that the GCF would be involved in the approval and selection of projects. One area of concern was whether or not access to the CRF would preclude member States from securing additional funding from the GCF.

7. The next steps and timelines as they relate to the phases of the initiative

26. It was agreed that all phases of the roadmap should be completed within a year. The next Task Force meeting was set for 1-2 February 2018 so that a submission would be made to the GCF before their Board Meeting in the third week of February.

27. Phase One: While Phase 1 was almost complete, more careful elaboration of the initiative was necessary.

28. Phase Two: There was general agreement that more work is required on scenario building. Countries in the initial round of the initiative would need to be identified and country profiles created. Pilot countries would be chosen after internal discussions with members of the Work Group of the Task Force. A template, prepared by ECLAC would be shared among the working groups to facilitate data gathering and sharing. The Project Working Group would also be required to submit a list of potential projects by that date.

29. In order to familiarize Caribbean leaders and receive timely feedback, it was agreed that this initiative should be discussed at the earliest opportunity. The CDR carded for mid-April would be an appropriate event to begin the sensitization process. This would be followed by a session of the CDCC where further discussions would occur. Among the other fora suggested for canvassing the initiative were the Council for Trade and Economic Development (COTED) meeting in May 2018 and at the Council for Finance and Planning (COFAP) meeting carded for July 2018.

Annex I

List of participants

Emefa Sewordor, Senior Research Officer, Eastern Caribbean Central Bank (ECCB)

Evelyn Wayne, Director, Economic Policy and Development, Caribbean Community (CARICOM)

Hugh Morris, Manager, Modelling Unit, Economic Planning and Research Division, Planning Institute of Jamaica (PIOJ)

Judith Ephraim-Schmidt, Programme Coordinator, Sustainable Energy Unit, Organization of Eastern Caribbean States (OECS)

Lavern Mc Farlane, Senior Economist, CARICOM Development Fund (CDF)

Oronde Small, Director Debt Strategy and Analysis, Ministry of Finance and the Public Service, Jamaica

Richard Blewitt, United Nations Resident Coordinator and United Nations Development Programme (UNDP) Resident Representative, Trinidad and Tobago

Rohan Stowe, Adviser, Eastern Caribbean Central Bank (ECCB)

Vanus James

Vera John-Emmanuel, Assistant Director of Debt and Investment, Ministry of Finance, Saint Lucia

**Economic Commission for Latin America and the Caribbean (ECLAC)
Subregional headquarters for the Caribbean**

Diane Quarless, Director. E-mail: diane.quarless@eclac.org

Dillon Alleyne, Economic Affairs Officer, Deputy Director E-Mail: Dillon.Alleyne@eclac.org

Michael Hendrickson, Economic Affairs Officer. E-mail: michael.hendrickson@eclac.org

Sheldon Mclean, Economic Affairs Officer. E-mail: sheldon.mclean@eclac.org

Machel Pantin, Economic Affairs Assistant. E-mail: machel.pantin@eclac.org

Nyasha Skerrette, Economic Affairs Assistant. E-mail: nyasha.skerrette@eclac.org

Lindy-Ann Edwards-Alleyne, Programme Management Assistant. E-mail: lindyann.edwards-alleyne@eclac.org

Colleen Weekes, Associate Environmental Affairs Officer, Sustainable Development and Disaster Unit. E-mail: colleen.weekes@eclac.org

Roberta Doorgadeen, Research Assistant (*Individual Contractor*). E-mail: roberta.doorgadeen@eclac.org

Don Charles, Consultant



Economic Commission for Latin America and the Caribbean (ECLAC)
Comisión Económica para América Latina y el Caribe (CEPAL)
www.eclac.org