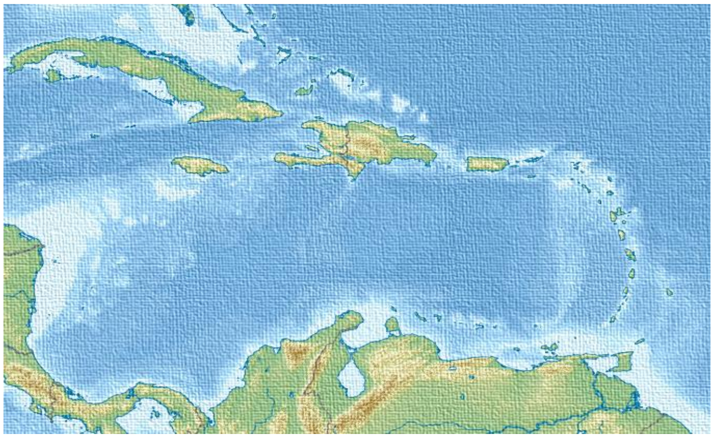

United Nations

Economic Commission for Latin America and the Caribbean

Policy Brief
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Essential elements of the ECLAC Caribbean Resilience Fund: a segregated portfolio trust fund

Introduction

Identification of the issue, which may be:

a. **Relatively low economic growth and commitment to expectations arising from the SDGs**
b. **Extreme climate vulnerability and exposure to natural disasters**
c. **Debt unsustainability**

Declining economic growth and competitiveness, the impact of the 2007–2009 global financial crisis, and the challenge of climate change and extreme weather events have hindered the sustainable development of Caribbean economies, the generation of sustained welfare gains and the achievement of key Sustainable Development Goals (SDGs).

Moreover, the COVID-19 pandemic has exacerbated the subregion's vulnerability to the vagaries of global aggregate demand and commodity prices, which have largely driven the subregion's debt upwards and dampened economic growth before its onset, compromising its economic performance and further decelerating the subregion's growth in 2020.

Key recommendations

- **Addressing debt and liquidity challenges as well as modernizing physical infrastructure**
- **Deepening capital markets, including insurance markets**
- **Facilitating debt for climate adaptation swaps**
- **Identifying and developing the skills required to build climate resilience**
- **Incentivizing investment in green industries for economic restructuring**
- **Lowering overall effective interest rates**

In so doing, the pandemic has brutally exposed the Caribbean's endemic structural challenges and rigidities which predated its onset. These include macroeconomic imbalances, low and declining productivity and competitiveness, and environmental vulnerability. It may be useful to examine this notion a bit closer.

Caribbean countries are among the most vulnerable to climate change. Even among small island developing States, natural disasters are more costly and more frequent in the Caribbean. For example, in 2017, the estimated cost of the hurricane season to Caribbean countries was US$ 93 billion,[1] including Cuba (US$ 13 billion) and Puerto Rico (US$ 68 billion). Furthermore, ECLAC has estimated that in 2017, damage and loss due to hurricanes in Antigua and Barbuda, the Bahamas, Dominica, and Saint Kitts and Nevis were in excess of US$ 1.5 billion. Total damage and loss costs to Dominica from Hurricane Maria alone (2017) were estimated at 226 per cent[2] of 2016 GDP.

The average annual damage and loss attributed to hurricanes in the Caribbean has been estimated to be upward of US$ 800 million and it is projected that this could rise to US$ 22 billion by 2050 (IDB). The damage to infrastructure, agriculture, and housing due to the eruption of the La Soufrière volcano in Saint Vincent and the Grenadines (2021) may result in economic losses of 30 per cent of GDP[3] (IMF). Natural disasters such as earthquakes and storms are, therefore, prevalent risks in the Caribbean. This risk has been a principal source of fiscal stress. All Caribbean Governments prepare inadequately for the risk of natural disasters, given the region's vulnerability and the history of disasters.

Moreover, rebuilding after a major natural disaster is very costly, often leading to an accumulation of public debt. A Caribbean Development Bank report published in 2013 found that "fiscal slippage due to natural disasters highlights the limited fiscal space available to regional governments and underscores the need to explore alternative sources of emergency financing."

Other climate change-related extreme weather events, such as droughts, sea-level rise and flooding, have also fueled increased public debt in many Caribbean economies. Caribbean countries had an average debt to GDP ratio of just under 88 per cent in 2020 (increasing by 20 percentage points from 2019), with Barbados, Belize, Dominica, and Suriname now carrying debt burdens in excess of 100 per cent of GDP. The Caribbean also generated an average fiscal balance of -6.4 per cent of GDP, suggesting an emerging liquidity challenge.

Background

The countries of the subregion are in urgent need of concessional financial relief if they are to avoid descending into a solvency crisis and a difficult short- to medium-term outlook before the impact of the pandemic is brought under control. In view of the acute liquidity and solvency challenges currently facing the subregion due to the pernicious economic impact of the COVID-19 pandemic, there has been increased acceptance by the international community of the urgency of reducing public debt and promoting resilience building in the Caribbean. For ECLAC, the establishment of the Caribbean Resilience Fund (CRF) is seen as a central objective in this regard.

The notion of a Caribbean Resilience Fund has evolved considerably since its conception in 2015. Initially the CRF was conceived to serve solely as an integral part of ECLAC Debt for Climate Adaptation Swap Initiative —a financing vehicle necessary for its operationalization. The debt swap itself sought to address the high debt-low growth dilemma of the Caribbean in a sustainable manner while fostering investment in climate adaptation. While the main beneficiaries were to be the economies of the Caribbean subregion, at the time of its conception it was considered prudent to test the idea using as three pilot economies Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines, before attempting to build-out the proposal at the subregional level.

As regards the mechanics, solicited donor and concessionary resources were to be paid into the CRF and then used to buy-back easily negotiable proportions of the public debt of participating Caribbean countries at a discount. On a parallel track, the proceeds from negotiated haircuts, discounted debt services payments, Green Climate Fund, international financial institutions (IFI) and other

[1] https://repositorio.cepal.org/bitstream/handle/11362/46629/4/S2000887_en.pdf.

[2] https://www.gfdrr.org/sites/default/files/publication/Dominica_mp_012418_web.pdf.

[3] International Monetary Fund Press Release No. 21/205.

donor resources were to be used to recapitalize the fund. The CRF in turn would finance climate adaptation projects and promote green industries in the Caribbean.

Given the need to address immediate liquidity, solvency, debt, economic restructuring, and resilience-building challenges, all of which are central to jump-starting growth in the Caribbean, there has been a conceptual shift in thinking with regard to the architecture of the ECLAC debt reduction initiative and Caribbean Resilience Fund. The ECLAC Debt for Climate Adaptation Swap Initiative is now anchored by the central proposal to establish a Caribbean Resilience Fund. The CRF is to be a special purpose financing vehicle intended to leverage long-term low-cost development financing for the Caribbean, while at the same time ensuring the availability of resources for investment in adaptation and mitigation initiatives, in the development of green industries, thereby fostering resilience building, economic and export diversification particularly in the services-based countries, and the structural transformation of Caribbean economies.

For ECLAC, the creation of the CRF along these lines offers a more immediate and practical response to the urgent debt and liquidity problems that Caribbean countries face. More importantly, the current concept and proposed architecture of the CRF is consistent with other initiatives gaining popularity in ongoing discussions on global financing for development. Moreover, the CRF would also provide a regional mechanism for effecting much needed, and substantive, debt relief for Caribbean countries through a combination of debt restructuring, reprofiling and swaps.

The CRF is now being advanced as the primary regional development funding tool for financing, inter alia, climate adaptation projects and infrastructure, as well as for resilience-building and debt reduction. It will serve as a mechanism to attract large scale funding to promote Caribbean resilience through adaptation- and mitigation-related sustainable infrastructure and investment in blue and green projects.

The emerging central logic of the CRF is that long-term climate-resilient economic growth, urgently needed to finance implementation of the SDGs, can only be achieved through systematic and broad-based investments in infrastructure assets and resilience building. ECLAC thinking is that, while the CRF has a single purpose, the sources of the fund could vary considerably, which would mean that the CRF should be flexible enough to accommodate the various sources of capitalization

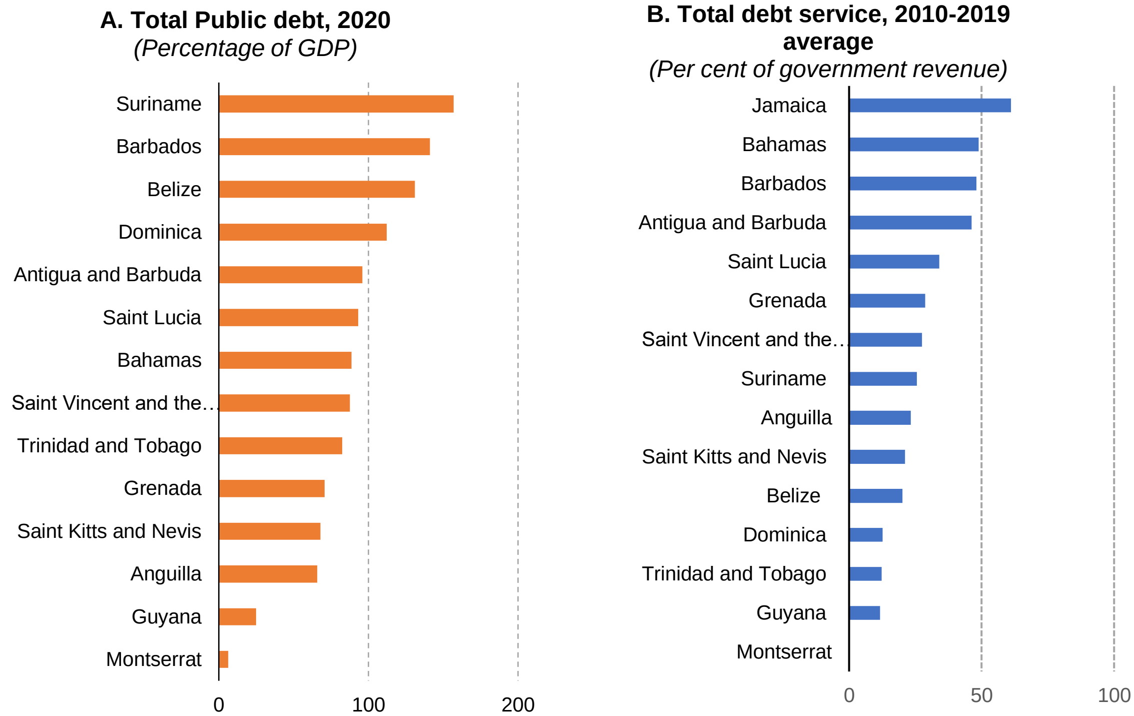
Impact

Figure 1A shows the debt to GDP ratio for Caribbean countries at the end of 2020. Of the fifteen countries for which data is readily available, thirteen have a debt to GDP ratio above 60 per cent, the debt distress threshold that researchers have assessed for the Caribbean.[4] For countries where the debt/GDP ratio is above 60 per cent, government debt is often costly and becomes unaffordable, leading to policy uncertainty.

As a result, it is expensive for governments wanting to reprofile or refinance their debt due to low associated country credit ratings, which ultimately impacts firms' borrowing costs domiciled in the CARICOM. This leaves governments with virtually no fiscal capacity to prioritize and fund much-needed resilience-building activities.

[4] Kevin Greenidge, Roland Craigwell, Chrystol Thomas and Lisa Drakes, Threshold Effects of Sovereign Debt: Evidence from the Caribbean, IMF, WP 12/157.

Figure 1: Total public debt and debt service in the Caribbean



Source: Economic Commission for Latin America and the Caribbean (ECLAC) based on official figures.

Figure 1B illustrates the debt service ratios across the Caribbean for the period 2010 to 2019. Over this period, the average debt service ratio was 29.1 per cent of government revenue, ranging from single digits to as high as 114 per cent in a given year. Jamaica's debt service ratio has averaged over 60 per cent of total government revenue from 2010 to 2019. Three other countries, Antigua and Barbuda, the Bahamas and Barbados have average debt service ratios above 40 per cent of government revenues. High debt stock and debt servicing costs considerably restricts access to concessional financing and fiscal space: the latter is necessary for investing in modernizing key economic infrastructure which are essential for improving productivity and competitiveness, enhancing human development, reducing structural gaps, and fostering resilience building in Caribbean economies.

In 2020, all Caribbean economies, except for Guyana, contracted due to the COVID-19 pandemic, as the regional tourism sector experienced a fall in arrivals by as much as 78 per cent in some economies and commodity prices (particularly oil) declined. The Caribbean registered average growth of -7.5 per cent in 2020. Further, GDP per capita fell below the world average and the financial setback of the pandemic will likely linger for many years to come.

These challenges and stylized facts highlight the severe vulnerability of Caribbean countries and the urgent need to build climate as well as economic resilience. However, resilience building requires financing. ECLAC has therefore proposed the establishment of a Caribbean Resilience Fund, which would essentially be a special purpose financing vehicle intended to leverage long-term low-cost development financing for the Caribbean. The CRF would also ensure the availability of resources to the Caribbean for investment in adaptation and mitigation initiatives, in the development of green industries, thereby promoting both resilience building and the structural transformation of Caribbean economies. As such, the rest of this note will be dedicated to tracing the evolution of the notion of a Caribbean Resilience Fund and setting out the essential elements of the CRF.

Threats and opportunities

The Caribbean has increasingly been conditioned by several macroeconomic imbalances marked by low economic growth, high debt and wide external current account deficits, which continue to provide a precarious foundation for a long-term development. In this regard, over the last decade (2010–2019), economic growth averaged a mere 0.8 per cent, pegged back by relatively low productivity and inadequate investment in upgrading geared towards making key productive sectors, including tourism and agriculture, more competitive. The situation has only been exacerbated by the onset of the COVID-19 pandemic, where GDP growth plummeted to -7.5 per cent (well below the Green Climate Fund (GCF) level). Although, a recovery from a low base of 4.1 per cent is forecasted for 2021, low growth levels are expected to persist for some time.

For the subregion high public debt in the Caribbean is viewed as the imbalance that has most compromised growth and, more particularly quickstepped many regional economies to the edge of macroeconomic instability. A deeper look at the region's debt using a panel Generalized Method of Moments (GMM) revealed the existence of a negative relation between debt and growth, with elasticity such that it would require at least a 12.2 percentage point reduction in the debt burden in order to yield 1 per cent growth. Further, the high debt of the Caribbean has been, in many instances, driven by off-budget liabilities due to damage and loss from climate events and financial sector risks.

It is noteworthy that at the end of 2019 the subregion's debt to GDP ratio averaged just under 70 per cent, at the end of 2020 this had increased to just under 90 per cent. Another feature of the debt challenge facing the Caribbean is the heterogeneity across countries (which makes a one-size-fits-all solution improbable), as well as high debt servicing costs. Debt servicing costs in the Caribbean averaged just under 30 per cent of government revenue (2019), which in addition to depleting vital foreign exchange earnings, considerably reduce the available fiscal space for investment in structural transformation, climate adaptation projects and green industries to build resilience. For example, in 2018 and 2019, respectively, Saint Lucia and Antigua and Barbuda both paid in excess of 70 cents of every dollar of government revenue on debt servicing costs. This was well above the regional average and limits their ability to invest in education, health, other public infrastructure and services to drive inclusive growth.

Further, persistent current account deficits are another impediment to growth in the region as it needs to generate enough export receipts to pay for imports of consumer and capital goods and to service its external debt. As shown above, the current account deficit averaged 9.9 per cent of GDP from 2015 to 2020, implying an important external constraint that is marked by significant net payments abroad for goods and non-tourism services. Added to this, the region is faced with a relatively high outflow of foreign exchange to service its external debt. Indeed, from 2015 to 2020, external debt service payments as a percentage of exports of goods and services averaged almost 9 per cent, meaning that 9 cents of every US dollar earned by the region is used to service foreign debt. This was above the average for many small states at similar levels of development.

In addition, foreign direct investment, an important source of financing of business activity and transfer of technology and know-how has averaged only 6.8 per cent of GDP between 2010 and 2019. This has been lower than what is required to drive restructuring into high value-added global value chains.

The foregoing led ECLAC to examine in more detail, the Caribbean's trade performance. Not surprisingly, high and increasing export concentration, as well as declining export competitiveness and trade complementarity with traditional and emerging trading partners. The subregion has also demonstrated marginal potential for intra-industry trade, relatively little existing intra-industry intraregional trade and relatively low utilization of its bilateral trade agreements.

It therefore became clear to ECLAC that systemic structural imbalances and key structural gaps would have to be addressed if production and innovation are to become drivers of growth and the subregion is to achieve its priority SDGs. Moreover, it is crucial that resilience building efforts focus on the unravelling the debt-trade-climate vulnerability nexus that compromised growth and development in the Caribbean for over a decade.

The countries of the subregion will not be able to grow their way out of this debt crisis. For the United Nations, the search for a solution involves addressing high debt, building economic resilience and financing climate adaptation. Macro-stability built on sustainable debt, investment in competitive sectors to drive growth, employment and high value-added exports to generate more foreign exchange is vital for the subregion.

In order to alleviate the balance of payments constraint and boost the foreign exchange reserves required, especially to import the capital, technology, and managerial skills to accelerate the green transition in the region, the following are needed:

- A keen focus on limiting fiscal deficits particularly by generating fiscal savings in boom times to enable countries to undertake countercyclical fiscal expansion when necessary, such as after hurricanes and global economic contractions.
- A strategic debt management framework, which includes efforts at sustainable debt restructuring for highly indebted countries, as has been done in Belize recently and also establishing financing mechanisms such as the CRF that could bolster non-debt creating funding resources.
- A major economic restructuring programme that invests in upgrading and transitioning traditional sectors into higher value-added production for global markets. This should include not only traditional agriculture and mineral production, but also the export of education and cultural services by creating centres of excellence that could attract persons from developed market economies.

Economic restructuring requires two major pillars comprising of upgrading existing sectors (product and process upgrading) and developing new sectors and activities (diversification). Product upgrading entails the shift to producing more sophisticated, customized and better-quality products and services and increasing the range of products (Rabellotti, 2014). In the Caribbean this could include broadening the tourism product by investing in eco, heritage and marine archaeology-based dive tourism and niche agro-based products such as nutraceuticals.

Process upgrading, which is the reorganization of the production and trading systems by using updated technology, human resources and administration is key to reducing costs, increasing productivity and adaptability of Caribbean businesses. Of vital importance for the region to penetrate more technology-intensive activities such as electronic and aerospace parts and pharmaceutical products is functional upgrading that entails changing the combination of activities and the acquiring of new technology and skill-intensive functions such as design, specialized and customized production.

The pandemic has presented the region with an opportunity for the region to diversify into the export of nature, adventure, and ecotourism, which provides opportunities for physical distancing and other safety protocols (ECLAC, 2020). It has also brought renewed focus of the subregion in greening its economies through increased export of capital services e.g. education and health tourism, financial and business services, other tertiary services, intellectual property and ICT.

The region also needs to undertake structural changes to maximize value added and move up the value chain in agriculture. This could include investment in processing and packaging and production of nutraceuticals and condiments, which provide higher profit margins in international markets. There is also room for increased value added in mining, including diamond and gold jewellery production and targeted downstream activities from oil production in Guyana and Suriname.

Accordingly, the proposed Caribbean Resilience Fund provides a unique opportunity to simultaneously remedy the subregion's resilience building, growth and competitiveness and debt challenges.

Policy recommendations

The recent debt experience in the Caribbean suggests that the debt dynamics in the Caribbean are driven by high interest costs and off-budget liabilities due to both natural disasters and financial sector risks. Thus, country solvency assessment suggests that contingent liabilities are ever-present in the Caribbean, either from macroeconomic imbalances, the lack of competitiveness, or the damage costs (liabilities) caused by natural disasters.

Given the Caribbean economy's structural weaknesses and its susceptibility to natural events, fostering macroeconomic integrity, competitive economies and environmental resilience will be critical for building resilient economies. Funding will therefore be crucial. However, given the constraints that multilateral facilities, such as the GCF, have with financing debt restructuring, it is proposed that the Caribbean Resilience Fund have segregated windows for supporting growth and competitiveness; resilience building; and debt restructuring or reprofiling, respectively. In so doing, the CRF would explicitly target remedying the leading existential challenges facing the Caribbean through three broad thematic, segregated windows focusing on (i) resilience building, (ii) growth and competitiveness, (iii) liquidity and debt (unsustainability).

It is therefore proposed that the CRF be fashioned as a trust fund, to be established as a public-private partnership (PPP) with segregated themes and sub-windows. It would then correctly be called the **Segregated Portfolio Caribbean Resilience Trust Fund (SP CR TF).** The proposed PPP leaning of the Fund would mean that it would be easier to raise start-up capital from across the region. Also, since the Fund would be partly publicly owned, governments would have an incentive to ensure that the entity receives any regulatory approvals that might be required. This new trust fund would segregate its risks and portfolios, allowing it to invest in different areas, including debt reprofiling, and to accept resources from all eligible entities and would-be investors.

Theme 1: Resilience building

A Resilience Building Fund would provide financing to public and private sector activities that focus on resilience building. This theme would primarily be focused on climate and environment resilience-building activities and have different sub-windows such as: improving physical infrastructure; policy reform; deepening capital markets, including insurance markets; identifying and developing the skills required to build climate resilience.

Theme 2: Growth and competitiveness

A Growth Fund that would finance both public and private sector activities focused on growth projects (especially through investment in blue and green industries) and reforms that support growth. The Fund would collaborate with member countries, focusing on economic reform activities, and use the World Bank Doing Business Reforms index as a benchmark. Subwindows could focus on modernizing physical infrastructure - boosting infrastructure should boost GDP, incentivizing investment in green industries for restructuring, business reforms and micro-, small and medium-sized enterprises (MSMEs) support.

Theme 3: Liquidity and debt facility

The liquidity and debt facility would provide debt relief and liquidity support to participating CARICOM governments with high debt to GDP, and debt affordability ratios. ECLAC proposes that this Facility have a built-in credit enhancement mechanism geared towards making the subregion's public debt more attractive to private investors and while achieving the following: lowering overall effective interest rates, increasing fiscal space and providing governments with more time to repay the amortization part on their debt by increasing the debt tenor, and stimulating capital markets where debt could be resold on the secondary market.

Within this thematic window, the CRF could also pursue different subwindows associated with debt reprofiling, such as debt buy-backs, debt swaps such as the ECLAC Debt for Climate Adaptation Initiative, swap initiatives based on creditors' support to help Caribbean countries address debt reduction and liquidity enhancement mechanisms.

Importantly, the CRF is being proposed for establishment as a segregated Fund because of the constraints imposed on concessional resources for middle-income countries of the subregion and given the need to address the specific preferences of various creditors. This will also ensure that ineligible concessionary funds need not be comingled with other resources meant for Resilience Building and Growth.

Fund capitalization

It is proposed that there be an initial capital injection of about US$ 30 million sourced from Caribbean Governments, the private sector, and the international community, including the multilateral development banks (MDBs) and the GCF. Since the CRF would be a unit trust and not a bank, more capital could be deployed towards the fund's objectives and mandate rather than being placed in reserves. This will facilitate the setting up of the entity, hiring of critical officers, and begin operations. This initial capital will assist with establishing the Fund, which would then raise resources for investment over time. However, the fund's investments could commence immediately with the financing of projects in the three pilot countries.

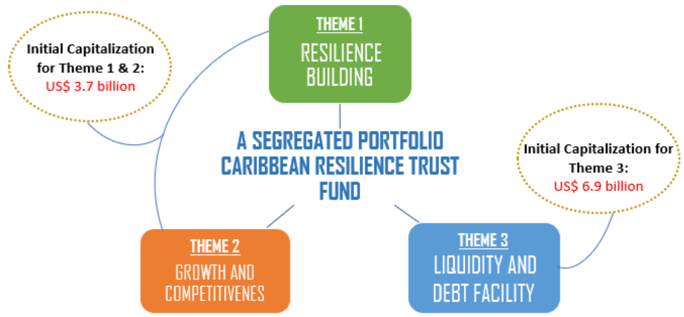
In considering fund capitalization, for the first segregated portfolio, focused on resilience building, growth and competitiveness and their target investments, Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines will be the three pilot countries. However, based on IMF studies of fiscal multipliers in the Eastern Caribbean Currency Union (ECCU), it is estimated that capital expenditure of 3.5 per cent of GDP will induce 1 per cent growth in GDP.[5] Hence, the SP CR TF will need to invest and raise funds from regional and international capital markets equal to 3.5 per cent to 4 per cent of GDP or approximately US$ 3.7 billion to begin to address subregion-wide resilience building (see figure 2).

In the second segregated portfolio, focused on debt, liquidity and their target investments, ECLAC analysis has shown that a 12.2 per cent-point reduction in the Caribbean's debt to GDP ratio would be required to achieve a minimum of 1 per cent increase in GDP. Prior to the pandemic, this equated to US$ 6.9 billion but will likely increase given the expansion in public debt in managing the pandemic.

Therefore, the total initial targeted capitalization of the SP CR TF amounts to US$10.6 billion i.e.

- **Segregated Portfolio 1: US$ 3.7 billion**
- **Segregated Portfolio 2: US$ 6.9 billion**
- **Total Fund: US$ 10.6 billion**

Figure 2: Structure and Capitalization of the CRF - A Segregated Portfolio Caribbean Resilience Trust Fund



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

In addition, the CRF will actively seek to stimulate the Caribbean regional capital market using digital platforms through the Digital CRF. The Fund would seek to issue units digitally to allow investors to buy units easily and trade their units or tokens. Investors are more likely to be attracted to investing in the SP CR TF if they know that they can sell their digital unit tokens or exit quickly. This platform would allow investors (retail and institutional), to monitor and manage their investments from their computers or smart devices. Given that the SP CR TF would be pan-Caribbean, using the digital platform could substantially reduce operating and transaction costs.

Management structure, shareholding and location of the CRF

The SP CR TF would have an Advisory Board, chaired by a sitting Prime Minister of one of the three pilot countries. The SP CR TF first investments will likely take place in the three pilot countries Antigua and Barbuda, Saint Lucia, and Saint Vincent, and the Grenadines. The Executive Board of Directors represents the interests of owners and initial fund providers. The fund's Executive Management would comprise highly skilled individuals who understand and have experience working within the region's financial sector.

[5] Jesus Gonzalez-Garcia, Antonio Lemus, and Mico Mrkaic (2013), Fiscal Multipliers in the ECCU. IMF Working Paper WP/13/117.

Finally, the Executive Board of Directors should establish a Delivery Unit to develop and implement the SP CR TF. Given that the SP CR TF is a public-private partnership, it is Pan-Caribbean and a new concept; a strong emphasis should be on using the 8-step methodology for implementation. Consultants would be hired to work within the Delivery Unit to help guide the Executive Board and the Executive Management Team.

It is important to recall that it is recommended that the CRF be established as a public-private sector partnership Unit Trust that can operate equally throughout participating member States. It is proposed that member State ownership should be capped at 49 per cent, while the private sector will own at least 51 per cent. This would mean that regional governments who decide to participate will need to contribute a total of US$ 14.7 million in initial capital, while the private sector will contribute US$ 15.3 million. Participating member States and private sector firms will be allocated shares based on their contributions towards the initial capital injection of US$ 30 million.

However, it is being proposed that unlike the MDBs such as the CDB, member States' ownership or share allocation should be equal. This will ensure that project and debt financing have the exact weighting irrespective of location. However, consideration will be given to capping individual entity or country shareholding ownership at 15 per cent of total shares. The fund would therefore operate as a private unit trust, soliciting grant resources or concessional loans from regional and international agencies such as the CDB, IDB, and GCF for governments to offset their initial capital injection, as well as grants for the fund to administer. The question as to where the fund should be located is a crucial one. In this regard, criteria for determining optimum placement include:

- Presence of existing capital markets and the depth of the market
- Tax rates and status of the jurisdiction, including double taxation treaties within CARICOM
- The existence of legislation associated with the establishment of unit trusts
- Business facilitation
- The existence of other multilateral and financial institutions
- Absence of restrictions on the availability of international banking, including correspondent banking relationships
- The existence of Fair and Accurate Credit Transaction Act (FACTA) and Anti-Money Laundering and Combating Financing of Terrorism (AML/CFT) legislation

In view of the foregoing, the Caribbean country selected to host the SP CR TF must by necessity have a fairly active capital market, such as Barbados, Bahamas, Cayman Islands, Jamaica or Trinidad and Tobago. Of the five locations considered, the top three in descending order are Barbados, Jamaica, and Trinidad and Tobago.

However, if Cayman Islands were to have had a double taxation treaty with the Caribbean Community it would emerge with the highest ranking. It is on this basis that the Cayman Island warrants further consideration as a possible location for the SP CR TF.

Coincidentally, the CCRIF operates from the Cayman Islands as a Segregated Portfolio Company. The Cayman Islands would also be the preferred option if shareholders and management decide that the SP CR TF operations should be outsourced to different service providers.

Conclusion

Caribbean economies have been grappling with high debt, low growth and structural challenges which have been exacerbated since the onset of the COVID-19 pandemic. There is, therefore, an urgent need to reduce debt and promote resilience building for these economies. ECLAC has proposed the establishment of the Caribbean Resilience Fund as a mechanism to contribute to the achievement of these critical development goals. The CRF is a special purpose financing vehicle intended to leverage long-term low-cost development financing for the Caribbean, while at the same time ensuring the availability of resources for investment in adaptation and mitigation initiatives, in the development of green industries thereby promoting resilience building and the structural transformation of Caribbean economies.

To advance the implementation of the CRF, this study provides a roadmap for the structure and establishment of the CRF, which comprises three distinct thematic windows. They include resilience building, growth and competitiveness, and liquidity and debt reduction. The first window (resilience building) is intended to attract financing for the development of blue and green industries and for wider investment in mitigation and adaptation. The second window (growth and competiveness) is dedicated to attracting funds from multiple sources for investment in projects that promote growth and economic recovery, and that enhance the competitiveness of the subregion. The third window (liquidity and debt reduction) focuses on debt reduction and debt reprofiling, including the operationalization of ECLAC Debt for Climate Adaptation Swap Initiative, with the requisite resource mobilization.

To maximize the potential sources of finance for implementing the CRF, ECLAC proposes that it be designed as a Pan-Caribbean Segregated Portfolio Resilience Trust Fund which allows for the segregation of its risks and portfolios, enabling investment in a range of areas and accommodating the receipt of resources from all eligible sources.