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# Proposal to establish a Caribbean Resilience Fund

A segregated  
portfolio trust fund

Sheldon McLean  
Justin Ram



UNITED NATIONS

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# **Proposal to establish a Caribbean Resilience Fund**

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This document has been prepared by Sheldon McLean, Coordinator of the Economic Development Unit of the Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean, and Justin Ram, consultant and CEO, Justin Ram Advisory.

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## Abstract

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. The Economic Commission for Latin America and the Caribbean (ECLAC) has proposed the establishment of the Caribbean Resilience Fund (CRF) 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 its structure and establishment, which comprises three distinct thematic windows. They include resilience building; inclusive 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, for wider investment in mitigation and adaptation as well as institutional resilience building. The second window (inclusive growth and competitiveness) is dedicated to attracting funds from multiple sources for investment in projects that promote growth and economic recovery and enhance the subregion's competitiveness. The third window (liquidity and debt reduction) focuses on debt reduction and debt reprofiling, including the operationalization of ECLAC's debt 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.





## Introduction

The Caribbean region has experienced a significant rise in living standards, incomes, and social welfare since many countries gained independence during the 1960s, 1970s, and 1980s. During the years immediately following independence, policymakers focused on providing much-needed infrastructure, healthcare, and education.

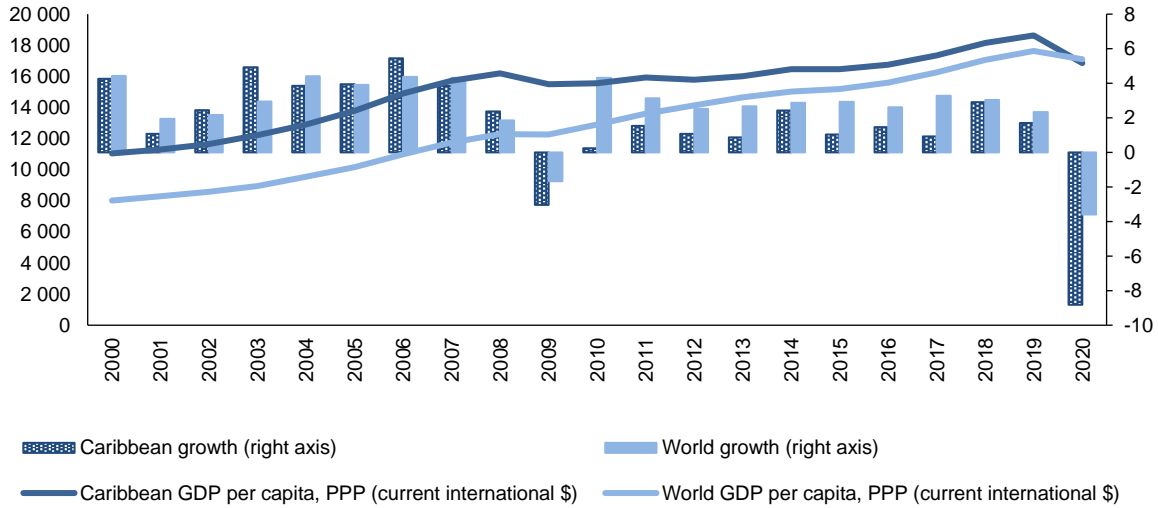
However, COVID-19 impacts had severe consequences for the subregion's already declining economic growth and competitiveness. The pandemic has hit the Caribbean Small Island Developing States (SIDS) at a time when they were still recovering from the impacts of the 2007/2009 global financial crisis. Coupled with the challenges of climate change and extreme weather events, these overlapping crises have led to a steady deterioration in the fortunes of Caribbean economies and social outcomes.

The impact of the global financial crisis in the years 2007/2009 created a lost decade of growth, which led to the average income per capita across the region falling closer to the world average, as shown in figure 1. In addition, climate change-exacerbated extreme weather events, such as hurricanes, droughts, sea-level rise, and flooding, have fueled increased public debt in many Caribbean economies. Since early 2020, the global Coronavirus pandemic had significant negative impact on the economic fortunes of the Caribbean economies, precipitating the virtual collapse of the subregion's tourism sector as arrivals fell by as much as 78% in some economies and commodity prices (particularly oil) declined. The Caribbean registered average growth of -7.5% in 2020 and generated an average fiscal balance of -6.6% of GDP, while average public debt increased by 19 percentage points to 87.5% of GDP. Further, GDP per capita fell below the world average. The financial setback of the pandemic will likely linger for many years to come.

These setbacks highlight the severe vulnerability of Caribbean countries and the need to build resilience. However, resilience building requires financing. ECLAC has therefore proposed the establishment of a Caribbean Resilience Fund (CRF), 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.

**Figure 1**  
GDP per capita and annual growth rate, 2000-2020



Source: World Bank World Development Indicators database.

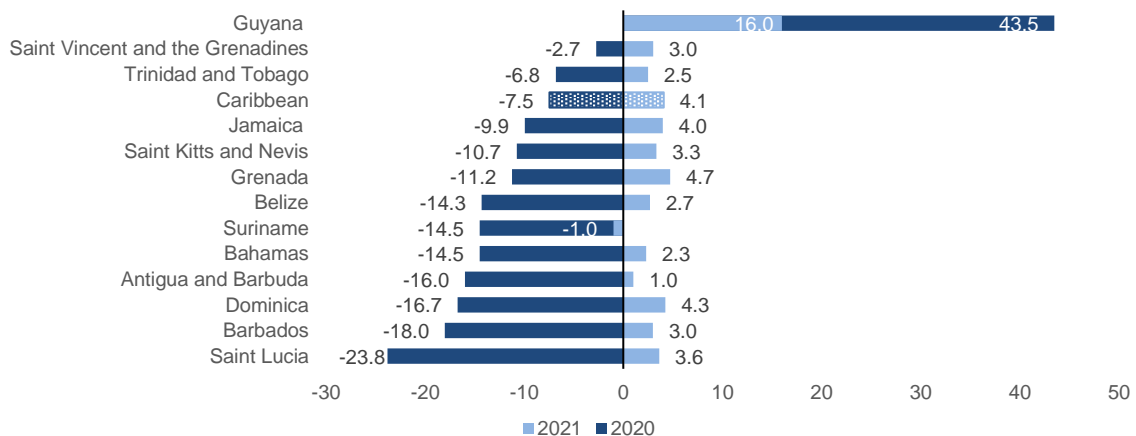
Note: The Caribbean includes Anguilla, Antigua and Barbuda, The Bahamas, Barbados, Belize, The Commonwealth of Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.

This report, therefore, provides a roadmap for the initiation of the CRF to address resilience building in the Caribbean, jump-start growth and address debt challenges.

## I. Background arguments supporting the need for a CRF: Structural challenges, high-debt, low growth, and vulnerability

In 2020, all Caribbean economies with the exception of Guyana contracted due to the COVID-19 pandemic. Guyana's economy expanded because of the commencement of production from its vast offshore oil fields (see figure 2). Early forecasts for 2021 predict a return to growth for almost all Caribbean economies. There are downside risks to these forecasts depending on vaccination levels, the further spread of the disease across the globe and in the Caribbean, and the recovery of tourism.

**Figure 2**  
Caribbean real GDP growth rate 2020 and 2021  
(Percentage)



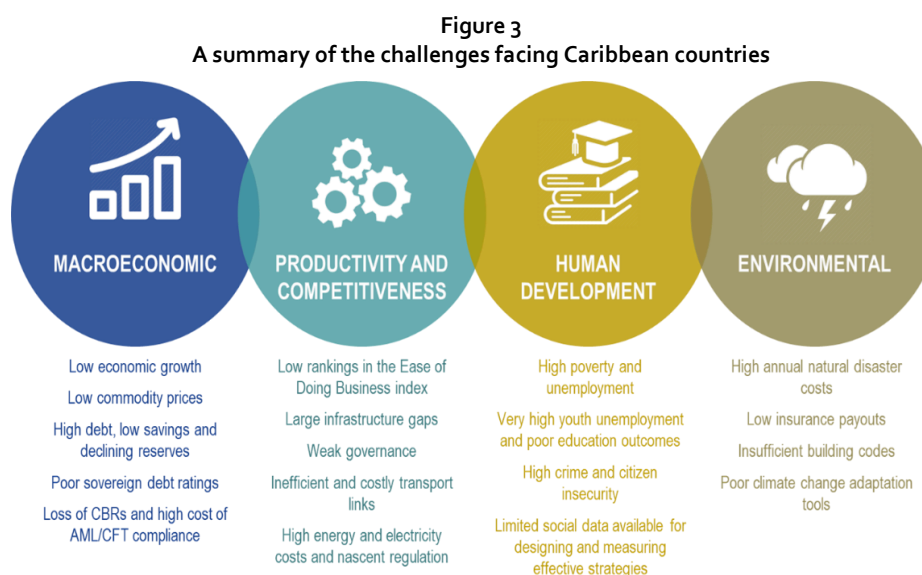
Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

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. In so doing, the economic fallout from the COVID-19 pandemic has brutally exposed the Caribbean's endemic structural challenges and rigidities which predated its advent. At least four areas of significant structural challenges can be identified where considerable structural transformation is necessary.

These challenges are<sup>1</sup> :

- Macroeconomic imbalances manifested through slow growth and high debt levels,
- Low and declining productivity and competitiveness unmasked by low rankings in international Ease of Doing Business indices, the high cost of transport and energy,
- Human development challenges show up in high levels of poverty and unemployment, particularly among the youth, as well as increased crime rates,
- Environmental challenges evidenced by the high annual cost of natural disasters and the vulnerability to climate change.

These four areas can be described as the significant areas of vulnerability facing the Caribbean region. However, a further two cross-cutting challenges are also present, the intractable implementation gap and the sub-optimal subregional cooperation on many of these shared challenges. Figure 3 depicts a summary of these Caribbean vulnerabilities.



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

<sup>1</sup> Economic Commission for Latin America and the Caribbean (ECLAC), *The Caribbean Outlook 2018* (LC/SES.37/14/Rev.1), Santiago, 2018.

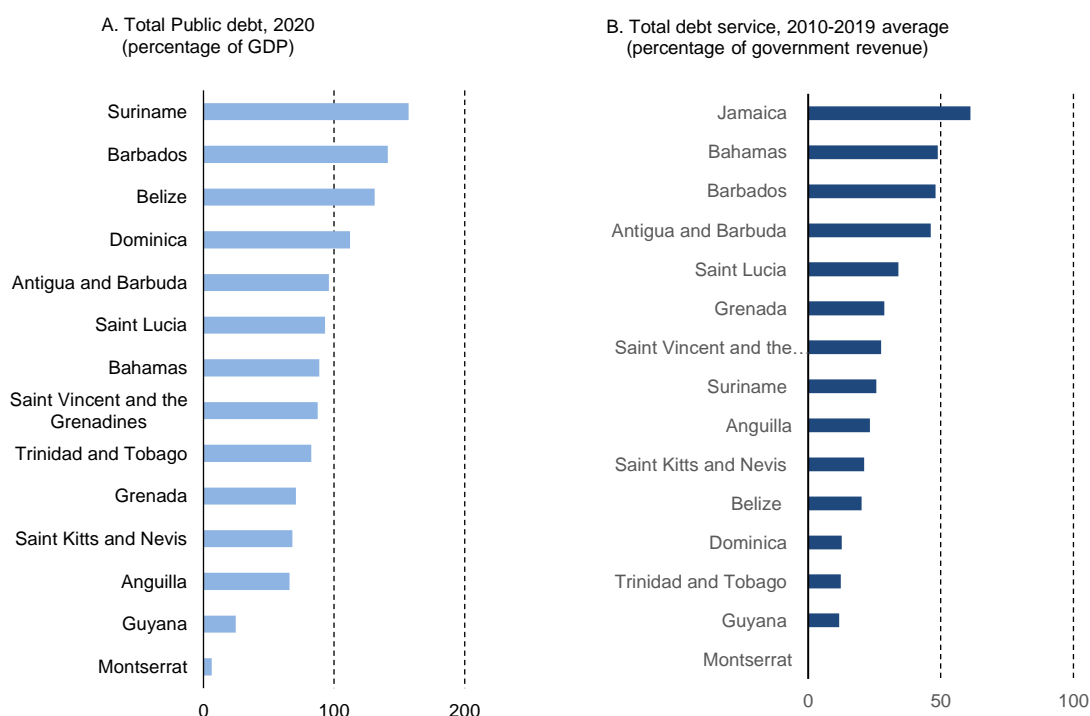
## A. A closer examination of the Caribbean's most urgent structural challenges: debt and climate vulnerability

### 1. Public debt

Caribbean countries currently have an average debt to GDP ratio greater than 80%, with Barbados, Belize, Dominica, and Suriname carrying debt burdens in excess of 100% of GDP. Figure 4A shows the debt to GDP ratio for Caribbean countries at the end of 2020. Of the fourteen countries for which data is readily available, twelve have a debt to GDP ratio above 60%, the debt distress threshold that researchers have assessed for the Caribbean<sup>2</sup>. For countries where the debt-to-GDP ratio is above 60% government debt is often costly and becomes unaffordable, leading to policy uncertainty. Unlike larger countries with globally accepted currencies, these countries have their own currencies or shared currency backed by foreign exchange reserves. High debt, usually due to large fiscal deficits, could lead to an erosion of foreign exchange reserves resulting in a foreign exchange crisis with significant knock-on effects for the rest of the economy. High debt in countries with globally accepted currencies is more manageable than in a small open economy without globally accepted currencies.

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 Caribbean sub-region. This leaves governments with virtually no fiscal capacity to prioritize and fund much-needed resilience-building activities.

**Figure 4**  
Total public debt and debt service in the Caribbean



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

<sup>2</sup> Kevin Greenidge, Roland Craigwell, Chrystal Thomas and Lisa Drakes (2012), Threshold Effects of Sovereign Debt: Evidence from the Caribbean, IMF, WP 12/157.

Figure 4B also 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% of government revenue, ranging from single digits to as high as 114% in a given year. Jamaica's debt service ratio has averaged over 60% 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% of government revenues. High debt stock and debt servicing costs considerably restrict 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.

## 2. Climate vulnerability

The region's environmental vulnerabilities and, in particular, its climate vulnerability is well documented. The destruction brought by tropical storms and hurricanes every year provides us with sufficient evidence to signal the need to build resilience. The devastating impact of weather-related events in Dominica during the years 2015-2017 is indicative of the extreme vulnerability of Caribbean economies to climate-related natural disasters. In 2015, Storm Erika inflicted damages worth 90% of Dominica's GDP (Government of the Commonwealth of Dominica, 2015). Then less than two years later, in 2017, Hurricane Maria brought untold destruction and loss of life. Total damage costs from Hurricane Maria were estimated at 226% of GDP (Government of the Commonwealth of Dominica, 2017).

Moreover, in 2017, the estimated cost of the hurricane season to Caribbean countries was US\$93 billion (Alleyne and others, 2020), which included 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. Indeed, the , 2020) 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 (CCCCC, 2012). The damage to infrastructure, agriculture, and housing due to the eruption of the La Soufriere volcano in Saint Vincent and the Grenadines (2021) may result in economic losses of 30% of GDP (IMF, 2021).

Natural disasters such as earthquakes and storms are, therefore, prevalent risks in the Caribbean. This risk has been the 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.

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." Private insurers may be used to externalize risks that involve property, as is the case with natural disasters, and multilateral insurance schemes can play a significant role in this respect. It is exceedingly difficult to build resilience against such vulnerability, but this evidence suggests it must be a priority.

These challenges are interconnected through various feedback loops and contribute to the Caribbean's overall vulnerability (Alleyne, 2018 and Ram et. al., 2018). Resilience building, particularly against natural disasters, and building macro competitiveness that allows businesses to thrive, is essential for reversing the feedback loops that impact debt levels. The history of debt restructuring in the Caribbean has shown that the debt problem persists after the restructuring event. The reason for its persistence is that restructuring does not address the underlying causes of the propensity for indebtedness (CDB, 2013).

With these considerations in mind, ECLAC proposes the establishment a CRF. The Fund will seek meaningful investments in Caribbean economies to help turn the tide in each of the above vulnerability categories.

## **B. The evolution of the CRF concept**

Clearly, Caribbean economies are extremely vulnerable to climate change, natural disasters as well as the negative external economic shocks that these events generate. These natural disasters commonly destroy key infrastructure, the rebuilding of which is more often than not financed by high-cost debt even in the face of low international interest rates, given the subregion's limited access to concessional financing (including climate funds), blended and innovative financing. This is further exacerbated by the fact the Caribbean is largely no longer eligible for Official Development Assistance (ODA) and few are International Development Association (IDA) compliant, having graduated to middle income status.

The countries of the subregion are undoubtedly in urgent need of concessional financial relief if they are to avoid sinking 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 central 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's 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 (IFIs) and other 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 CRF. 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 promoting both resilience building and the structural transformation of Caribbean economies.

For ECLAC, the creation of a 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, *inter alia*, debt restructuring, reprofiling and swaps.

The CRF is now intended to be the primary regional development funding tool for financing, *inter alia*, climate adaptation projects and infrastructure, as well as 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 other projects.

The emerging central logic of the CRF is that long-term climate-resilient economic growth, urgently needed to finance implementation of the Sustainable Development Goals (SDGs), can only be achieved through systematic and broad-based investments in infrastructure assets and resilience building. ECLAC's 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. On this basis, consideration has been given to establishing the CRF as a segregated facility with separate sub-windows. Such a facility could easily pool Special Drawing Rights (SDRs) and other concessional resources to reduce the cost of high debt and debt servicing. The ensuing discussion will therefore consider the structure and essential elements of the CRF to make it sufficiently malleable to achieve these articulated objectives.



## II. Establishing the CRF and its key elements

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

As ECLAC considers modalities for assisting Caribbean countries to build resilience, it has become increasingly clear that focusing entirely on debt restructuring is insufficient. However, resilience-building also necessitates mitigating risk. In this respect, the CCRIF SPC (formerly named Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company) has been very useful in assisting subregional governments in managing their risk. However, CCRIF was never intended as a mechanism to cover or mitigate all of the financial risks associated with natural disasters. Therefore, while governments seek to restructure their debt and build resilience, they must also consider divestment and/or establishing contingency funds to self-insure the uncovered risk as a divestment.

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 (Green Climate Fund (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 three (3) key challenges facing the Caribbean.

### A. Possible funding thematic options

In view of the preceding, the purpose of the Caribbean Resilience Fund would be to finance strategic interventions across the Caribbean to alleviate three leading existential challenges facing the subregion:

- (i) Relatively low economic growth and commitment to expectations arising from the SDGs
- (ii) Extreme climate vulnerability and exposure to natural disasters
- (iii) Debt unsustainability

Therefore, the Caribbean Resilience Fund's initial priority would be Resilience Building, supporting inclusive economic growth and competitiveness, and moving the Caribbean towards debt sustainability via a segregated window. These three broad thematic areas of focus will be addressed through sub-windows focusing on 1) Resilience Building, 2) Inclusive Growth and Competitiveness, and 3) Liquidity and Debt Facility.

### **1. Theme 1: Resilience building**

A Resilience Building Fund would provide financing to public and private sector activities that focus on resilience building, including institutional resilience, in support of effective systemic governance for sustainable development and risk reduction. 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, as well as institutions, required to build climate resilience

### **2. Theme 2: Inclusive growth and competitiveness**

An Inclusive Growth Fund that would finance public and private sector activities focused on inclusive growth projects and reforms supporting risk reduction and resilience building. The Fund would collaborate with member countries, focusing on green growth and blue economy activities, and use the World Bank Doing Business Reforms index as a benchmark. Sub-windows could focus on:

- Resilient infrastructure
- Incentivizing investment in green industries
- Business reforms
- Support to MSME and the informal economy
- Providing support to vulnerable groups and communities

### **3. Theme 3: Liquidity and debt facility**

The Liquidity and Debt Facility would provide debt relief and liquidity support to participating Caribbean 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 theme, the CRF could pursue different sub-windows associated with debt reprofiling, such as:

- Debt buy-backs
- Debt swaps such as debt for climate adaptation
- Swap initiatives based on creditors' support to help Caribbean countries address debt reduction
- Liquidity enhancements

The Fund should be segregated due to the constraints imposed on concessional resources and the need to address the preference of various creditors. This will also ensure that ineligible concessional funds do not come along with other resources meant for Resilience Building and Growth.

## **B. Possible options for the structure of the fund**

Review of the performance (loan disbursement rates and project completion scores) of existing multilateral development finance institutions (CDB, IADB, and WB) operating in the Caribbean was helpful to determine the market environment that the new entity would work within. It was also essential to undertake a Porter five forces assessment (see Annex 1) of the competitive landscape to determine the best structure and capital requirements to satisfy the study's objectives.

A variety of organizational options for the CRF were examined, such as establishing a new bank, a new unit within an existing Multilateral Financing Institution, a Pan-Caribbean private fund, a Trust fund, or a Public-Private entity<sup>3</sup> (See 10 Appendix 1). The main factors driving any decision should be the overall cost of capitalization and the ability to deploy resources relatively quickly, i.e., to disburse all loans or investments within a reasonable time. The CRF will be an investment vehicle rather than a loan vehicle. Excluding the possibility of establishing a new bank, the proposed option is utilizing a hybrid of the other options – Public-Private Trust Fund that operates like a pan Caribbean Unit trust. The best option for the CRF is a private-public-partnership (PPP) segregated portfolio trust fund – The Segregated Portfolio Caribbean Resilience Trust Fund (SP CR TF).

### **1. A new segregated portfolio caribbean resilience trust fund (SP CR TF)**

The chosen option for establishing the CRF is a trust fund established as a public-private partnership and has segregated themes and sub-windows. The PPP arrangement would make it easier to raise start-up capital from across the region. Also, since the CR Trust Fund would be partly publicly owned, governments would have an incentive to ensure that the entity receives regulatory approvals that may be required.<sup>4</sup> Similarly, the SP CR TF 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.

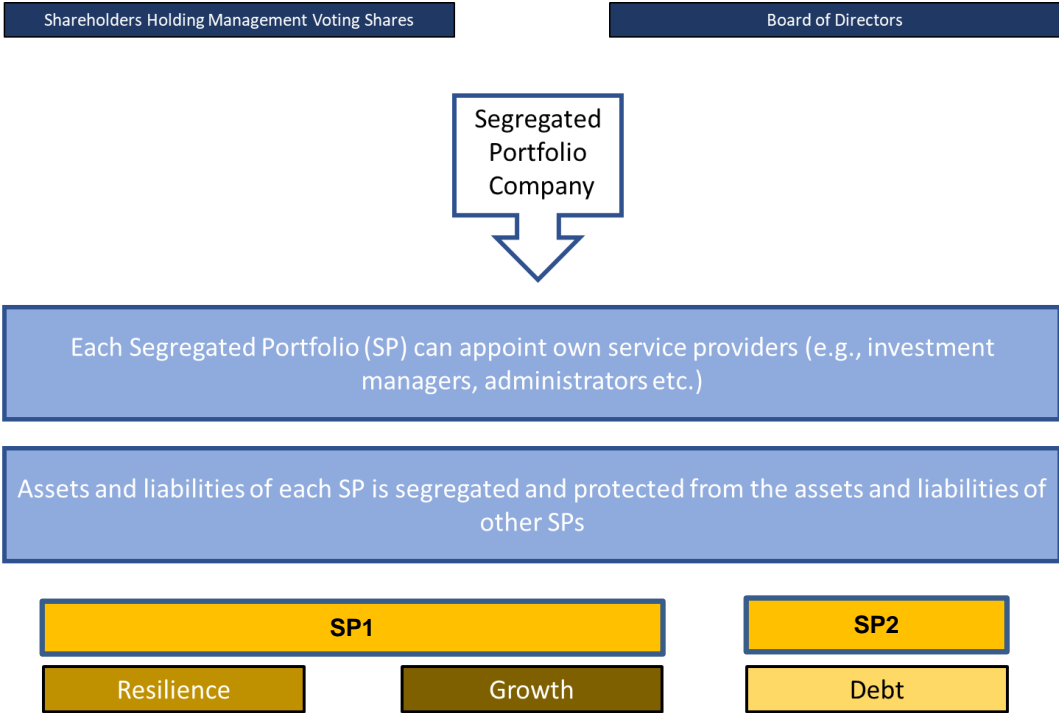
With a Segregated Fund (or company), the institution remains a single legal entity but can create segregated portfolios such that the assets and liabilities of each Portfolio are legally separate from the assets and liabilities of any other Portfolio and from the Fund's general assets and liabilities. This is known as the segregation principle and is a well-known principle and form of entity that is used in jurisdictions like the Cayman Islands, Bermuda, British Virgin Islands, Jersey, and Delaware.

<sup>3</sup> It is possible that the Caribbean Development Fund (CDF) could administer aspects of this Fund.

<sup>4</sup> The proposed entity's segregated nature is similar to the restructured Caribbean Catastrophic Risk Insurance Facility Segregated Portfolio Company (CCRIF SPC). In 2014 CCRIF was restructured into CCRIF SPC, a new structure, which would allow CCRIF to provide products through several segregated portfolios. This structure enables CCRIF SPC to segregate risk completely.

Therefore, this type of structure would allow the CRF to engage in different kinds of activities and objectives that are beneficial to member States and enable the Fund to attract resources from all possible sources. By segregating the assets and liabilities of the different Portfolios and sub-windows, investors and funders can invest or donate without violating their (funders’ or investors’) objectives’ central tenets (figure 5).

**Figure 5**  
**Typical high-level and indicative structure of a segregated portfolio company**



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

### III. The proposed structure of the SP CR TF

It is proposed that the CRF be structured as a PPP Pan Caribbean Unit Trust with an initial capital injection of about US\$ 30 million sourced from Caribbean governments, the private sector, and the international community, including the 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. Therefore, the US\$30 million estimate represents the start-up capital requirement for the SP CR TF (See table 1). 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.

**Table 1**  
**Capital requirements**

Activity	Cost US\$
Professional fees	2 500 000
Office costs x 2 years	2 000 000
Recruitment costs	500 000
Salary of critical officers x 2 years	11 000 000
Other staff costs x 2 years	5 000 000
Travel and other expenses x 2 years	3 000 000
Misc.	2 000 000
Reserves	4 000 000
<b>Total</b>	<b>30 000 000</b>

Source: Authors.

## A. Segregated portfolio 1: Resilience building, growth and competitiveness and target investments

The first Segregated Portfolio of the Caribbean Resilience Fund would support countries with building resilience and investing in projects that improve economic growth. Antigua and Barbuda, Saint Lucia, and Saint Vincent and the Grenadines will be the three pilot countries. Based on IMF studies of fiscal multipliers in the Eastern Caribbean Currency Union (ECCU), it is estimated that capital expenditure of 3.5% of GDP will induce 1% growth in GDP.<sup>5</sup>

The SP CR TF will therefore need to invest and therefore raise funds from regional and international capital markets equal to at least 3.5% to 4% of GDP or approximately US\$3.2 billion to US\$3.7 billion. These investments would be sold as units for Portfolio 1 of the SP CR TF windows. The return on each unit will depend on the return on investment associated with the consolidated investments based on themes and funding sub-windows, less the Fund's cost of operations, including administrative expenses.

## B. Segregated portfolio 2: Debt, liquidity, and target investments

The Fund, via a dedicated segregated window, Portfolio 2, would also support countries with their debt overhang challenges through debt reduction and reprofiling debt initiatives. It is envisaged that this window in addition to facilitating the operationalization of the ECLAC Debt for Climate Adaptation Swap. Segregated Portfolio 2 will also engage innovative financing mechanisms for improving liquidity and spur greater private sector participation in the Caribbean debt market. This thematic window's overall objective is to help governments reprofile their debts to provide enough fiscal space to induce one percentage point growth in GDP. ECLAC analysis has shown that at least a 12.2%-point reduction in the Caribbean's debt to GDP ratio (which represented US\$6.9 billion as at the end of 2019, i.e., before the pandemic) would be required to achieve a minimum of 1% increase in GDP.

Investment Fund initial targets are, therefore:

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

## C. The digital CRF

The CRF will actively seek to stimulate the Caribbean regional capital market using digital platforms. The CRF TF 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. Figure 6 below illustrates what the digital platform for the SP CR TF could possibly look like. 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.

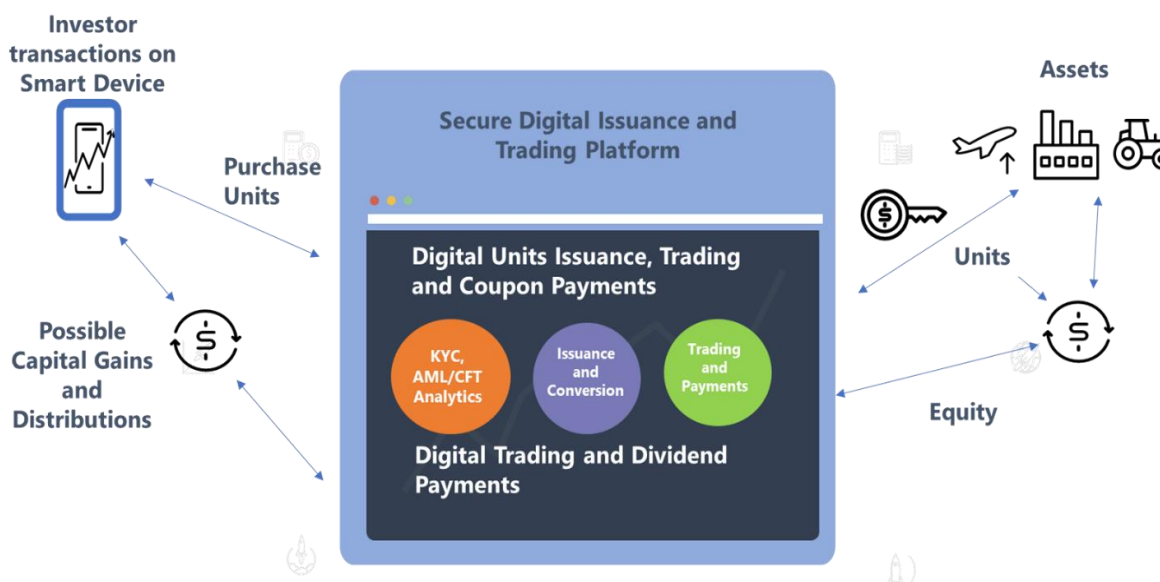
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<sup>5</sup> Jesus Gonzalez-Garcia, Antonio Lemus, and Mico Mrkaic (2013), Fiscal Multipliers in the ECCU. IMF Working Paper WP/13/117.

Using their smart devices, retail and institutional investors would register on the SP CR TF platform to invest. Retail and institutional investors would only be allowed to participate if they pass all know your customer (KYC) and anti-money-laundering (AML) and countering finance for terrorism (CFT) on-boarding procedures. Investors would purchase digital tokens, which are backed by an electronic deed indicating that each unit represents an investment into the SP CR TF, e.g., a US\$100 investment might be worth the digital token or digital unit.

The CRF fund managers then allocate investor funds as per the SP CR TF themes – resilience building and growth and competitiveness enhancement and debt liquidity. Funds are invested in various assets, as shown on the right-hand side of figure 6. The CRF would also have a secure trading platform with sufficient liquidity to allow investors to sell their units at any time. We do not foresee liquidity as a challenge for trading since the SP CR TF will set aside liquidity for this purpose. Since the SP CR TF will be a Pan-Caribbean Fund with access to the vast amount of capital in the Caribbean financial sector and beyond, it is envisaged that the SP CR TF will have many investors, retail and institutional, always willing to purchase any digital units that might be sold.

**Figure 6**  
Using a digital platform to raise, monitor, manage funds and implement projects



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

## D. Local focal points to improve implementation

To mitigate the implementation challenges that currently plague other IFIs operating in the region, the SP CR TF could establish relationships with local focal points in each country to help manage the SP CR TF projects' implementation. The domestic focal points by virtue of having an understanding of the "lay of the land", could assist in structuring and funding projects to improve implementation rates. Focal points would also work with the authorities to help satisfy any conditions precedent for disbursement, including providing needed capacity where this might be lacking. However, more importantly, disbursement and project completion should be the modus operandi of the focal points. Therefore, care would be taken to ensure that any investment conditionalities are cognizant of capacity constraints and not add to bureaucratic burdens.

The SP CR TF would fund local focal points. These local branches are only local focal points, meaning that the money required to begin operations would be minimal. The CRF would capitalize each of the local focal points with an initial injection of no more than US\$ 15 million (assuming \$1 million per territory). Individual focal points established in every member country would then begin monitoring and assisting with project implementation.

In this way, the local focal points would be responsible for individual project accountability to identify, qualify, de-risk, close, and maintain disbursements to both public and private initiatives. Having a presence “*on the ground*” in local jurisdictions with suitably qualified staff and efficient processes will improve project implementation rates.



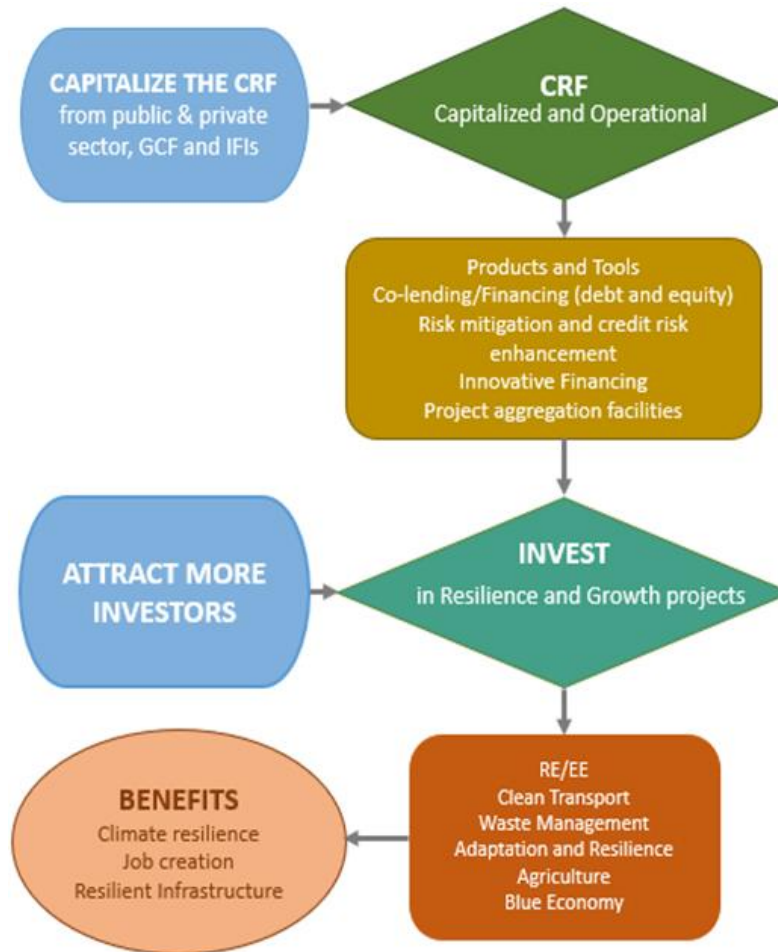
## IV. The steps in setting up the SP CR TF

Setting up a resilience fund includes several steps which are not dissimilar from the steps usually associated with establishing a Green Bank. Accordingly, there will be six stages in moving from a concept to an operational institution when setting up a Trust Fund. Each step represents an essential phase in setting up the SP CR TF, from understanding the local governance and institutional context to raising the right amount of and type of capital to help achieve the CRF mandate. The steps are not necessarily chronological, and some actions could be taken simultaneously or in a different order depending on individual territory peculiarities. The steps to establishing the CRF are as follows:

- (i) Thinking through the establishment of the resilience fund
- (ii) Market assessment
- (iii) Institutional design
- (iv) Capital recruitment
- (v) Startup and launch
- (vi) Results tracking

The SP CR TF will begin by initially seeking capital injections from the shareholders and any multilateral institutions such as the GCF. The flow establishing and operationalizing the SP CR TF is depicted in figure 7. The Fund is seen as an essential driver of deepening the capital markets across all Caribbean jurisdictions. Ideally, the Caribbean should seek to join up capital markets, improve capital mobility, increase efficiency, improve cost efficiency, and make more capital available to individual projects across the region. The Fund's segregated nature means that initial capitalization would have to be sourced from various agencies based on their mandates. For example, funds from the GCF would be segregated from the segregated debt portfolio.

**Figure 7**  
Flow establishing and operationalizing the SP CR TF



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

## A. Structuring the SP CR TF

It is necessary for the Fund to be robust yet nimble enough to commence operations quickly. Accordingly, figure 8 illustrates the indicative anatomy of the Fund, which has been adapted from the UN’s Innovative Finance Design Facility Multi-Partner Trust Fund. It is also noteworthy that the Fund’s currency of operation would be the US dollar.

Initially, the SP CR TF Advisory Board should comprise the Pilot countries’ leaders and a representative of the IFI community and the Private Sector. A Prime Minister of one of the pilot countries should chair the Advisory Board and play a critical role in mobilizing capital at the shareholding and investor levels. The role of the Advisory Board would be to provide advice to the Executive Board<sup>6</sup> made up of shareholders of the Fund. While shareholding is discussed later in this chapter, the

<sup>6</sup> The Executive Board of Directors will comprise Directors who represent the interests of the various shareholders.

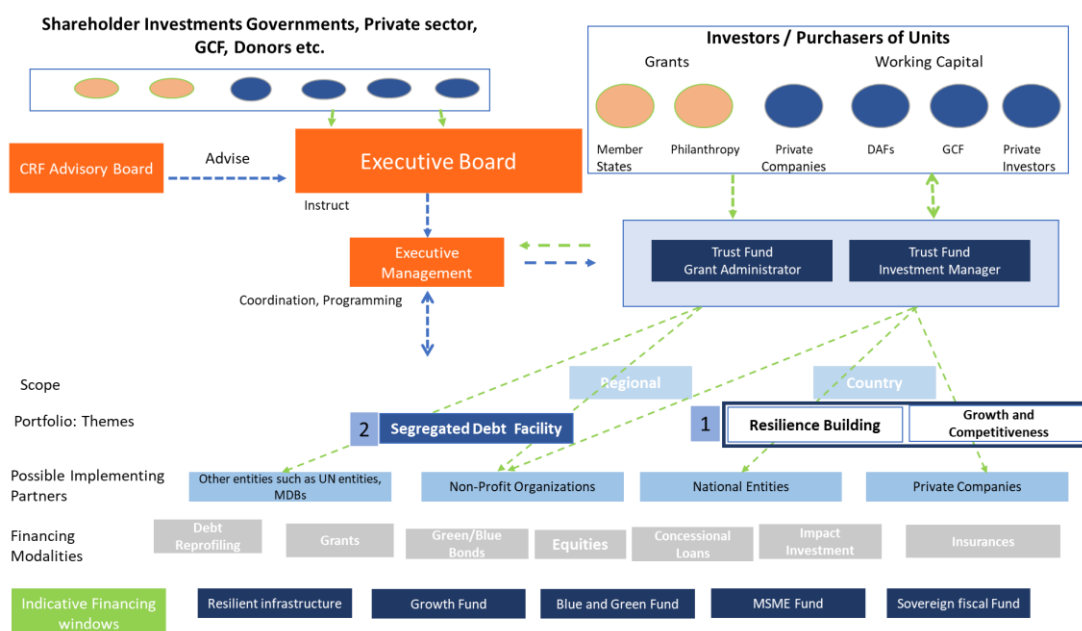
shareholders would capitalize the CRF TF by providing funds to the Executive Fund, responsible for hiring the Executive Management, who hires the fund managers and other staff members.

When the most critical operational staff are hired, the Executive Management Team, with the Fund managers’ support, begins selling units to investors from the public and private sectors to invest in the Fund’s themes and the funding sub-windows under each of those themes. The Executive Board makes decisions during operations based on meetings scheduled with the Executive Management Team, which has day-to-day managerial responsibility for running the SP CR TF and coordinates programming with operational staff or the Fund managers. With the SP CR TF Advisory Board’s support, fund managers and the Executive Management Team would seek to raise investment capital to begin the Fund’s investment operations. Fund managers then seek to implement with agencies / focal points to invest in viable resilience building and growth-enhancing projects. The priority would be to invest in the projects in each of the three pilot countries mentioned above.

Alternatively, the Board and Executive management team could decide to hire individual service providers to provide the different services that full-time staff might be required to provide, such as risk managers, asset managers etc. Thus, various operational functions, in the interest of efficiency and speed, could be executed by several service-provider companies.<sup>7</sup>

Initially, the Fund's operations will focus on projects in the three pilot countries of Antigua and Barbuda, Saint Lucia and Saint Vincent and the Grenadines based on their level of support for the initiative, debt stress, and urgency of their economic circumstances in light of the fallout from the COVID-19 pandemic. The SP CR TF would begin by investing in resilience-building and growth-enhancing projects in these three countries. Moreover, ECLAC had initially provided an analysis suggesting that possible debt buyback options for Antigua and Barbuda would be US\$122 million of Paris Club debt, US\$178 million of domestic debt in Saint Lucia, and US\$94 million of bilateral debt in Saint Vincent and the Grenadines.

**Figure 8**  
**SP CR TF structure**



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

<sup>7</sup> CCRIF Strategic Plan 2015-2018.

Regarding the day-to-day governance and structure of the Fund, Figure 9 depicts the prescribed organizational structure. The SP CR TF will have a Board of Directors that sets the strategy for the organization. The Executive Director, a member of the Executive Board of Directors, will have overall responsibility for implementation. Critical officers who may make up the Executive Management Team will support the Executive Director. These Executive Managers have responsibility for individual departments. The key officers of the SP CR TF will be:

- Executive Director
- General Counsel
- VP Corporate Services
- VP Marketing and Operations
- VP Sales and Service
- VP/Chief Investment Officer
- VP/Chief Risk Officer
- VP/Chief Information Officer
- VP/Chief Financial Officer
- VP Client Relations

The Executive Board of Directors will also receive independent reports from independent committees:

- Audit Committee
- Compliance Committee
- HR Committee
- Investment Committee
- Risk Committee
- Strategy Committee

However, as intimated earlier, the Board and management could also decide to outsource many of the SP CR TF operations.

## **B. Shareholding and location of the CRF**

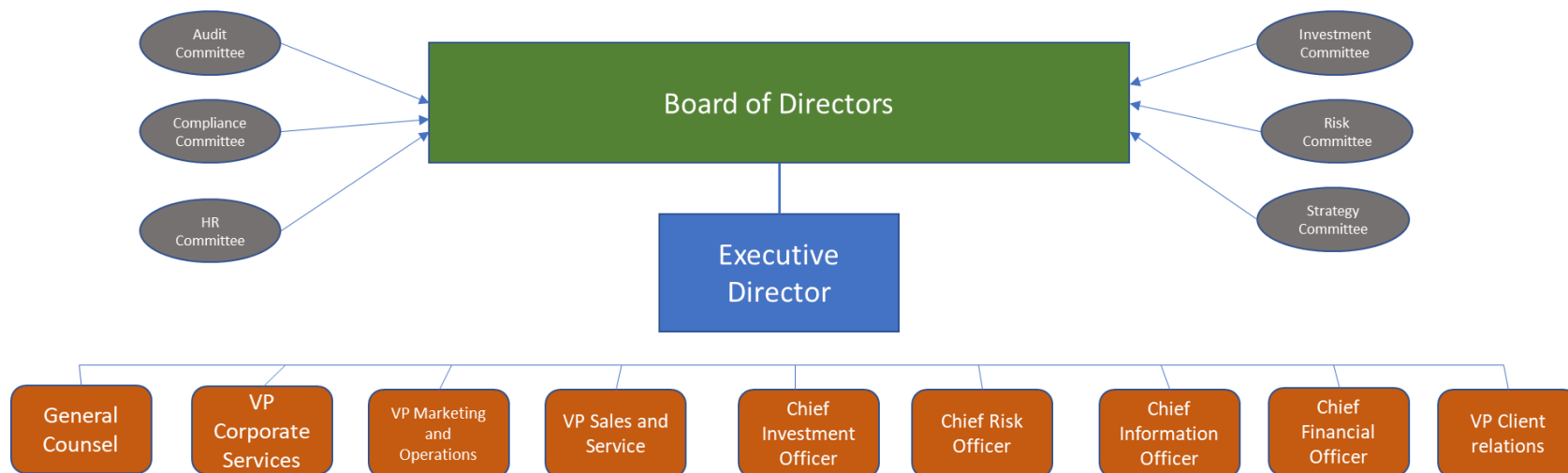
It is important to recall that it is recommended that the CRF be established as a public-private sector partnership Unit Trust that can operate equally throughout participating member states. It is proposed that Member state ownership should be capped at 49%, while the private sector will own at least 51%. 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% 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, IADB, 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 same, 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 FACTA and AML/CFT legislation

**Figure 9**  
Proposed operational organization chart for the CRF



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

**Table 2**  
Ranking of jurisdiction for the location of the CRF

	Rank	Presence of existing capital market	Deep capital market	Tax rates and status of the jurisdiction	Double taxation treaties within CARICOM	The existence of legislation associated with the establishment of unit trusts	The existence of other multilateral financial institutions	The existence of other financial institutions	Business facilitation: WB Doing business score	No restrictions on the availability of international banking, including correspondent banking relationships	FACTA and AML/CFT legislation in place
Barbados	1	Yes	No	5.5%	Yes	Yes	Yes	Yes	128	Good	Yes
Jamaica	2	Yes	Yes	25%	Yes	Yes	Yes	Yes	71	Good	Yes
Trinidad and Tobago	3	Yes	Yes	30%	Yes	Yes	Yes	Yes	105	Good	Yes
Cayman Islands	4	Yes	Yes	0%	No	Yes	No	Yes	N/A	Good	Yes
The Bahamas	5	Yes	No	0%	Yes	Yes	Yes	Yes	119	Good	Yes

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

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, Cayman Islands, Bahamas, Jamaica or Trinidad and Tobago. Table 2 ranks the attractiveness of Caribbean countries with capital markets. 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. Hence, it is on this basis that the Cayman Island warrants further consideration as a possible location for the SP CR TF.

Furthermore, it must be acknowledged that the CCRIF operates out of 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's operations should be outsourced to different service providers.

### **C. Financial instruments of the SP CR TF**

A variety of financial mechanisms are required to achieve the policy objectives of debt sustainability and resilience building. The possible compendium of instruments, interventions and modalities utilized by the Fund will be investments and debt instruments (lower interest rates, longer repayment periods); equity investments; grants; and guarantees. The Fund will also offer technical assistance and advisory services to aid other banks or financial intermediaries with portfolio greening and demonstrate project viability to investors in conjunction with guarantees and/or co-financing arrangements. The SP CR TF will also seek to use its flexible mandate and innovative financial mechanisms to assist with and accelerate financing projects that lack standardization and are therefore not bankable at other financial institutions. These are merely indicative and will be expanded as the Fund develops and its asset base grows.

### **D. Implementation: Establish the SP CR TF**

Establishing the CRF will require hands-on guidance by policymakers, stewards of industry, and IFI support. The first step would be establishing the SP CR TF Advisory Board and nominating a sitting Prime Minister from one of the Pilot Countries (Antigua and Barbuda, Saint Lucia, or Saint Vincent and the Grenadines) to be Chairman. With guidance and support from UN ECLAC, the UN Secretary-General, and consultants, the Advisory Board would need to then promote the idea of a SP CR TF to possible shareholder governments, private sector, GCF, and other donors and encourage them to contribute to its capitalization. The segregated nature of the Fund means that fundraising efforts will have to operate on dual tracks initially to source capital for the Segregated Portfolio 1 and Segregated Portfolio 2, respectively.

After shareholder commitments and donor commitments have been confirmed, an Executive Board made up of individuals representing all shareholders and donors' interests should be convened. With guidance from the SP CR TF Advisory Board, the Executive Board must hire the Executive management team. When key officers of the Executive Management team are employed, they must work with the Executive Board to finalize all articles and rules for the Fund's proper functioning and operation. Other key staff members would then be brought on board, such as the Trust Fund managers and support staff.

However, it is recommended that a team of consultants should be retained to help guide the early processes required to establish the Trust Fund. It is also recommended that the Delivery Unit implementation process be used to launch the Fund. The SP CR TF could also leverage the Delivery Unit model to design, strengthen, and establish the institution and regulations required for the Fund. There are six overarching principles that the Delivery Unit model adheres to:

## **1. Set direction and context**

With a clear commitment to implementation from the SP CR TF Advisory Board and explicit support from the the UN Secretary-General, ECLAC, CARICOM Heads of Government (HOGs), and private sector participants, the Performance Management and Delivery Unit (PMDU) will be established. The SP CR TF Advisory Board and other early shareholders and contributors such as the GCF and other IFIs will then install an interim Executive Board of Directors. The SP CR TF will also seek to retain a team of international experts to set up entities such as a multi-donor Trust Fund and segregated portfolio companies.

Heads of Governments (HOGs) and willing private sector participants, GCF, other IFIs, will convene a joint meeting to set the direction and context of the PMDU. This will entail clearly setting out the implementation priorities across governments or individual ministries, IFIs, and the private sector participants and articulating indicators of success.

At this stage, an institutional diagnostic and country readiness assessment will be undertaken in order to provide the context and feasible design of the delivery system. This will entail identifying the legal and institutional arrangements critical for the SP CR TF success. However, a more detailed plan would be required before implementation.

## **2. Establish clear accountabilities and metrics**

Establishing key performance management indicators and balanced scorecards will be critical. However, the mere establishment of metrics will not be sufficient. Crafting appropriate mechanisms that allow the metrics to be cascaded to the respective individuals and agencies responsible for implementation will also ensure the success of the PMDU.

## **3. Create realistic budgets, plans, and targets**

The delivery unit's objectives will not be accomplished unless the unit is adequately resourced and has an adequate working budget. The budget for establishing the PMDU of the SP CR TF is estimated at US\$2.5 million, which includes the staff of the PMDU, professional fees associated with legal, and regulatory compliance for setting up the Fund.

## **4. Track performance effectively**

Practical and timely reporting with the appropriate detail level will be critical. However, reporting should not burden the unit or the accountable Ministries or agencies and private sector participants. This step in the performance management process will be essential for accountability and successful implementation to be successful. Reporting will be bi-weekly to the head of the interim Executive Board of Directors. There will also be quarterly meetings with the interim Board and SP CR TF Advisory Board to fully report progress and challenges.

## **5. Hold robust performance dialogues**

Any review to ensure delivery will be challenging. However, stakeholders and those accountable must understand that performance reviews are supportive, focused, fact-based, and action-oriented. Robust performance reviews provide a win-win situation for all stakeholders by allowing for accountability and ensuring that the SP CR TF targets are met promptly and within budget.

## **6. Ensure actions rewards and consequences**

The preceding performance tracking and dialogues will not, on their own, ensure efficient and effective delivery. If performance is lagging (indicated in Step 4 above), there will need to be coordinated action to improve performance. However, critical to this process is the understanding that there will be visible



consequences of both good and bad performance. This step, therefore, ensures that accountability is credible and provides the correct incentives for delivering success.

## **E. Using the eight step process to establish the CRF**

### **Step 1: Prioritization**

At their first Executive Board meeting, the Fund's shareholders will decide on the location of the CRF and the initial capital required. As alluded to earlier, it is estimated that US\$30 million capital injection will be needed to set up and begin operations. At this meeting, a decision is to be taken regarding establishing an implementation unit, the relevant consultants to be retained to set up operations, hiring staff, and the commencement of operations.

### **Step 2: Planning labs**

The consultants hold consultations with all public sector stakeholders, private sector stakeholders, debt managers, resilience practitioners, and civil society stakeholders. These consultations allow the consultants to map the various implementation plans of individual stakeholders necessary to establish the SP CR TF. These implementation plans all must have realistic budgets and timelines attached to them. The indicative areas of focus for the implementation unit are:

Legal structure and formation of the SP CR TF

- Location
- Fundraising
- The hiring of staff or service providers
- Governance

### **Step 3: Open day**

The consultants then present their consolidated implementation plans, including budgets, to the Executive Board of Directors for feedback.

### **Step 4: Roadmaps**

After the Open Day and the feedback is accounted for, the implementation plans and roadmaps are circulated. These roadmaps are the blueprints that the implementation unit will follow to establish the SP CR TF.

### **Step 5: KPI targets**

The Key Performance Indicators (KPI) targets allow the consultants and the Executive Board of Directors to track implementation performance based on the budget and timelines specified in the roadmaps.

### **Step 6: Implementation**

In this step, the implementation unit has a relentless focus on establishing the SP CR TF following the KPI targets specified in the roadmaps. Rigorous analysis of progress published daily by the consultants to electronic dashboards accessed via a secure online portal is available to all the relevant stakeholders.

Accountability is essential in this step. The consultants will meet the Chair of the Board of Directors once a month and the implementation managers for each of the specified priority tasks. This level of accountability will assist with moving the implementation along. If there is slippage in progress, plans to get back on track must be articulated and documented.

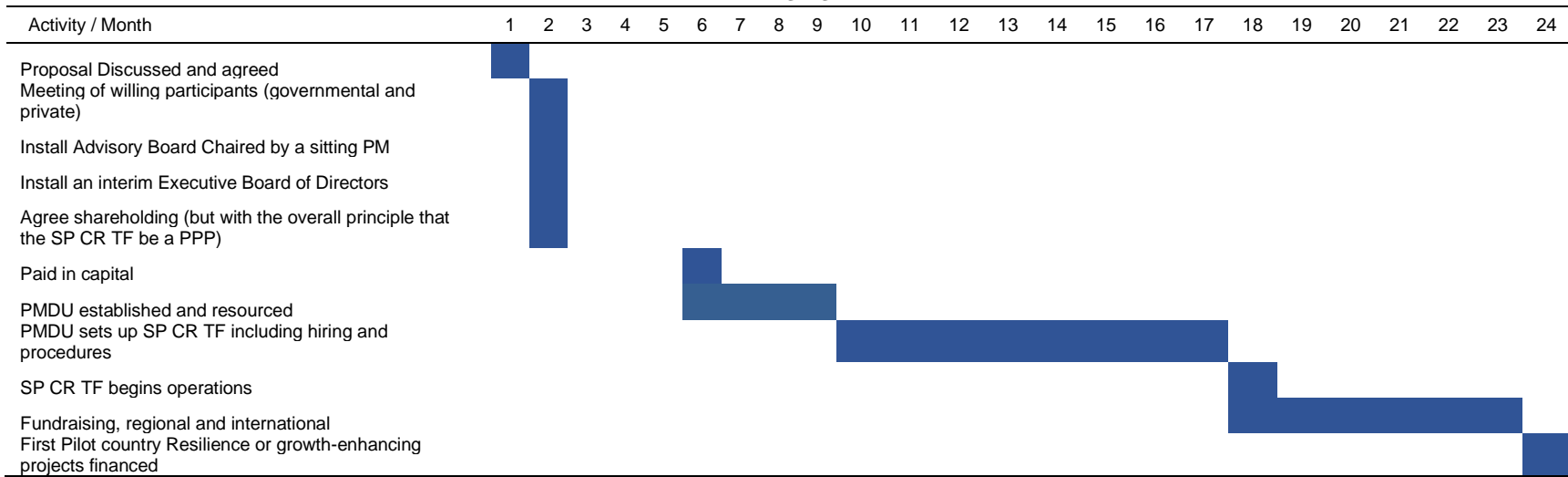
**Step 7: External audit**

At the end of each quarter, an external auditor provides an audited report on implementation progress to the Executive Board and The Advisory Board.

**Step 8: The semi-annual report**

A report and scorecard will be produced every six months juxtaposing projected against actual performance. The report card details overall progress against the KPIs and the corrective measures required if progress is not on track.

**Table 3  
Timeline**



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

The expectation is that it would take 24 months to establish and fully operationalize the CRF.



## V. Conclusion

This proposal sets out the high-level steps to establish a Caribbean Resilience Fund or CRF. The recommendation is for the CRF to be a segregated portfolio trust fund. The Fund's design is such as to avoid the disbursement and project completion challenges associated with other IFIs that operate in the Caribbean. The Fund's segregated structure would also allow it to achieve the initial objectives of ECLAC - assisting Caribbean countries with building resilience, enhancing growth, and providing a liquidity mechanism to help reduce sovereign debt burdens.

The SP CR TF would therefore function as a Pan-Caribbean Unit Trust Fund that seeks to mobilize the financial resources of the Caribbean for resilience-building activities with initial capitalization from participating governments, the private sector, and help from the donor community including the IFIs. The public-private partnership approach acknowledges that the SP CR TF could help catalyze the development of the Caribbean capital markets and act as a conduit for pan-Caribbean resilience and growth investments and debt reprofiling. The Fund is a public and private partnership; thus, Caribbean governments will own at most 49% stake while private sector entities will hold at least 51% of the CRF shares.

The SP CR TF will require agreement from participating governments and willing private sector stakeholders to establish the CRF, capitalize it with at least US\$30 million and decide on the location or jurisdiction from which the CRF will operate. Although with modern remote working, normalized through the COVID restrictions, the SP CR TF will only need to be headquartered somewhere, but staff could work remotely from any location, and many functions of the Fund could be outsourced to various service providers. Based on location criteria discussed earlier, such as the availability of a capital market, signatory to double taxation treaties, Barbados, Jamaica, and Trinidad and Tobago are the leading candidate Caribbean Community Countries. However, the Cayman Islands also has positive aspects that make it worthy of consideration. The CCRIF SPC is also headquartered in the Cayman Islands and has a segregated portfolio structure similar to what is being advocated for the SP CR TF.

International donors such as the GCF could be invited to provide grants or concessional loans to member governments to help them pay for their initial capital contribution. Although the by-laws and

policies of some IFIs, such as the GCF, may restrict their resources from debt reprofiling initiatives. The funds from these IFIs could be segregated for resilience and growth.

The CRF should have three funding themes with separate sub-windows:

- Resilience Building
- Growth investments
- Debt liquidity

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's first investments will likely occur – Antigua and Barbuda, Saint Lucia, 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.

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 6-step methodology for implementation.

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## **Annexes**

## Annex 1

### Porter's 5 forces

Assessing the dynamic forces at play in every market is best analyzed through the Porter assessment<sup>8</sup>. Porter (2008) states that "Awareness of the five forces can help a company understand the structure of its industry and stake out a position that is more profitable and less vulnerable to attack<sup>9</sup>." "The five forces govern the profit structure of an industry by determining how the economic value it creates is apportioned. That value may be drained away through the rivalry among existing competitors, of course. Still, it can also be bargained away through suppliers' power or the *power of customers* or be constrained by the *threat of new entrants* or the *threat of substitutes*. Strategy can be viewed as building defenses against the competitive forces or as finding a position in an industry where the forces are weaker. Changes in the strength of the forces signal changes in the competitive landscape critical to ongoing strategy formulation.

In exploring the implications of the five forces framework, Porter explains how government policies play a role by changing the forces' relative strength and how to use the forces to understand complements. Michael Porter shows how a company can influence its industry's key forces to create a more favorable structure for itself or expand the pie altogether. The five forces reveal *why* industry profitability is what it is. Only by understanding them can a company incorporate industry conditions into strategy", Harvard Business Review.

The five forces are:

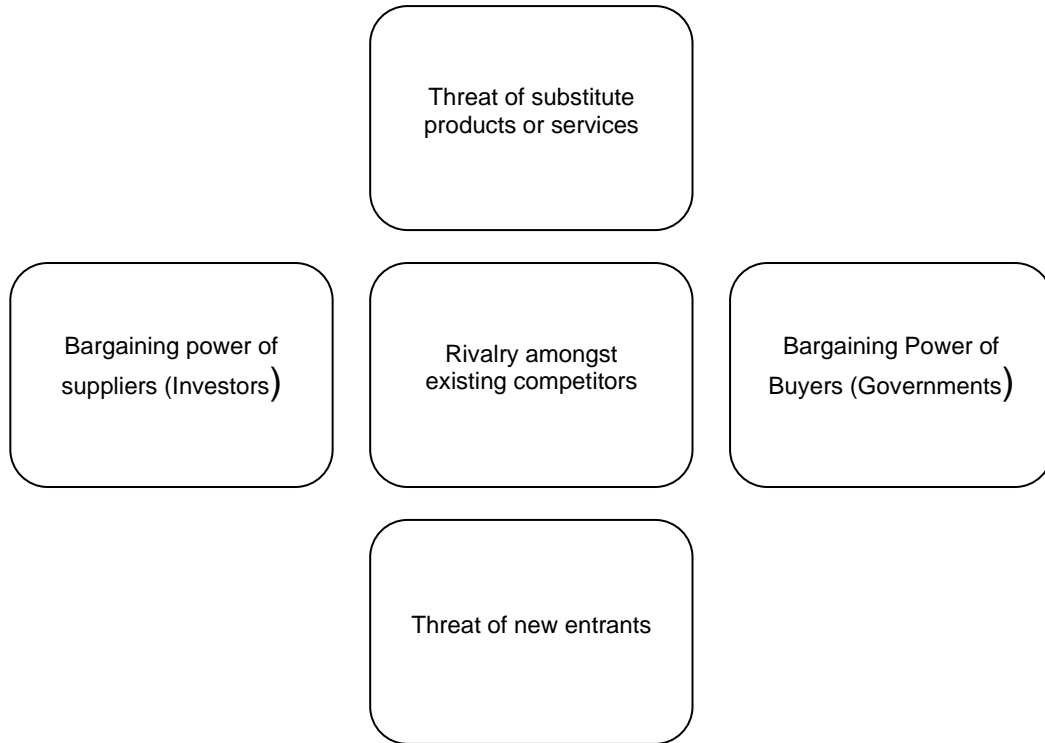
- Bargaining Power of Buyers/customers (Investors) = High
- Bargaining Power of Suppliers (Governments) = Medium
- The threat of New Entrants = Low
- The Threat of Substitute Products or Services = High
- Rivalry Among Existing Competitors = Low

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<sup>8</sup> Porter, Michael E. (1989), "How Competitive Forces Shape Strategy", Readings in Strategic Management, London: Macmillan Education UK, pp. 133–143.

<sup>9</sup> Michael E. Porter. "The Five Competitive Forces that Shape Strategy", Harvard Business Review, January 2008 (Vol. 88, No. 1), pp. 78–93.

**Figure A1**  
The competitive forces of competition



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

A review of the five forces affecting the Caribbean Resilience Fund was therefore completed. A summary of that assessment is provided below.

**Table A1**  
Summary of the five forces affecting the Caribbean Resilience Fund

Force	Strength
Bargaining Power of Buyers/customers (Governments)	High
<ul style="list-style-type: none"> <li>• ‘Seller’s (supplier’s) switching costs.</li> <li>• Differentiation of products</li> <li>• Buyer information availability</li> <li>• Power of distribution channels</li> <li>• Network effects</li> <li>• Bargaining leverage, particularly in industries with high fixed costs</li> <li>• Buyer price sensitivity (or demand elasticity)</li> <li>• Fragmentation of suppliers</li> <li>• Discretionary vs staples</li> <li>• Recency and frequency of purchase</li> <li>• Access to limited resources</li> <li>• Implementation rates</li> </ul>	<ul style="list-style-type: none"> <li>• High</li> <li>• High</li> <li>• Medium</li> <li>• Medium</li> <li>• Medium</li> <li>• Medium</li> <li>• Medium</li> <li>• High</li> <li>• Low</li> <li>• Low</li> <li>• Low</li> <li>• Low</li> </ul>

Force	Strength
<b>Bargaining Power of Suppliers (Funders)</b>	<b>High</b>
<ul style="list-style-type: none"> <li>• Switching barriers</li> <li>• Industry standards, including fiduciary requirements.</li> <li>• Reputational risks for suppliers</li> <li>• Limited competition</li> <li>• Supplier vs. buyer concentration</li> <li>• Strength of distribution channels</li> <li>• Geo-political risks</li> <li>• Dependency on one supplier of funding:</li> <li>• Or more broadly, services/goods with inelastic demand (in the short run)</li> <li>• Supplier is not price-sensitive</li> <li>• Goods/services not frequently purchased or low share of purchasing.</li> <li>• Loyalty</li> </ul>	<ul style="list-style-type: none"> <li>• Low</li> <li>• High</li> <li>• Medium</li> <li>• High</li> <li>• Low</li> <li>• Medium</li> <li>• Medium</li> <li>• High</li> <li>• Low</li> <li>• Low</li> <li>• Low</li> <li>• Medium</li> </ul>
<b>Threat of New Entrants</b>	<b>Low</b>
<ul style="list-style-type: none"> <li>• Barriers to entry</li> <li>• Economies of scale</li> <li>• Industry profitability ROA</li> <li>• Powers of incumbents</li> <li>• Expected retaliatory actions.</li> <li>• After-sales markets</li> <li>• Government policy – to incentivize or disincentivize (e.g., through ignorance of market inefficiencies or lobbying by the incumbent) new entrants.</li> <li>• Access to critical suppliers</li> </ul>	<ul style="list-style-type: none"> <li>• High</li> <li>• High</li> <li>• Low</li> <li>• Medium</li> <li>• Medium</li> <li>• Low</li> <li>• Medium</li> <li>• High</li> </ul>
<b>The threat of Substitute Products or Services</b>	<b>High</b>
<ul style="list-style-type: none"> <li>• Other multilateral agencies</li> </ul>	<ul style="list-style-type: none"> <li>• High</li> </ul>
<b>Rivalry Among Existing Competitors</b>	<b>High</b>
<ul style="list-style-type: none"> <li>• Many competitors of similar size</li> <li>• Slow aggregate industry growth</li> <li>• High fixed costs</li> <li>• High exit barriers</li> <li>• Highly committed players</li> </ul>	<ul style="list-style-type: none"> <li>• Medium</li> <li>• Low</li> <li>• Medium</li> <li>• Medium</li> <li>• Low</li> </ul>

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

## Annex 2

### Fund options

Although debt levels improved gradually over the period 2017-2019, the Coronavirus pandemic's effects on growth and the knock-on impacts on employment, government revenues, and expenditures meant that at the end of 2020, debt/GDP ratios escalated by an estimated 20 percentage points. This trend is also expected to continue into 2021 and beyond. Caribbean governments will therefore need assistance to reprofile their debt burdens, build resilience and assist with growth. The various consultations conducted by ECLAC determined that beyond the fostering of debt sustainability, a Caribbean Resilience Fund should also focus on resilience building and investments that would enhance growth.

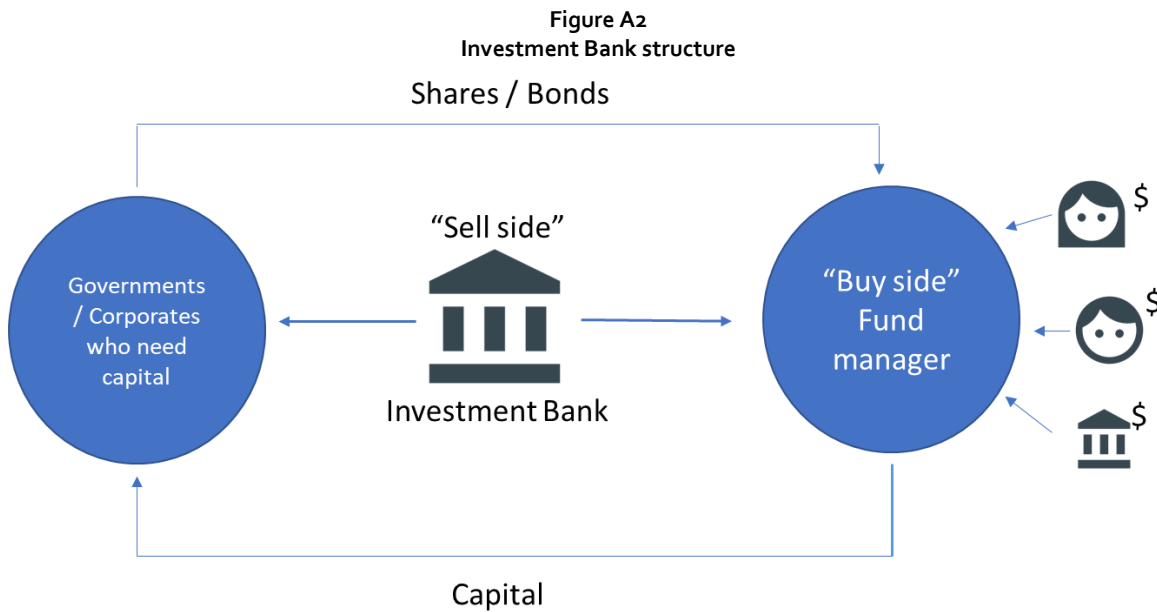
What are some of the operational options for the CRF?

#### 1. New bank

Typically, a bank is an entity that accepts deposits. More specifically a 'bank' is a firm with permission to carry on the regulated activity of accepting deposits and is a credit institution. This definition stipulates that money received by way of deposits is lent to others. However, for our purpose, the type of bank envisaged would be an investment bank that manages money from investors and allocates those resources to corporates or the government. For the Caribbean Resilience Fund, most of the resources would go towards governments to help fund resilience-building projects and finance growth.

The typical structure would mirror that depicted in figure A2, where the bank would have a "buy-side" or fund manager, taking in funds from those who have resources and then allocating resources via the "sell-side" or the bank to governments or corporates who require funding. In turn, the corporates or the government would issue shares or bonds to investors. The investment bank sits in the middle and receives a fee for bringing all the parties together.

Banks have severe capital and liquidity requirements and must have many departments that help manage the bank's operations, such as owner and controllers; corporate governance; risk management; customer relations, IT; recovery and resolution, as appropriate; and business continuity. Banks must set capital and liquidity levels based on the Internal Capital Adequacy Assessment Process (ICAAP), which allows firms to assess their capital adequacy and requires them to have appropriate risk management techniques in place. Similarly, the Internal Liquidity Adequacy Assessment Process or ILAAP is a similar process focused on liquidity risk, funding mismatch, and management of both risks at a bank.



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

## 2. New public trust fund

Caribbean governments could consider establishing a public trust fund that would hold capital and make investments throughout the Caribbean. The public trust fund owners (governments) would be the beneficiaries of any fund's income due to its investment decisions. The reverse would also be true, i.e., that the owners would also have to bear the cost of any losses. The owners of the Fund would be responsible for capital raising and ensuring that the Fund is well capitalized at all times.









## 3. A unit within an existing MFI

Another option for the establishment of the Caribbean Resilience Fund could be a unit or division within an existing multilateral financial institution, such as the Caribbean Development Bank (CDB), the Inter-American Development Bank (IDB), or the Caribbean Development Fund (CDF). This option would benefit the CRF from an already capitalized institution with existing fiduciary functions, meaning that operational costs could be less. However, the CRF would be constrained by the existing institution's rules, for example, regulations pertaining to capital adequacy, country risk limits, and the slow pace of disbursements that plague these institutions.

The World Bank's annual reviews, the Inter American Development Bank's annual reviews, and the Caribbean Development Bank's annual reviews indicate that implementation and undisbursed project finance balances are a critical problem that they all face.

The 2019 Development Effectiveness review of the Caribbean Development Bank published in 2020 shows that the average time taken from appraisal mission to approval is four months above the organization's target of three months. Similarly, the average time taken from approval to disbursement is 11.5 months, almost double the bank's target. 57% of projects under implementation have a revised final disbursement date, and the average length of project extensions is 36 months. The CDB report suggests that implementation challenges are linked to limited capacity and long contract approval processes in countries. Procurement by extension is then ultimately adversely impacted. The bank also admits that internal processes impact the bank's project implementation rates, such as project readiness, bank business culture, and inefficient resourcing.

**Figure A3**  
**Summary of 'CDB's portfolio performance in 2014 and 2019**

Indicator	Baseline 2014	Actual 2019	Target 2019	Five-year status
<b>Operational processes and practices and portfolio performance</b>				
1. Portfolio performance rating for implementation (% rated excellent to satisfactory and very satisfactory to satisfactory)	100	79	90	
2. PCRs prepared within two years of project completion (%)	53	97	95	
3. Projects with annual supervision reports on Project Portfolio Management System (%)	100	95	100	
4. Projects at risk (% of portfolio)	15	8	10	
5. Average time taken from appraisal mission to approval (months)	2.8	4.0	3	
6. Average time taken from approval to first disbursement (months)	9.1	11.5	6	
7. Projects under implementation with extensions (revised final disbursement date) (%)	51	57	45	
8. Average length of project extension (months)	36	36	18	

Source: CDB.

The Inter American Development Bank's (IDB) 2020, Development Effectiveness Overview highlights the 2019 project performance of the bank's projects in the six Caribbean countries where it currently directly operates – Bahamas, Barbados, Guyana, Jamaica, Suriname, and Jamaica. The project completion reports for 2019 show that the project rating ranges from highly unsuccessful to partly successful.

This is also a source of frustration for the recipients of the funds. Projects languish and remain unimplemented, and when implemented, the completion date is many years late. There is a combination of factors responsible for this, which include the many conditions precedent for disbursement that are usually driven by donor countries. There is also a lack of understanding of the local circumstances in every country, including human capacity constraints.

Furthermore, the multilateral development lending institutions operating in the region already have risk limits regarding the Caribbean region due to inadequate national credit ratings and low implementation rates. These ratings will not be a hindrance to the CRF since the Fund will operate more as an investment vehicle rather than as a credit vehicle. Therefore, if a new unit or fund is established within an existing organization such as the CDB or IDB, their risk appetite for new lending or investments in Caribbean countries is already low and is unlikely to be impacted by a new fund or unit. Their ability to significantly leverage any new capital for the purposes identified by ECLAC's terms of reference is also likely to be limited.

In addition to the above constraints, the lending mode that multilateral development banks (MDBs) would use for any debt buybacks or restructuring is the policy-based loan modality (PBL). The

regional multilateral development banks have strict limits on the amount of PBLs as a percent of their portfolio that they can issue. Likely, the regional MDBs are already close to this portfolio limit. Finally, the charters or the policy guidelines of MDBs discourage lending that directly facilitates debt restructuring.

#### 4. A new pan Caribbean private fund

The Caribbean Resilience Fund could also be established as a Pan-Caribbean private entity. This entity could be established within an existing private firm with a cross-regional reach or a new firm that is entirely privately owned. This entity could also benefit from the current financial institutions' regulatory approvals and fiduciary controls, thereby reducing the operating cost of the Fund. However, the Fund would also be subject to the risk limits associated with the private entity. This entity would also have to seek regulatory approvals to operate within every Caribbean jurisdiction that decided to participate. The initial start-up and operational costs could prove to be too high.

Given these constraints and the massive resource requirements, the Caribbean Resilience Fund should, therefore, operate as a pan-Caribbean unit trust or mutual fund. The CRF should seek to mobilize Caribbean savings and investments, including diaspora funds from institutions and individuals and, to a lesser extent, funds from donor agencies and donor countries focused on Debt Relief, Resilience Building Fund, and Growth Reform Fund. The capital requirement for this would be much less and would primarily be used to set-up the institution and hire the primary staff for the start of operations. Capital would not be required for leverage or capital adequacy, and investor funds are not deposits or loans but rather investments for achieving the Fund's objectives.

**Table A2**  
**Comparison of Different Options**

Option	Funds required for initial deployment	Initial Capital Requirements	Approvals and Implementation rates	Investor Strength	Buyer Strength	Risk appetite
As a new bank*	US\$ 6 billion	US\$1.3 billion	Slow	High	High	Low
As a new Unit within CDB*	US\$ 6 billion	US\$1.3 billion	Slow	High	High	Low
As a new Unit within IADB*	US\$ 6 billion	US\$1.3 billion	Slow	High	High	Low
As a new Unit within CDF	US\$ 6 billion	US\$6 billion	Slow	High	High	Medium
Within an existing Private Sector entity	US\$6 billion	US\$2 billion	High	Low	High	Medium
As a PPP Trust Fund (CRF)	US\$ 6 billion	US\$30 million	Medium	Low	High	High

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

\*Assumes maximum leverage of 5.





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