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A Heavily Indebted Caribbean Countries‘ Initiative

Financing for Development Forum

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Overview

1. Debt Relief has always been an option
2. What do the Caribbean islands need?
3. A Heavily Indebted Caribbean Countries (HICC) Initiative as a crisis response
   - Key elements
   - A stylized course

No comprehensive debt relief process available...

FTAP

INTERNATIONAL SOVEREIGN INSOLVENCY FRAMEWORK

DWM

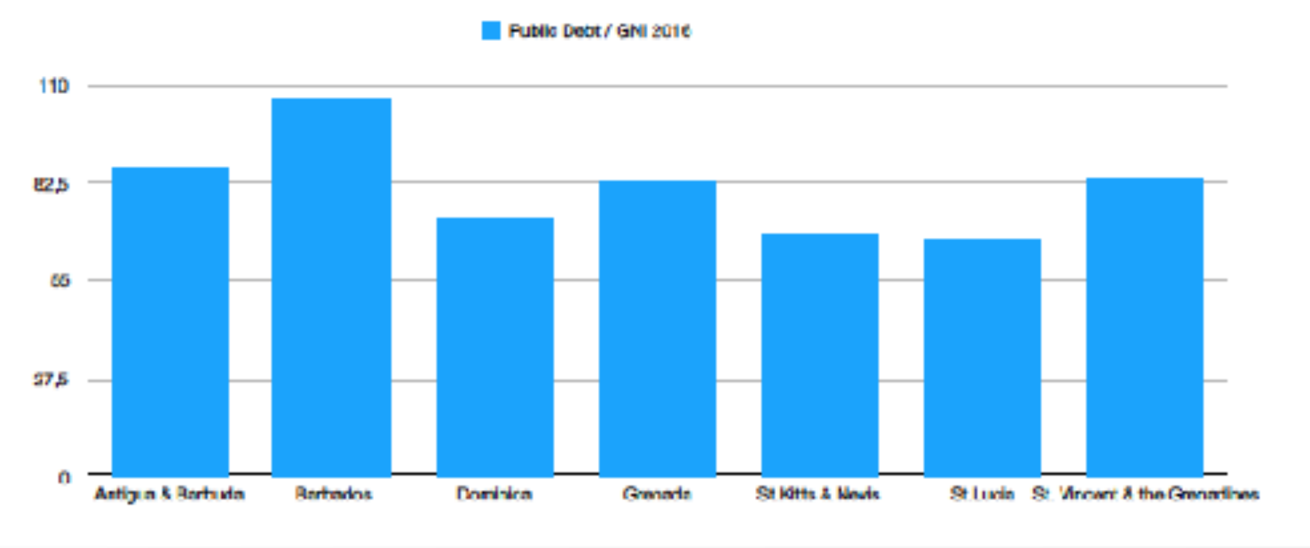
SDRM

...but debt relief has still been possible:

- **For individual countries, f.i.**
  - Germany 1953
  - Indonesia 1969
  - Nigeria 2005
  - Iraq 2004
  - Greece2012
- **For groups of countries:**
  - Piecemeal under various Paris Club „terms“
  - (almost) comprehensive through the Heavily Indebted Countries‘ (HIPC) initiative.

What does the Caribbean need?

Despite high level of debt…



…**<u>no</u>** immediate and comprehensive debt relief scheme like HIPC

…but a reliable relief option for the next catastrophe

Debt relief as a disaster response has (in part) been there before…

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- Paris Club Debt Moratorium after the 2004 Tsunami
- The IMF‘s CCRT for Ebola Countries...
- ...but not for Nepal after the earthquake; Nepal excluded after 2015 earthquake: destruction slightly below the access requirement of 25% of productive capacity or 100% of GNI

Key elements of a HICC Initiative therefore:

- Not a mechanism in the hands of (which?) creditors
- Some form of automatism
- Impartial assessment of the need for debt relief in the case of a hurricane
- Immediate moratorium for a limited time (6 months)
- Comprehensive process of debt restructuring under consideration of reconstruction needs

We have been here before: HIPC/MDRI

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- Not a global mechanism treating countries in comparable situations in a comparable way, but…
- …a priority scheme for a limited group of countries most in need.
- Almost comprehensive debt restructuring
- No creditor (category) allowed to be exempted.
- Relief based on a realistic calculation of the need for a fresh start…
- …<u>not</u> creditors willingness or ability to forego payments.

A stylized procedure

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1. A country affected by a hurricane **requests debtor protection** from a pre-defined competent institution.
2. An assessment based on available information leads to a **preliminary moratorium** if warranted in a very short timeframe.
3. A **period (normally 6 months)** is being defined during which no debt service is being paid and no legal action against the debtor can be taken.
4. A **creditor committee** is set-up during the 6 months period, which will start negotiations on a medium-term debt restructuring.
5. Negotiations with representatives of all creditors are chaired by an **impartial mediator** and lead to a restructuring agreement with all creditors.

How much could be made available?

Country	2015 [US-$]	2016 [US-$]
Dominica	23.269.000	26.772.000
Grenada	27.599.000	34.950.000
St. Vincent and the Grenadines	33.549.000	32.036.000
St. Lucia	68.342.000	42.226.000
Antigua & Barbuda	*30.000.000*	*30.000.000*

Would it be politically and economically feasible?

- Natural disasters have already been considered as reasons for reduced debt payments.
- Capital markets are able to deal with contingent risks: *Grenada's hurricane clause*
- Debt moratoria have been used to (co-) finance disaster relief and first-phase reconstruction.
- Targeted debt relief has already been implemented for groups of countries in special need.
- Legal protection under a multilateral but not universally accepted scheme can be formally or informally organised.

Hurricane Season 2018 begins next June

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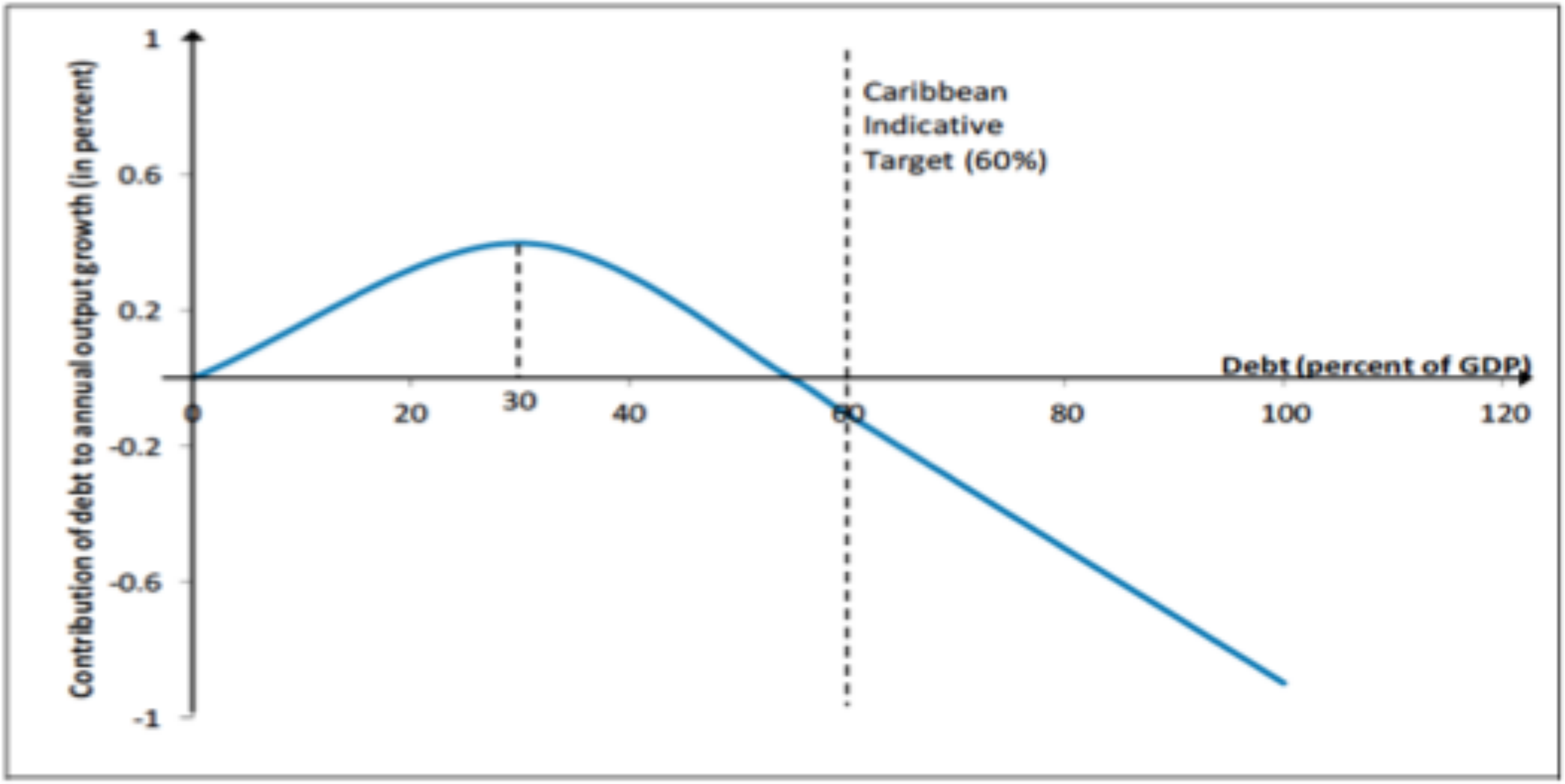
The Debt-Growth Nexus

Figure 12. Stylized Shape of the Threshold Effects of Public Debt on Growth



Enhanced IMF Debt Relief: The CCRT

Theory….

- **The Catastrophe Containment and Relief (CCR) Trust** allows the IMF to provide grants for debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters or public health disasters.
- Background in 2015 transformation of the Post-Catastrophe Debt Relief Trust to fight effects of the west African Ebola crisis
- Available to LICs and SIDS: small states with a population below 1.5 million and a per capita income below twice the IDA cutoff (currently US$2,330).
- Only flow or stock relief of debt owed to the IMF.

…. and reality:

- Nepal excluded after 2015 earthquake: „Unfortunately earthquake destruction slightly below the access requirement of 25% of productive capacity or 100% of GNI