INFORMATION NOTE
The ECLAC Debt for Climate Adaptation Swap and Caribbean Resilience Fund

The ECLAC Debt for Climate Adaptation Initiative is an ongoing Caribbean-wide subregional initiative, which seeks to substantively address the high and unsustainable level of debt of many Caribbean economies, which has compromised the growth trajectory of the subregion. The Initiative actively promotes consideration of a strategy to address the high debt-low growth dilemma of the Caribbean in a sustainable manner while fostering investment in climate adaptation and resilience building. The main beneficiaries are Caribbean economies. The Initiative will be launched in the first instance with the three Pilot economies of Antigua and Barbuda, Saint Lucia and Saint Vincent and the Grenadines. The key actors include ECLAC, Ministries of Finance of member states of the Caribbean Community, Debt Managers of Antigua and Barbuda, Saint Lucia and Saint Vincent and the Grenadines, the Department of Environment, Antigua and Barbuda, the Caribbean Community Secretariat, the OECS Commission, the Green Climate Fund (GCF), the CARICOM Development Fund (CDF), and UN ESCAP (Economic and Social Commission for Asia and the Pacific).

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. The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) has therefore proposed the establishment of a Caribbean Resilience Fund (CRF), which is seen as the anchor of the Debt for Climate Adaptation Swap Initiative.

The CRF 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. 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 (3) broad thematic, segregated windows focusing on - – (1) Resilience Building; (2) Growth and Competitiveness; (3) 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. Sub-windows could focus on: modernizing physical infrastructure - boosting infrastructure should boost GDP; incentivizing investment in green industries for restructuring; business reforms; and MSME 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 sub-windows 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.

It is proposed that there be an initial capital injection, for establishing the Fund and covering operating expenses, of about US$ 30 million sourced from Caribbean governments, the private sector, and the international community, including the MDBs and the GCF.

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