

Commonwealth Seminar on Innovative Financing Initiatives for Effective Debt Restructuring Solutions

12 April 2023



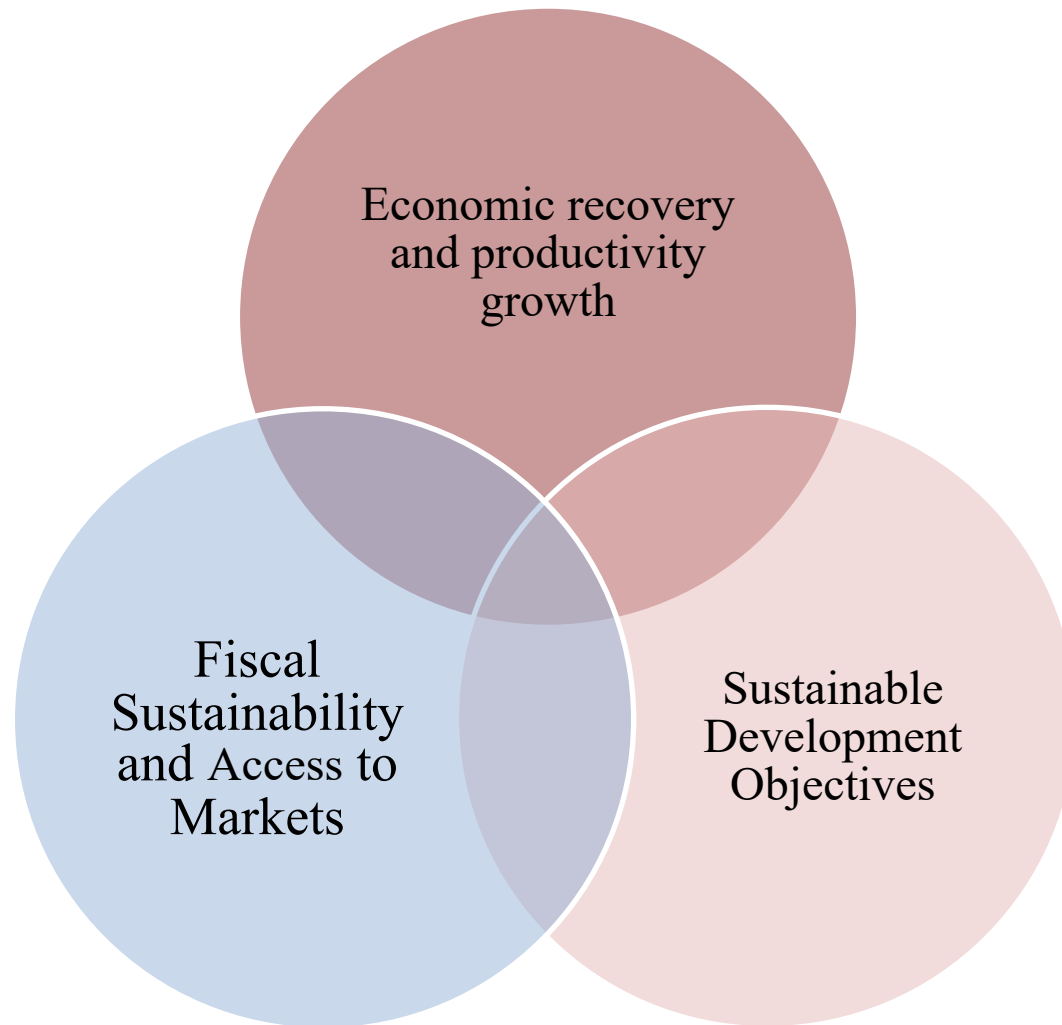
The Commonwealth

Commonweath Seminar on Innovative Financing Initiatives for Effective Debt Restructuring Solutions.

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Important developmental challenges



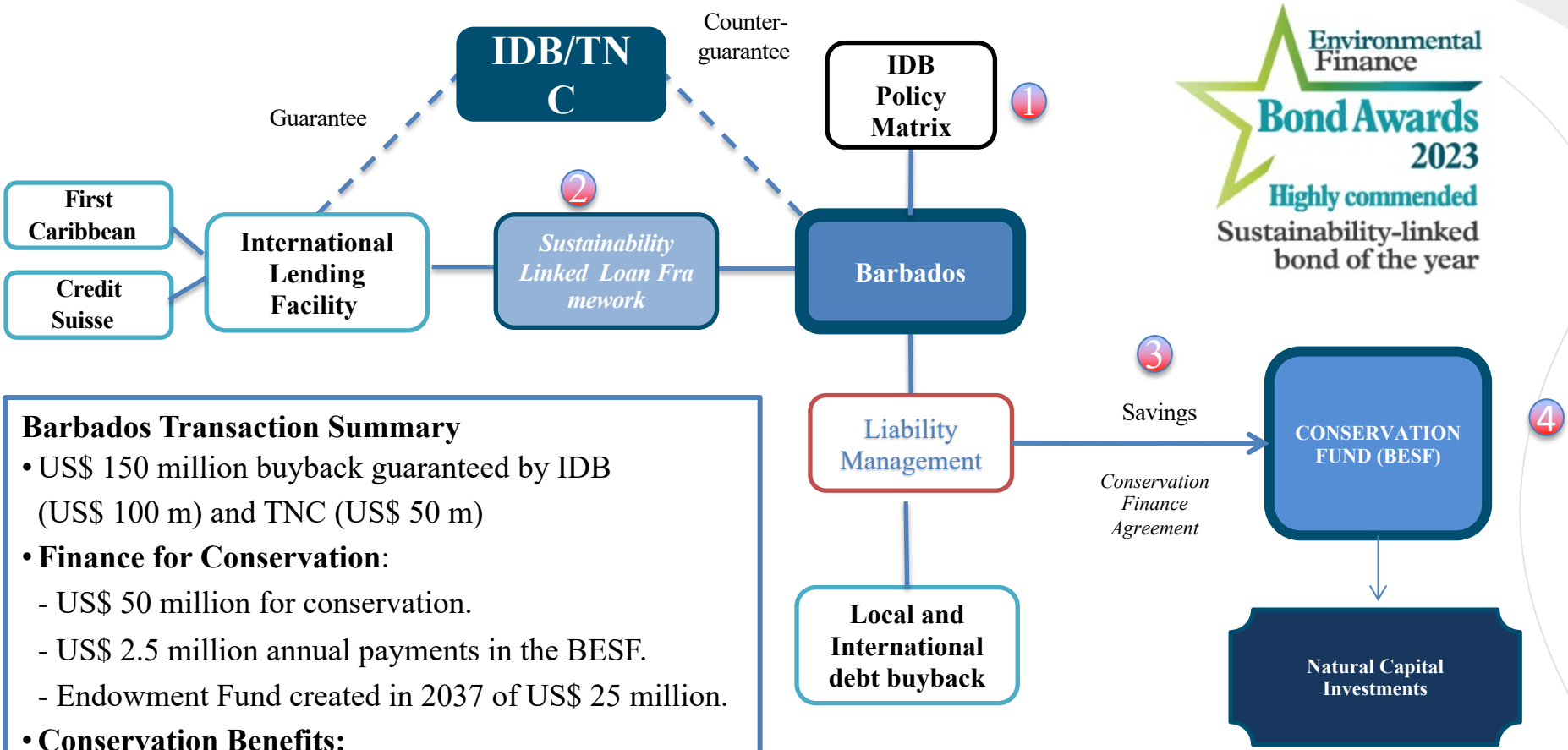
New sovereign debt management instruments

- Thematic Bonds
- Sustainability Linked Bonds
- Natural disasters risk mitigation instruments
- Debt for Nature/Sustainability Conversions

Debt for Nature/Sustainability Conversions

- **Debt neutral source of long-term financing** applied under distressed and non-distressed scenarios.
- **Focus on execution, monitoring and reporting** use of savings-proceeds (as ICMA compliant thematic bonds).
- **Provides KPIs and incentives** for sustainability-conservation commitment (as ICMA compliant SLBs).
- **Allows for natural disasters risk mitigation instruments** (natural disaster or pandemic clauses, or insurance mechanisms).

Example of Barbados Debt for Nature Conversion



Barbados Transaction Summary

- US\$ 150 million buyback guaranteed by IDB (US\$ 100 m) and TNC (US\$ 50 m)
- **Finance for Conservation:**
 - US\$ 50 million for conservation.
 - US\$ 2.5 million annual payments in the BESF.
 - Endowment Fund created in 2037 of US\$ 25 million.
- **Conservation Benefits:**
 - Aspirational of 30% Marine Protected Area
 - BESF creation
 - Robust Marine Spatial Plan process



IDB Role

- Arrange the credit enhancement structure (AAA-PCF Sovereign Guarantee)
- Policy reform program conditionality design:
 - Conservation Commitments
 - Trust Fund Structure
 - Thematic framework
 - DMO institutional strengthening
- Honest broker among public and the social and private sector

Lessons learned

- Importance of project structuring: MDBs as arrangers
- MDBs AAA make DFNC feasible under non-distressed scenarios
- Market is learning (more co-guarantors and better prices)
- MDBs as a catalytic force to pool resources
- Key technical assistance role in design, execution and monitoring

Annexes

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Commonwealth Support for Innovative Financing and Debt Restructuring Initiatives

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Outline of Presentation

DEBT MANAGEMENT UNIT (DMU)

- DMU focus and goals
- Overview of capacity and advisory services
- Commonwealth Meridian
- On-going support on new financing and debt restructuring
- Debt transparency

OCEAN AND NATURAL RESOURCES (ONR)

- Commonwealth Natural Resources Programme and Pan -Commonwealth Initiative

DMU Focus

- **Our Goals**
 1. **Enhance capacity of client countries in debt management**
 2. **Build sustainable debt management structures**
 3. **Build complete and accurate debt data databases to support key decisions in debt management**
- **DMU undertakes technical support/ advisory and capacity-building programmes on its own, in collaboration with multilateral and regional institutional partners and member states.**

Technical Support/ Advisory and Capacity-building

DMU Debt Management Programme

Strengthening debt management in member countries through two pillars

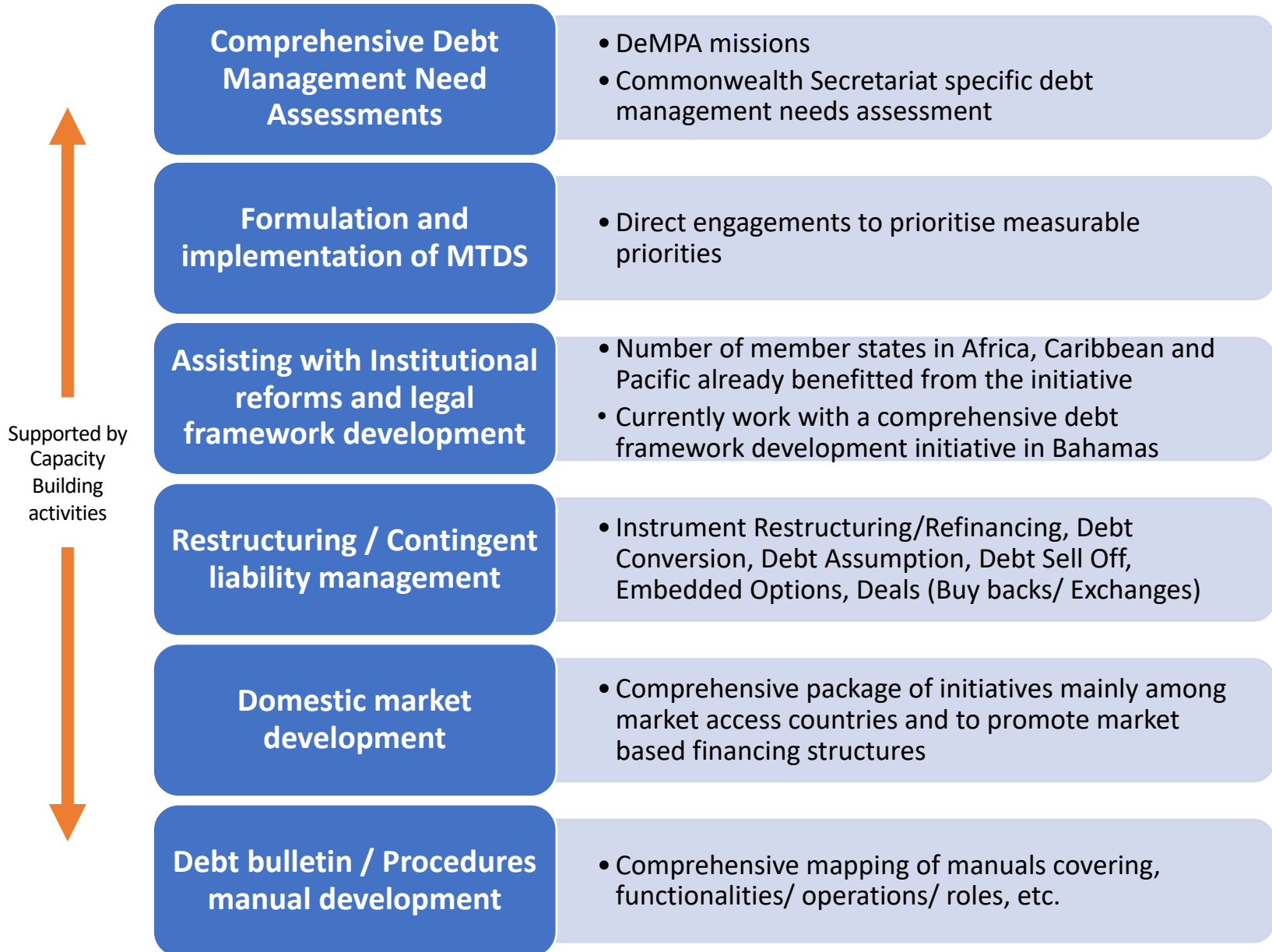


Provision of the Commonwealth Debt Management System (Commonwealth Meridian)



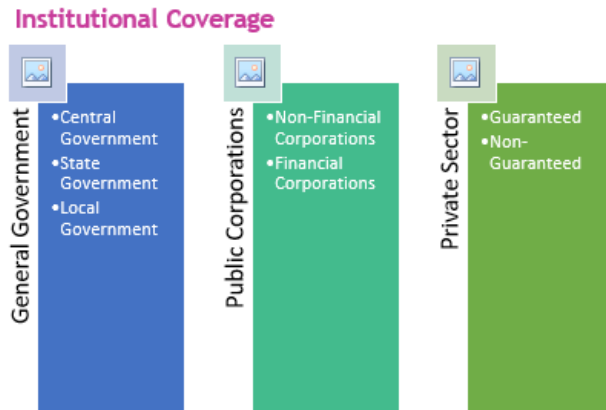
Provision of technical and advisory support in debt management

Technical and Advisory Support

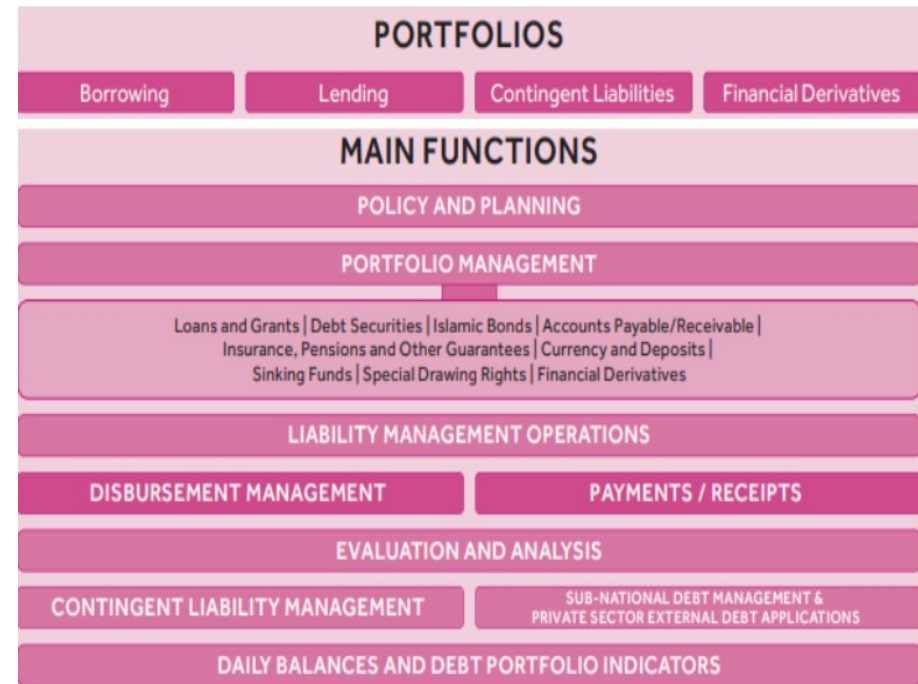


Commonwealth Meridian

- Designed to fully support Front, Middle and Back Office functions for improved debt management processes and transparency.



- Operating in 43 Commonwealth Member Countries (others in transition). Available to non-member countries as well.



On-going Country Debt Reform Programme- The Bahamas funded by India UN Partnership Development Fund

DEBT BREAKTHROUGH - Bahamas is scoring early wins in its Debt Management journey as it targets more fiscal space for national priorities & growth (<https://undpjamaica.exposure.co/debt-breakthrough>)

Legal Reform	Institutional Reform	Reform in Policy framework	Bond Market Development
<ul style="list-style-type: none">• Public Debt Management Act, 2021- enacted• Fiscal Agency Agreement- Developed soon to be executed Public Debt Management regulation- Developed	<ul style="list-style-type: none">• New Debt Management Office- established with MoF• Procedures Manual for the DMO- developed and in place• Public Debt Bulletin- developed and being published quarterly• Policy framework on Guarantees and lending/on lending – being developed	<ul style="list-style-type: none">• Medium Term Debt Management Strategy- First and second published• Annual Borrowing Plan- first and second published	<ul style="list-style-type: none">• Guidelines on issuance of Government Securities- being finalised• Guidelines on retailing of Government securities- being finalised• Development of By-laws and rules for CSD- developed and adopted• Buyback and exchanges• Introduction of Central Bank Repos

Provided credibility and framework needed for accessing credit enhancement facility to be used for introduction of innovative financing instruments to reduce debt servicing cost

Public Debt Transparency to promote full disclosure of all debt obligations

- DMU is working on the Handbook of Public Debt Transparency (in the press)
- Handbook promotes **full and comprehensive debt coverage** of all explicit and implicit liabilities **beyond the conventional reporting of central government debt obligations**. It includes all government guarantees issued to either public or private institutions, on-lent loans, loans taken by state-owned-enterprises and PPP Projects
- Fully disclosed, reliable and timely information of a country's debt obligations enable optimal decisions to restructure or reprofile and build market confidence to enable achievement of objectives of debt management

Comprehensiveness

- all government debt and contingent liabilities should be incorporated in the coverage

Accuracy

- debt numbers should be reported in full. The debt recording function must be strengthened and harmonised

Timeliness

- reports must be well-sequenced, and the reporting frequency is established, and reports are published on time

Accessibility

- every stakeholder group should be able to access the published data with ease

Comparability

- the reports must meet international standards of compilations and disclosures

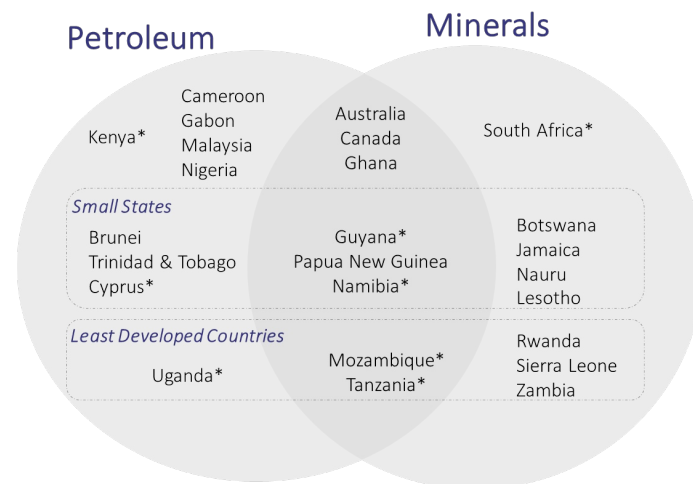
ONR of the Commonwealth Secretariat aims at sustainable usage of natural resources, with linkages to debt management

Natural Resources: unique challenges for fiscal and debt sustainability

Higher dependence on natural resources, greater vulnerability to debt distress

- Balance of attracting investment and ensuring fair sharing of benefits
- Pricing Volatility and “Boom-bust cycles”
- Government revenues: large and unpredictable
- Government spending linked and increases with unstable NR revenue flows
- Erosion of non-natural resource tax base (Dutch Disease, “mono-sectors” - economic diversification difficult)
- Contingent Liabilities -National Oil Companies and State Participation, Resource Backed Loans
- Energy transition implications: stranded assets - loss of revenues, unfunded decommissioning liabilities
- “presource” curse

Resource Dependent Countries (RDC)



*Significant discoveries and developments of oil and gas

Innovative financing and debt related issues

Commonwealth Natural Resources Programme

Maximising Revenues via Progressive fiscal regimes:

government revenues adjust to project profitability levels (automatic windfall taxes)

Sovereign Wealth Funds

- Hybrid design (savings, stabilisation, investment)
- Paris Aligned Investment Mandate

Resourced Backed Loans

Carbon related

- Oil and Gas Methane and Carbon taxes/penalties (Model GHG regulations)
- Carbon Pricing Model Law: fossil fuels across the economy
- Net Zero Projects: carbon offsets to be invested in national climate mitigation projects e.g. renewable energy, reforestation vs purchasing credits

Pan-Commonwealth Initiatives

Commonwealth Sustainable Energy Transitions (CSET):

- SIDS Toolkit

Commonwealth Blue Charter (CBC):

- Blue Economy Action Group

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