



UNCTAD

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Remarks

**Hon. Christopher Coye
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Development, and Investment**

Excellencies, ladies and gentlemen, thank you for the opportunity to share Belize's experience as a small vulnerable open economy including some of the main challenges we have faced in the context of the multiple and interrelated domestic and global crises we have encountered and our responses to such challenges as we chart our way forward to climate and economic resiliency.

First and foremost, I would like to applaud UNCTAD for actively progressing this most important conversation on financing for development with a view to produce tangible and meaningful outcomes particularly for developing countries.

After the decades of unrelenting outcry primarily by small island developing states, and as the existential implications of climate change are now finally being acknowledged and appreciated, much focus has rightfully been placed on the urgency of climate resiliency building by way of climate adaptation and mitigation. Naturally, it has followed that funding such climate resiliency building is a key challenge for which a solution must urgently be found. The recognition that trillions not billions are required for climate resiliency has translated to the acknowledgement and advocacy that while public and MDB finance must be ramped up, it will remain wholly inadequate and that trillions in private climate finance must be mobilized.

All of this is welcomed, but apart from the effort to make available substantially more financial resources to support climate resiliency building, we cannot forget, ignore or abandon the sustainable and development goals of the 2030 Agenda.

We cannot forget, ignore or abandon the tens if not hundreds of millions around the globe that are starving, in poverty, uneducated, homeless and hopeless. It is they that we represent. It is they that have put us here to do right by them.

So as much as we urgently need climate finance for climate resiliency building, we also urgently need timely, affordable and accessible development finance for economic resiliency building to achieve our sustainable development goals.

From basket case to case study, Belize is aggressively pursuing its path to sustainable development and climate resiliency. It's not an easy road, however.

Just 2 years ago, in 2020, already in a recession when the COVID pandemic began, Belize was experiencing economic contraction of 13.4%, with an unsustainable debt-to-GDP ratio of 133%, debt servicing obligations of 30% of government revenues, a fiscal revenue shortfall of over 30% and an overall deficit of 11.3% of GDP. Not surprisingly, teetering on selective default, rating agencies gave our government issued bonds junk bond status. At the same time, unemployment had skyrocketed to almost 30% with poverty rate estimates of over 50%, over half of the labour force not having any form of post-primary education and only 22% having a tertiary level qualification. On top of all this, through no fault of ours, Belize suffers, on average, annual losses of no less than 4% of GDP from climate events alone, at least 8 times more than that of developed economies.

In a serious economic and debt crisis, immediate and difficult decisions and action had to be taken. Rather than enter into an IMF standby program, Belize chose to go its own way with its homegrown economic plan. This included cutting public sector wages by 10%, slashing goods and services expenditures by 25%, reprioritizing capital expenditures to those with the lowest cost of capital particularly those that contained grant and/or concessionary financing components, and of course, renegotiating our external commercial debt as well as certain external bilateral and multilateral debt. We also commenced active domestic yield curve management and market alignment. Belize chose not to increase taxes but rather to seek to broaden the tax base and enhance compliance. We also moved strategically but aggressively to re-open and support our key economic sectors including tourism, agriculture and business process outsourcing as well as to encourage investment, both domestic and foreign direct investment.

Many of you may have heard about our successful blue bond issue but that was only a part of our overall emergency economic plan. Nonetheless, we highlight our blue bond experience here not merely because it has materially contributed to debt sustainability but it has also produced helpful lessons on our conversation today on development finance.

Belize's blue bond issue, at US\$364mn, was and continues to be the largest debt for climate financing transaction concluded to date. By funding the complete cancellation of our external commercial debt at a 45% discount, it enabled us to reduce our total government debt stock immediately by 12%, reduced our debt-to-GDP ratio by 25% and our debt servicing by over US\$200mn over 20 years. Such funding was provided entirely by private finance actors. What is clear however is that it would not have been possible to mobilize private capital to this end without credit enhancement and risk reduction strategies coupled with the confidence engendered by the political will and discipline of the government in its fiscal policy action. With respect to risk reduction, the US's Development Finance Corporation gave critical political risk insurance which effectively converted the bond from Belize risk to US Government risk. The structure of the bond also included a debt service reserve, parametric insurance for natural disaster events, and an underlying residual equity support from the TNC. With such bond structure, the Moody's rating agency gave it an Aa2 investment grade rating resulting in an oversubscription by ESG private sector investors.

The benefits gained from the blue bond transaction coupled with the other fiscal and policy actions taken, Belize's economic rebound has been quick and extensive. In 2021, Belize's economy grew by 15.2% while the debt-to-GDP ratio fell to 80% and the overall deficit reduced to less than 0.7% of GDP with a primary surplus of 1.4% of GDP. The unemployment rate also fell to a multi-year low of 9.2%. Foreign direct investment saw a multi-year high as it exceeded 5% of GDP.

In 2022, notwithstanding the multiple global crises, Belize's economy is expected to grow by almost 10%, while its debt-to-GDP ratio is on track to fall to almost 70% by the end of the year. Debt servicing obligations have fallen to 16.5% of GDP. The IMF now considers Belize's debt to be sustainable. This growing fiscal space is now enabling us to invest more in education, health, infrastructure and housing.

In the real economy, the unemployment rate is expected to have fallen further to near 6% while the poverty rate also appears to be on a downward trajectory. Foreign direct investment is expected to surpass 2021 and more than double 2019 figures.

On the downside, inflation is expected to average roughly 6.2% for the year. Our economic and fiscal performance will now most certainly be set back by the loss and damage suffered by Hurricanes Lisa and Julia suffered these past couple months, which preliminary estimates indicate exceed \$100 million.

These climate events are stark reminders that our focus must at all times include both economic and climate resiliency building.

As we continue to persevere in spite of the challenges, some of the lessons we have learned that are pertinent to financing for development include as follows:

- The anachronistic global financial architecture inhibits timely access to affordable development and climate finance. The persistence of arbitrary and exclusionary rules amongst MDB's, notwithstanding its multidimensional vulnerabilities, effectively prohibit Belize from access to concessionary financing resources for development and climate resiliency from numerous multilateral institutions including:
 - o The International Development Association, and the
 - o The IMF's Resiliency and Sustainability Trust
 - o as well as certain developed economies DFI's apart from the benefits of certain multilateral debt initiatives such as the Debt Service Suspension Initiative and the Common Framework for Debt Treatment of the Group of 20.
- Government must therefore be proactive in policy action, maintaining fiscal discipline and being willing to make the hard choices needed to achieve its climate resiliency and sustainable development goals.
- Small vulnerable open economies like Belize minimize dependency on foreign currency denominated debt and ultimately minimize foreign currency denominated debt servicing through external debt reduction strategies and if at all possible through local currency denominated MDB financing. Correspondingly, efforts should be made to enhance capital inflows by way of increased official development assistance in

the form of grant support, new special drawing rights allocations, adaptation finance, foreign direct investment and export development, among other things.

- To mobilize private capital, whether for climate or development finance, risk reduction and credit enhancement for investment grade rating of debt issuance are critical drivers to achieve affordable and accessible finance for developing economies, especially small vulnerable states like Belize. MDB's and DFI's from developed economies that are investment grade rated can play a key role in this regard through financial instruments such as political risk insurance or credit guarantees that convert high risk debt issued by developing economies to investment grade low risk debt. The cost of such financial instruments may need to be subsidized however. As an alternative, the use of rechanneled special drawing rights as financial assets for leveraging whether through MDB's or a special fund against which risk reduction or credit enhancement instruments could be issued may be considered. Access to such instruments should be directed particularly to mobilizing private capital for developing economies and vulnerable states that are perceived to be higher risk.
- As an aside, it should be noted that while insurance can be a useful product for risk reduction, the devil is always in the details when it comes to insurance. Belize's experience with the Caribbean Catastrophe Risk Insurance Facility has been a dismal one, leading Belize to seriously consider discontinuing same in favour of self-insurance. Discussion on insurance as a solution should involve the establishment of such instrument as a global public good rather than as an instrument for profit making.

Finally, and perhaps most importantly, what we have learned is that we can accomplish a lot more by working together towards shared goals. Only as committed partners with mutual respect can we effectively confront the unprecedented, interconnected development and climate challenges we face.

Thank you.