A fresh start for a tiny island with a potentially huge effect

by admin on June 18, 2013

Grenada: Tiny island, huge debts and the chance for a fresh start

When I was asking the lady at the American Airlines counter in Madrid airport about my connecting flight she looked astonished: Why in the world would I fly to Granada via Miami? It took a moment to clarify that my destination was not the beautiful Andalusian city but **Grenada,** a beautiful island in the Eastern Caribbean.

Revolution and intervention

Whoever has been working on global justice and development for a bit longer, will recall that there was something about the otherwise indeed little known island of Grenada back in 1983. A revolution, which was inspired by the Sandinista victory in Nicaragua a few years earlier had toppled a dictator and started to build a more equitable society. Land reform, social programs and also a good level of revolutionary pathos were the trademarks of that era – until the *New Jewel* movement started to dismantle itself. The US government under President Reagan used the opportunity of an internal *coup* in the Grenadian ruling party and government for a bloody cleansing operation in its backyard.

The "Banana War!"

Ever since, successive Grenadian governments have pursued policies of integration into the world markets – quite like their peers in the region. At first this happened under the protection of special ACP regulation of the European Union towards the old continent's former colonies. Through that system Grenada had privileged access to the European market for its bananas and spices. When under pressure from the WTO the Europeans cut back their trade preferences and opened their markets to the big banana producers in Central and South America, the small and less efficient producers in the Eastern Caribbean quickly found themselves kicked out of the markets. Ever since the major hard currency earner has been tourism, particularly the cruise ship industry. However, when in 2008 the financial crisis in the US hit the major clientele of the Caribbean cruise industry, namely the US and Canadian upper middle class, Grenada and her neighbours suffered severe reductions in external income.

Escalating Debts

The governments have tried to close the resulting financing gaps through additional external loans but when economic growth could not be restarted quickly, debt indicators (debt and debt service in relation to a stagnant or even shrinking economy) skyrocketed. In Grenada the debt stock has reached nearly 100% of GNI and is thus not far away from those of European crisis countries. In relation to Grenada's annual export (hard currency) income, the debt stock represents 300%. Half of this would have qualified Grenada for broad debt relief under the multilateral HIPC/MDRI initiatives of the World Bank and the International Monetary Fund (IMF) –had it ever been considered.

Unsustainable

In March 2013 Grenada's government abandoned any further attempts to re-finance the current debt service through continuous (and ever more expensive) new loan-taking. Outstanding payments on government bonds were deferred, creditors were contacted in order to start a restructuring of the debt. Rating agencies consequently downgraded Grenada to "SD" (*selective default*).

Roughly 40% of Grenada's debt is owed to holders of its public bonds, and another 40% to multilateral development banks, such as the World Bank, the Caribbean Development Bank and the Inter-American Development Bank, plus the IMF. The remainder is on the books of official bilateral creditors, the most important ones being Taiwan, Kuwait and oil-rich neighbour Trinidad and Tobago.

What to do?

What can a small island with about 105,000 people expect from its creditors? As there is no standard rules-based procedure for resolving sovereign debt crises, the Grenadian Finance Ministry, which has fewer staff and technical capacities than a treasurer in a medium-sized municipality in the US or Canada, has to negotiate with all its creditors in parallel.

This is particularly difficult with bondholders, because they tend to be dispersed over the globe. Some neighbours, such as St. Kitts and Belize, have still managed to exchange old bonds for new ones. However, this was possible because the exchange implied almost no losses for the creditors. The bondholders would be paid later, but nearly in full. Given the critical situations of state finances in those debtor countries, this was a more than acceptable outcome for bondholders. Grenada, however, needs more than a postponement. It needs a considerable amount of debt stock relief.

Intransigent Creditors?

Except for the above mentioned HIPC Initiative multilateral creditors have a policy of not negotiating their claims at all. Instead, they expect always and under any circumstances to be paid in full. This is what they call their "Preferred Creditor Status". In reality it is an "exempt" creditor status, and the legal basis for it in their respective statutes is thin at best.

So the only part of Grenada's debt that could be reduced relatively easily, is the one owed to the other governments. However, even for them there is no existing standing procedure or negotiation forum in place. Additionally, relations with the most important of these creditors – Taiwan – have been complicated through the establishment of full diplomatic relations with Beijing recently.

Desperate solutions to desperate problems.

A few, rather desperate solutions to improve the income side, have been considered by the government: building a casino, selling off public properties (unlike St.Kitts, Grenada does not have substantial land reserves, which it could put on the block, even if there were any appetite among investors) and a “citizenship-for-investment” program. The idea behind this latter program, which is already being practiced by some of Grenada’s neighbours, is to offer oligarchs from resource (or otherwise) rich countries a (legitimate) Grenadian passport in exchange for investments on the island. No questions asked!

The Church gets involved

In such a small and mostly Christian country, communication between the churches, particularly the Catholic majority church, and the government is intense. The political authorities and church leaderships know each other personally, and generally there is a good level of mutual respect.

Now, the church has also got involved into the debt policy. Quite ahead of the government, the Conference of Churches in Grenada informed itself about possible alternatives to austerity and a protracted recession (like that from which Europe is presently suffering,) for the island. Supported by the German Catholic aid agency *Adveniat* the Conference of Churches sought advice from the global Jubilee movement.

A Debt Jubilee

During a workshop in St. George’s towards the end of May this year, the biblical *Jubilee* concept, turned out to be a surprisingly up-to-date option for the debt problem of the Caribbean island: Debts do not always and under any circumstances **have** to be paid back – even where they have been legitimately contracted without any misbehaviour on the part of the creditors. Rather, the right of every citizen to live life with dignity while enjoying basic public amenities is, in a conflict, the higher value as opposed to the legitimate claims of creditors. It is essential for any civilisation, to prevent a permanent polarisation of human society, nationally and internationally, into rich and poor. This is not least the lesson from the social disruptions that have resulted, and continue to be the consequence of, both, the co-called “third world” debt crisis of the 1980s and 1990s and the European crisis into the year 2013.

Moreover, the Conference of Churches learned that a fair and comprehensive debt relief process does not have to be invented in the Eastern Caribbean. The IMF, the UN, and many renowned, economists including a few Nobel laureates, have proposed the creation of a fair and impartial sovereign debt workout mechanism. It could be developed along the principles of national insolvency regulations, which protect individuals, enterprises and sometimes even municipalities from protracted crises, once they have run into payment problems – regardless of whether the crisis was the result of their own mistakes, the misbehaviour of others or simply bad luck.

What are the options?

The Conference of Churches has outlined a way forward to the government in a sharp and concise paper. This proposal is both realistic and viable. Its key elements are an independent analysis of Grenada’s debt sustainability and a comprehensive debt conference on Grenadian soil.

An independent analysis is of overwhelming importance, because the International Monetary Fund (IMF), which otherwise has a kind of global monopoly on such analyses, is an important creditor itself. Thus it would be (and has been in the past) very difficult for the Fund to give a realistic assessment of a country’s debt sustainability, as it could eventually declare the Fund’s own resources unrecoverable. This double role of the IMF as lender and “independent” expert has in the past led to a series of truly absurd assessments by the Washington agency.

A Comprehensive Debt Conference

A comprehensive debt conference is an essential element of a debt workout. Without the involvement of all creditors, each one or each group would have a strong incentive to stay out of the process – hoping that others would make concessions, and thus enhance its own chances of being paid in full. This has been the bitter experience of debtor governments, which have made arrangements with the so-called “Paris Club” of creditor governments – only to find themselves confronted with the litigations of non-participating private or public creditors. In one truly spectacular case such litigation is presently being waged against Argentina in New York State by a non-participating vulture fund.

International Support

The churches in Grenada have been pleased to hear that the government is in fact seeking a comprehensive restructuring, explicitly including all its external obligations. For the government this is going to be an uphill battle. For the churches, therefore, this commitment implies the challenge to mobilise the political support, which the tiny island needs in order to become the pioneer of a fair and human-rights-based debt workout process for poor countries.

National debt movements, such as SLUG in Norway and *erlassjahr.de* in Germany have therefore asked their respective governments for political and material support for Grenada – based on both government’s political commitments towards the establishment of a global fair and transparent debt workout mechanism. Never has the challenge to such governments to put their money and their political weight where their mouth is, been clearer. Beyond any academic and generalised discussions about how debt could actually be dealt with, this is a very concrete case of a government, which needs support and political backing for a pioneering effort. Grenada’s success could potentially, have huge repercussions on global debt management.

Jürgen Kaiser[1], erlassjahr.de, June 12th 2013

www.defusethedebtcrisis.org