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A proposal for debt relief among Caribbean SIDS

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Emerging challenges

- Region has experienced lower GDP growth since the post crisis period with an average of 1.2% in 2014.
- ECLAC projects that in 2015 growth will be 2.2% but many countries will be in the 1% range.
- Low growth has generated high levels of unemployment especially among young people.
- Fiscal challenges limit governments’ ability to maintain social protection programs.

Low Growth and High Unemployment

AVERAGE GDP GROWTH AND UNEMPLOYMENT FOR THE CARIBBEAN, 2005-2015
(Percentage)

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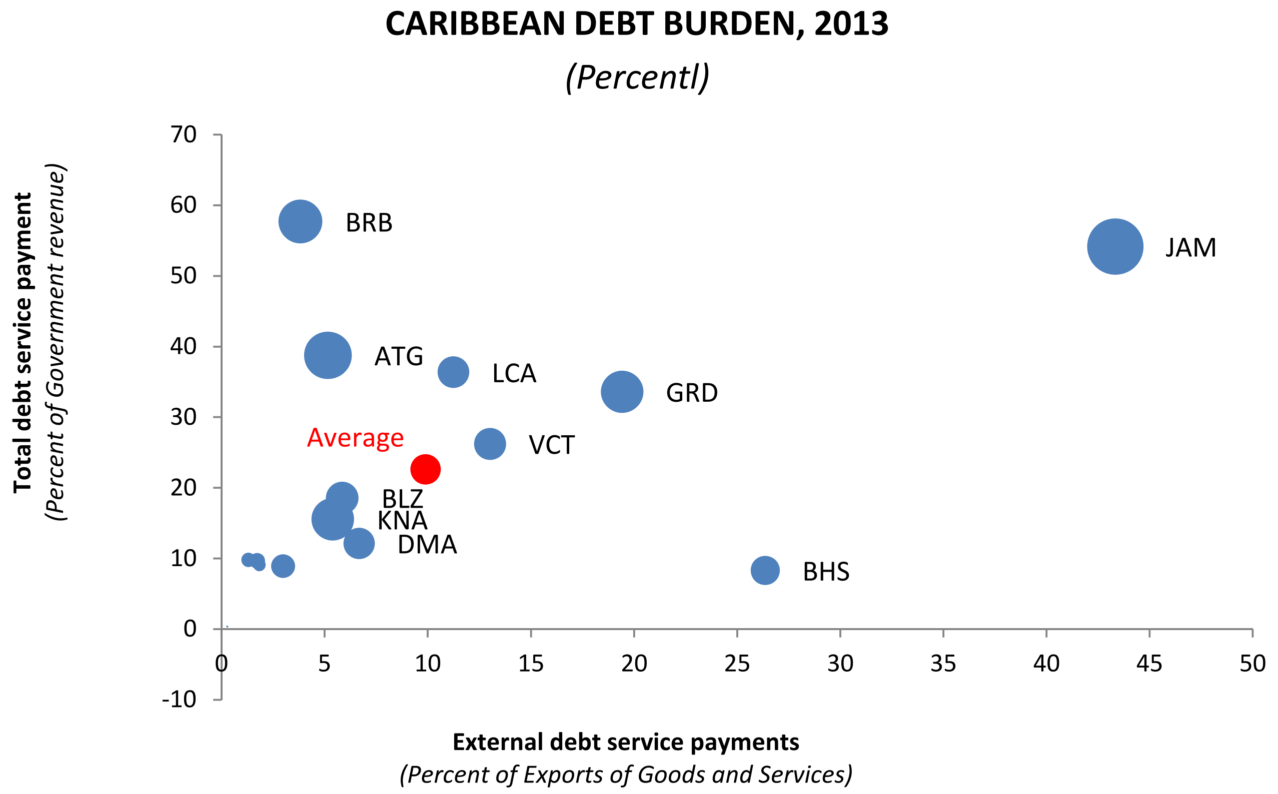
High debt levels and debt service costs

Debt service costs for Caribbean economies are high



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures
Note: Size of bubble represent total public debt as a percent of GDP.
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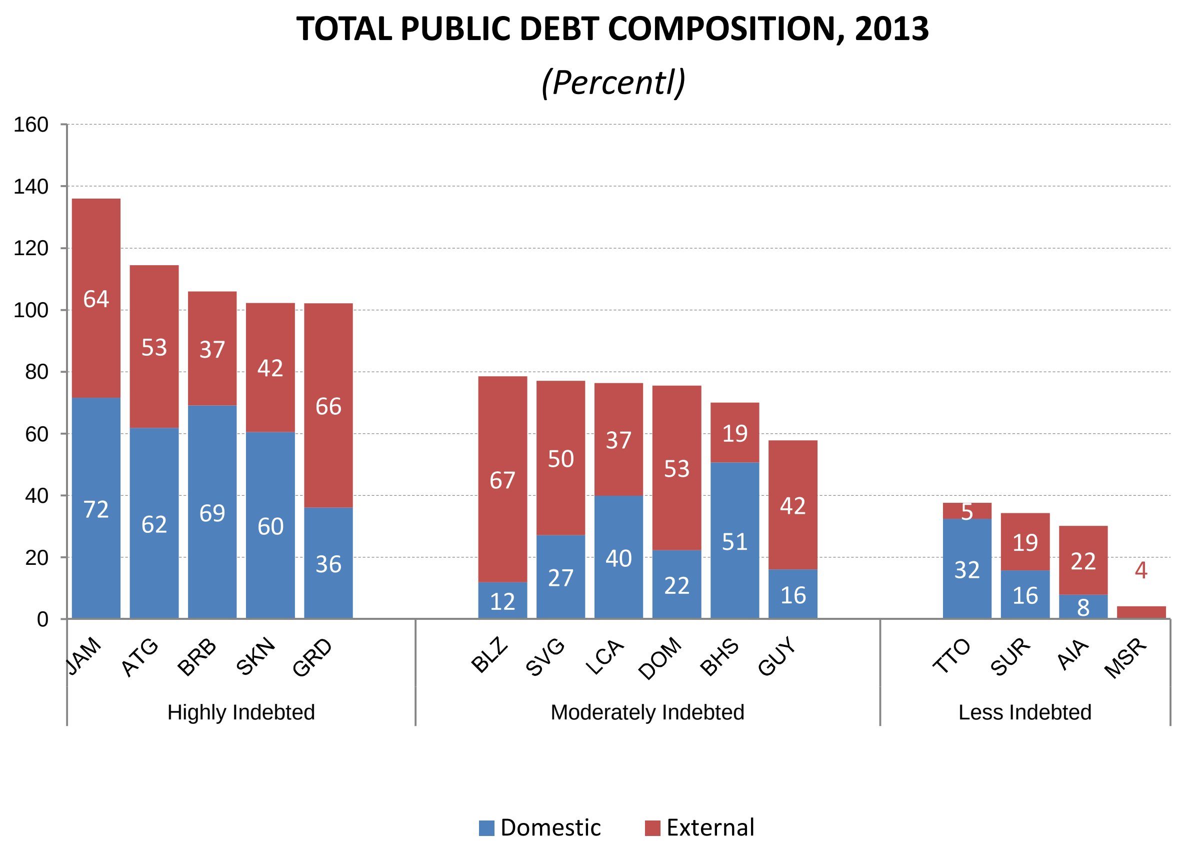
The levels and composition of public debt is highly heterogeneous among Caribbean SIDS



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures

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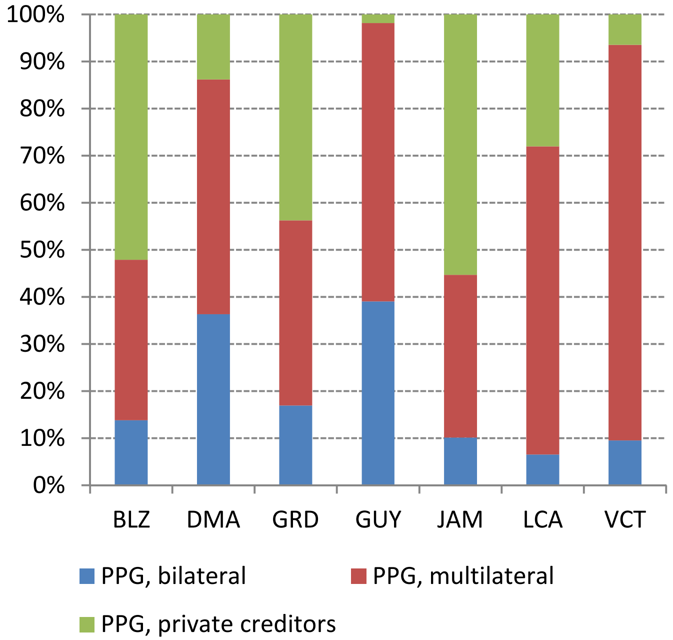
For Caribbean countries aggregated multilateral and bilateral debt represent 40% and 14% of total external debt

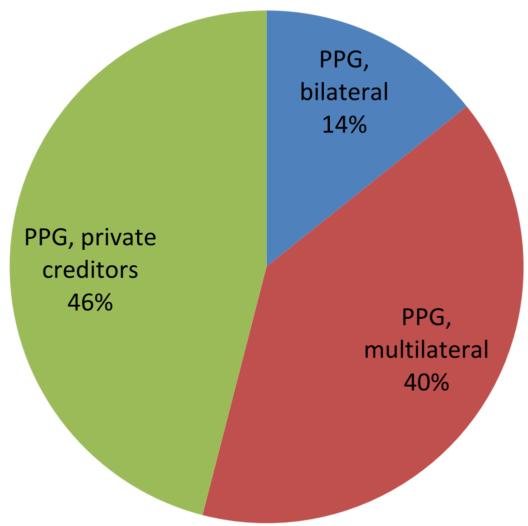
COMPOSITION OF TOTAL EXTERNAL DEBT, 2013

(Percentl)

EXTERNAL DEBT COMPOSITION 2013
(Percent)



TOTAL EXTERNAL DEBT COMPOSITION 2013
(Percent)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures

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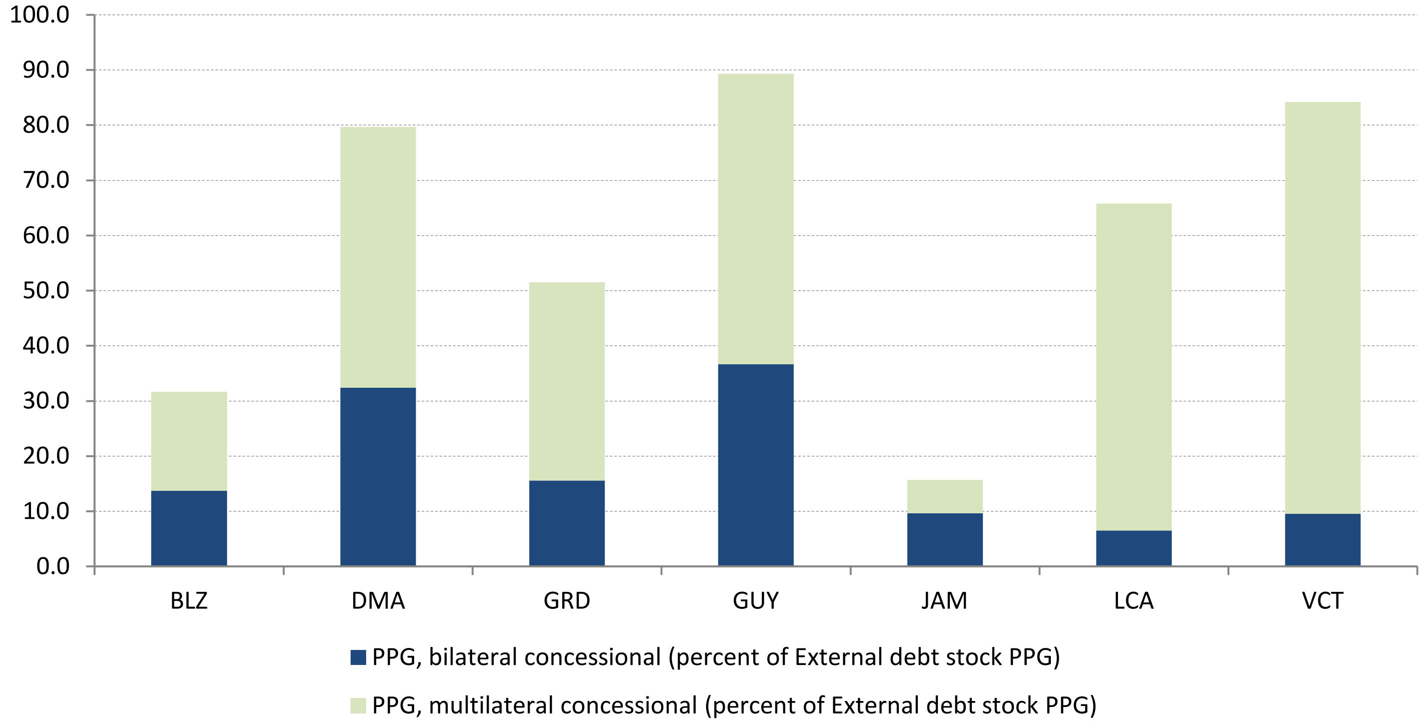
For Caribbean countries aggregated multilateral and bilateral debt represent 40% and 14% of total external debt

BILATERAL AND MULTILATERAL CONCESSIONAL DEBT, 2013

(Percentl of external debt stock PPG)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures

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WHY SHOULD CARIBBEAN COUNTRIES RECEIVE DEBT RELIEF?

The Debt problem in the Caribbean is a regional problem

- The debt problem is regional and the adjustments programs in place impact negatively on regional trade and weaken the motivation for integration.
- High debt also constrains domestic and regional efforts to build economic resilience.

Why should Caribbean countries receive debt relief? Five reasons

1. Given the debt burden, *the fiscal adjustment needed to achieve fiscal sustainability is very large and unsustainable.*
2. Caribbean's debt problem was not created from either policy missteps, excessive fiscal profligacy or the international financial crisis but rather *has its roots in external shocks, compounded by the inherent structural weaknesses and vulnerabilities confronting Caribbean SIDS.*

Why should Caribbean countries receive debt relief?

3. Caribbean economies have *limited access to concessional external finance since they are defined as Middle Income countries.*

4. For Caribbean SIDS, current debt challenge will make it difficult for them to address the demands of the SDGs.

5. High debt burdens, which on average have increased in the wake of the crisis, *also affect sovereign credit rating and have led to higher sovereign risk premia in international capital markets which mean higher borrowing costs for Caribbean SIDS.*

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A DEBT PROPOSAL FOR THE CARIBBEAN

A debt proposal for the Caribbean

We propose a strategy of debt relief that would create more fiscal space and help member states can be constructed around two axes:

a) Forgiveness of multilateral concessional debt

b) The creation of a resilience fund

Forgiveness of multilateral concessional debt

The multilateral debt relief proposal involves three actors: *The multilateral institutions, donor countries and small states debtor countries.*

ECLAC proposes that *multilateral institutions gradually write off 100 percent of small states multilateral debt stock, contingent on approval from donors. The forgiveness of multilateral debt is meant to ease the burden on the liquidity constraints, as well as address the potential solvency risk.*

Forgiveness of multilateral concessional debt

At the same time bilateral donors should be asked to participate. More benefits can be had if the debt is reduced at a considerable discount. *ECLAC proposes that countries benefitting from debt relief be required to make annual payments of existing multilateral concessional debt service in local currency into a Caribbean Resilience Fund over a period of 10 years.*

The creation of a Resilience Fund

The Caribbean Resilience Fund would be managed by an institution such as the Caribbean Development Bank. Caribbean small states *can access the Fund to finance projects and activities that have been deemed to be growth-promoting, poverty-reducing or environmental-protecting*.

The creation of a Resilience and Stabilization Fund

The Fund will be targeted at resilience building activities and eligibility would be based on the level of indebtedness and liquidity constraints faced by member states. These criteria would be developed in concert with member states, the multilateral/bilateral creditors/donors and the managing institution. This fund would have two components.

1.Caribbean resilience fund

2.A macroeconomic and stabilization fund

The creation of a Resilience Fund

The resilience fund would focus on:

1. *Disasters:* This component will provide more certain financial resources *for disaster relief and disaster risk reduction projects*. *It should be focused on the recovery of economic activity as well as the reconstruction process after a disaster with emphasis on infrastructure projects with disaster risk reduction elements.* These resources should be complementary to other initiatives in the region such as the Caribbean Catastrophic Insurance Facility (CCRIF)

The Creation of a Resilience Fund

Social development

2. *Social development:* Education, health, and public safety and security are essential public goods for which the governments of highly indebted Caribbean small states have struggled to adequately finance. Dedicating resources for these areas would be vital to the attainment of sustainable development in the Caribbean.

The creation of a Resilience Fund

3. Climate change: This tranche will finance infrastructure projects *including climate adaptation and mitigation measures.* Given the difficulties in accessing the Global climate change and other funds, this would be a considerable benefit to Caribbean SIDS.

The macroeconomic and stabilization fund

It would be a countercyclical fund for addressing negative external shocks. It should be managed by a prestigious Institution such as the Caribbean Development Bank. The fact that the region is ineligible for financing to address such shocks, forces member states to borrow at market rates. This Fund should provide mechanisms and financial instruments that help countries under those conditions.

Concluding thoughts

- Caribbean member states recognise that the SDG agenda must be theirs but they need partnerships on the journey.
- Debt reduction will create a level playing field for Caribbean SIDS to pursue the SDGs.
- The proposal derives from the principle of shared but differential responsibility and poses no systems risks to financial markets.