



Financing for Caribbean Development in the face of Declining Fiscal Revenue and Increasing Debt : The role of VNRs

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The Community of Practice

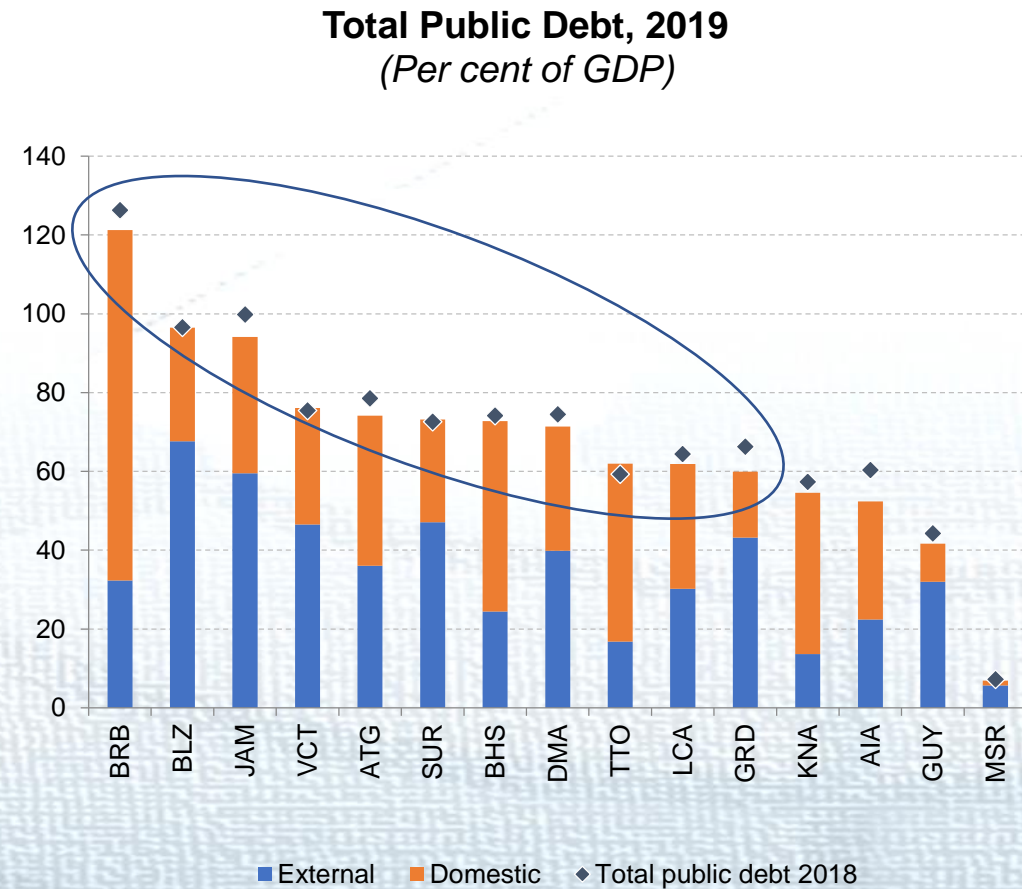
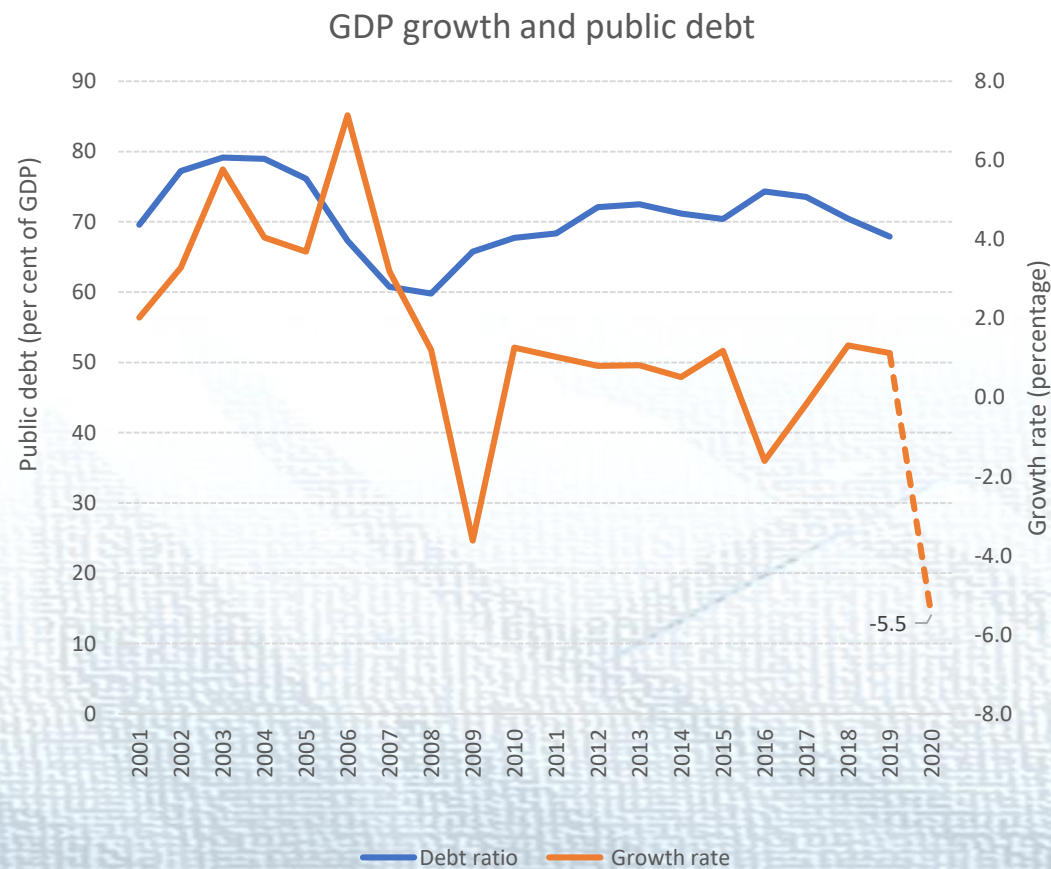
Financing for development in the Caribbean

9th June 2020.

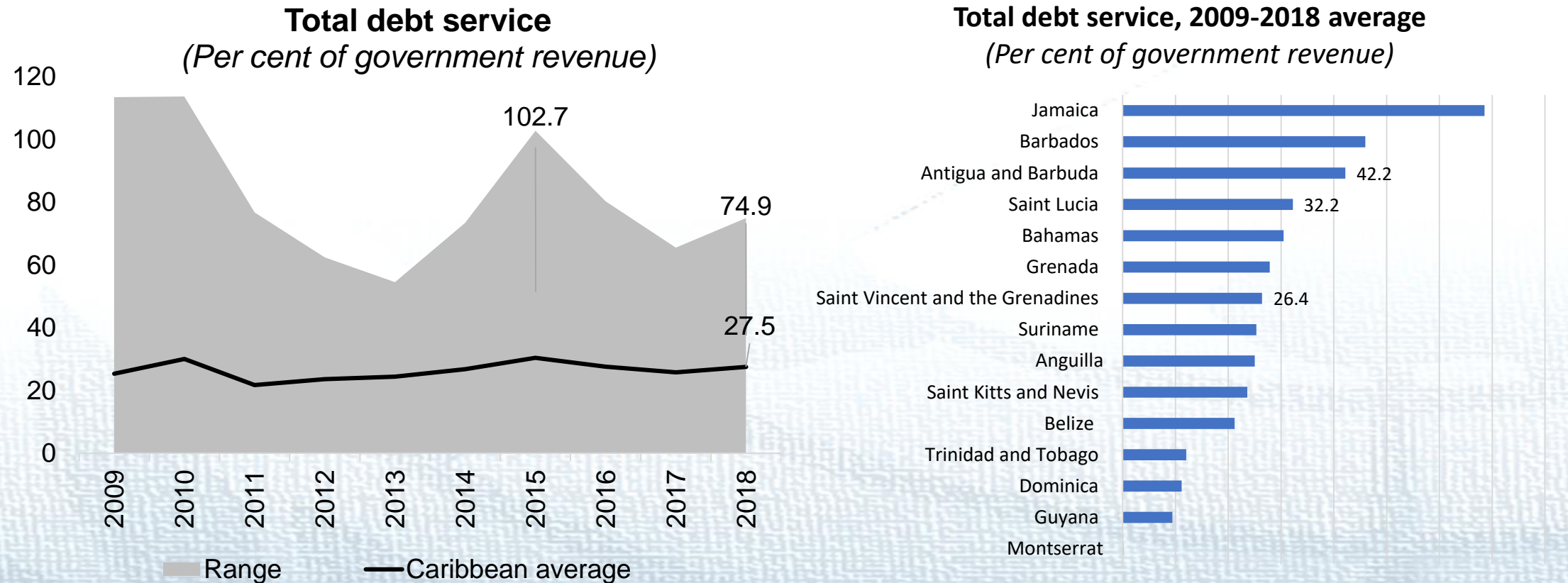
The role of VNRs in motivating Financing for development

- Health pandemics including Covid are another layer of vulnerability-adding to hurricanes, drought, floods and last but not least climate change.
- Huge financing gap between the ambitions of the SDGs and what is required. At the international level there was a delinking between FFD and SDG/SAMOA and only financing for climate change was integrated.
- **VNR's can function to do the following with respect to financing:**
- Address what we can do for ourselves, what we are doing as Caribbean SIDS and point to the financing gap. Covid-19 has thrown up new vulnerabilities and these are also opportunities (Eg inequality in access to ICT, building a new health infrastructure including smart hospitals etc).
- **In terms of the presentation:**
- First let us assess where we are briefly as a subregion.
- Then what are the sources of finance-Private domestic sources/government/international Multilateral and bilateral institutions/non-concessional sources
- Where else to fill the gaps-The role of VNRs and proposed solutions.

The Caribbean is faced with high public debt and low growth



High debt service cost limits fiscal space



Notes: 1. This chart illustrates the wide range of debt burdens that Caribbean SIDS face.

2. The high end of the shaded area is maximum debt service ratio, and the low end is the minimum, which remains at or just above zero.

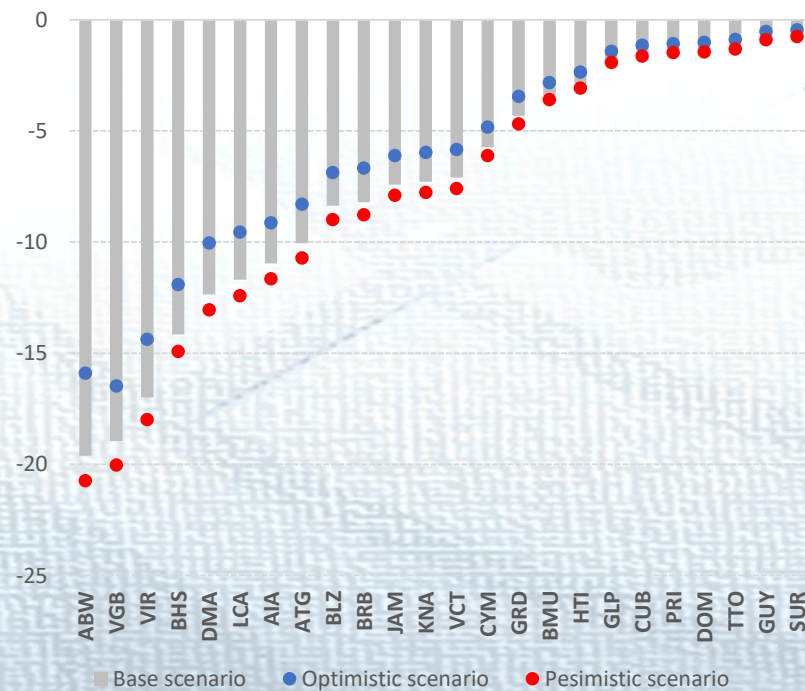
3. Bahamas data is unavailable for 2017 and 2018 and Barbados data is unavailable after 2015..

Tourism

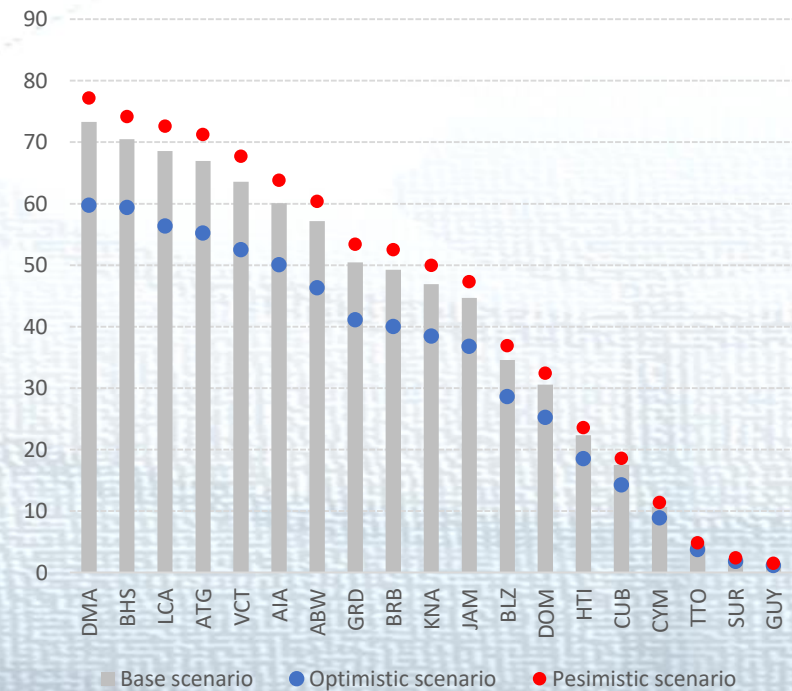
Visitor arrivals will fall by between 57% and 75% in 2020, leading to losses of tourism expenditure between US\$22B and US\$28B

Impact of COVID-19
On Caribbean Tourism
Sector

Direct tourism impact on GDP growth,
2020
(Percentage)



Visitor expenditure losses
(Per cent of exports of goods and
services¹)



International transportation

- Globally Cruise lines have completely shut down services, with revenue losses for operations *in the Caribbean* estimated at USD0.6 billion or 74% of revenues for six months of 2020.
- Global airline losses amounted to USD252 billion of RPK's or 70% fall year on year. For regional airlines, projected revenue losses were 92% if disruptions were to exceed 8 months of 2020.
- While commercial shipping did not suffer the same level of disruption, congestion of global hubs affected supply chains. With the Caribbean, reduce capacity load is likely to result in short-sea service consolidations which could reduce long term shipping services post Covid 19.

Trade Balance Impact of COVID-19

OECS member states

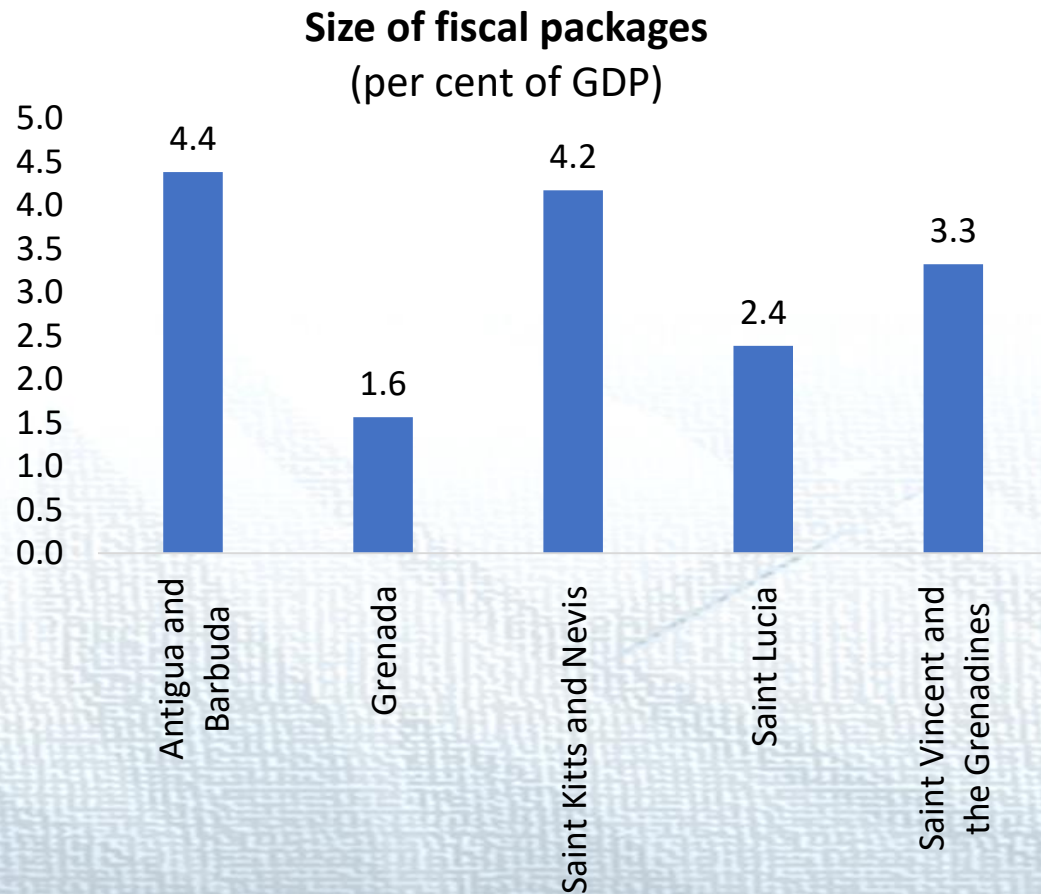
- US\$ 261 million would be saved due to energy price decline

	Impact on fuel imports					
	Main	Downside	Upside	Main	Downside	Upside
	<i>(Millions of US dollars)</i>			<i>(% of total import)</i>		
AIA	-7.9	-9.5	-6.3	-3.4	-4.1	-2.7
ATG	-32.6	-39.1	-26.1	-5.4	-6.5	-4.3
VGB	-5.9	-7.1	-4.7	-2.0	-2.5	-1.6
DMA	-9.5	-11.4	-7.6	-3.1	-3.8	-2.5
GRD	-16.5	-19.8	-13.2	-3.5	-4.2	-2.8
MSR	-2.7	-3.3	-2.2	-8.0	-9.6	-6.4
KNA	-1.5	-1.8	-1.2	-0.5	-0.5	-0.4
LCA	-167.5	-201.0	-134.0	-25.4	-30.5	-20.3
VCT	-16.7	-20.0	-13.3	-4.7	-5.7	-3.8
OECS Total	-260.9	-313.1	-208.7	-8.0	-9.5	-6.4

Source: ECLAC and WITS.

Note: OECS member states which recent trade data is available.

Fiscal efforts between 1% and 4% of GDP to tackle the COVID-19 crisis



- Limited fiscal packages focused on the following areas:
 - Social security programmes such as salary relief grant and food cards provided to children affected by school closure
 - Liquidity support for individuals and corporations, especially SMEs
 - Limited fiscal support for the tourism sector and other sectors
- Increased health care spending on:
 - Prevention and treatment of COVID-19
 - Enhanced public health surveillance

Urgent recommendations from the ECLAC dialogue with Caribbean Ministers of Finance

- **ECLAC debt relief initiative:** The strain of the COVID-19 pandemic on Caribbean debt provides an opportunity to move forward the initiative to promote investments in green technology in order to build climate resilience
- **Liquidity support:** urgent interventions are essential to ensure liquidity. IMF RCF is an important instrument, but it has to be free from conditionality
- **Increasing fiscal space:** Borrowing is not an option, instead the Caribbean needs debt relief and grant support. There are tools in the IMF and World Bank's toolbox similar to debt forgiveness offered to African countries that can be suitable to easing the debt burden across the subregion
- **Eligibility criteria of IFIs:** it is not sufficient to use historical data to determine eligibility. The eligibility criteria should be based on the current situation, reflecting the consequences of COVID-19 and the increased economic dislocation

Existing sources of finance/strategies to employ

- Domestic capital markets are thin-little innovative financing -risk averse and profit oriented.Tax to GDP ratios higher than in Latin America and high tax evasion among the most able to pay. No capital gains tax.
- Commercial banks are uncompetitive have high liquidity but are not suited for development finance. New machinery must be invented.
- Need PPP to share risk and profits. The must be done with transparency and accountability.
- Need an enabling environment for the private sector-reduce transaction cost by reducing excessive regulation and expanding the space for entrepreneurship. Bring in women and youth and the Public procurement system can help to facilitate.
- Post Cotonou arrangements means that Caribbean and the rest of the ACP will have to compete with other regions for EU funds now called Neighborhood, Development and International Cooperation Instrument (NDICI)
- IMF/WB/CDB- Bond markets increase debt burden/increase sovereign risks and costs
- Only major source of concessional finance: GCF provides concessional finance for climate change related activities but challenges at a time of reduced public sector capacity.Caribbean SIDS must increase their capacity to access such funds through collaboration/solidarity.
- **Increased engagement of the private sector towards investing in specific SDGs (The UN Global Compact)**
- Global solidarity for addressing derisking, grey/black listing.VNRs must address domestic and international constraints.
- Blended finance (The e strategic use of development [finance](#) and [philanthropic](#) funds to mobilize private capital flows) and other innovative strategies-debt for nature swaps etc
- Need state contingent instruments (Barbados and Grenada) /GDP indexed bonds, debt suspension clauses, hurricane clauses/IMF/WB must promote this. VNRs must call attention to these.
- Necessary debt reduction

Creation of the CRF

- **To fill the financing gap:** Need long term low cost development finance including more immediate support for Covid-19 at concessional terms.
- **Governance structure:** nominees from member countries, UN agencies and multilateral development banks
- **Other avenues for Fund capitalization:** large scale financing from international development partners for different purposes such as debt reduction, grants, concessional loans, etc.
- **Services offered:** services that span the entire project cycle, including documentation, project design, financial structuring, credit provision, monitoring, etc.
- **Location of Fund:** ECLAC team will engage in further discussions with the principals of the CDB and the CDF
- **Role of the GCF and major creditors:** The GCF would provide funding, review climate projects and nominate members for the board of governors