Changes in the development Finance landscape and its relevance to Caribbean SIDS

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Outline

- The SIDS agenda and priorities
- Means of implementation
- The financing architecture
- Debt relief and debt swaps
- ODA and Caribbean SIDS
- Countercyclical loans
- Emergency and climate financing
- Forms of financing
- Other private sources
- Aid for trade

The SIDS agenda: The Samoa pathway and the Mauritius strategy

- Caribbean SIDS small, open, economies
- Vulnerable to climate change, natural disasters, external economic shocks
- They also experience:
  - High debt burdens and limited fiscal space.
  - High rates of poverty and inequality and low level of social protection
  - Limited technological preparedness.
  - A variety of health risks including NCDs and additional health risks from cross border travel given the importance of the tourism industry

The SIDS agenda (2)

- New financing landscape must address peculiar Caribbean needs and priorities
- Although most have been said to achieve “middle-income” status, based on income, vulnerabilities remain
- Measure based solely on per capita income is unsatisfactory and discriminatory to a number of countries including SIDS given what ECLAC calls a variety of “structural gaps”.

Means of Implementation

- Samoa Pathway identified various means of implementation and suggest that SIDS are responsible for their development. Give their vulnerability,
- SIDS challenges require:

"adequate provision and mobilization of all means of implementation and continued international support to achieve internationally agreed goals"

- Partnerships and shared responsibilities
- Document argues for North-South and complementary South-South and triangular and for SIDS to fulfil their commitment to the SDG's .
- Financing for development
- Other means also cover trade which cannot be divorced from financing for development, capacity building, technology, the building of a data and statistics infrastructure to support the SDGs and overall support for monitoring and accountability

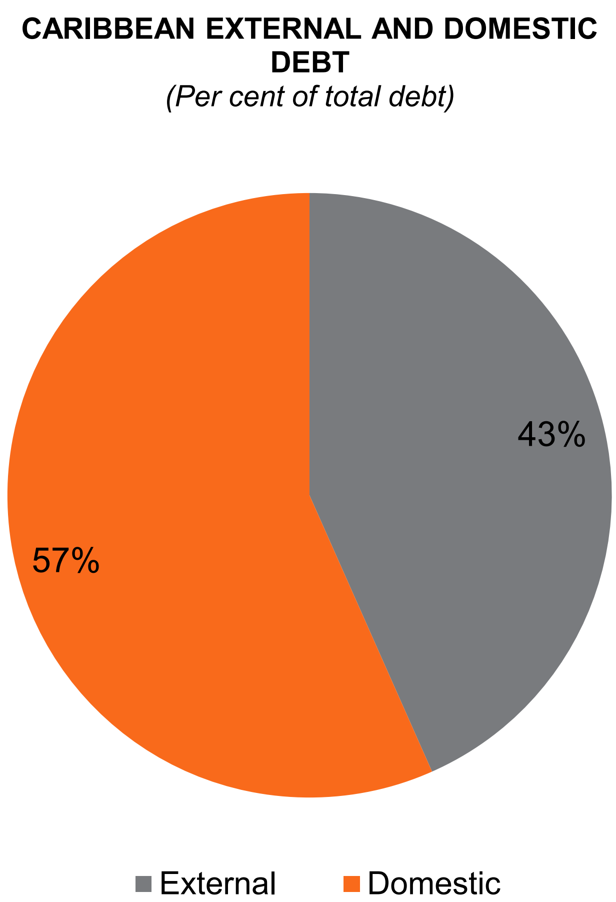
The Financing Architecture

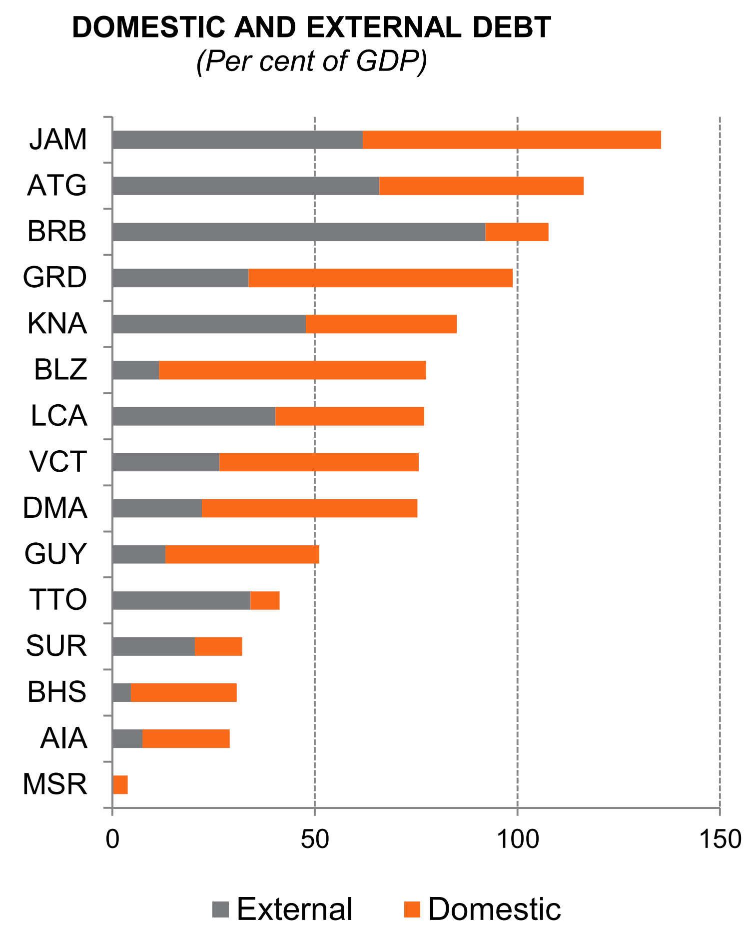
Financing For Development Timeline

Monterrey Consensus – 2002 → Doha Declaration – 2008 → Addis Ababa – July 2015

- Meeting in Addis Ababa will likely define how shared but differential responsibilities for global development will be handled in years to come
- FFD architecture has changed: New bilateral donors have emerged and the private sector is now a factor
- To address relevance of the emerging FFD architecture we must determine what are the sub-regional issues.

Debt relief and debt swaps

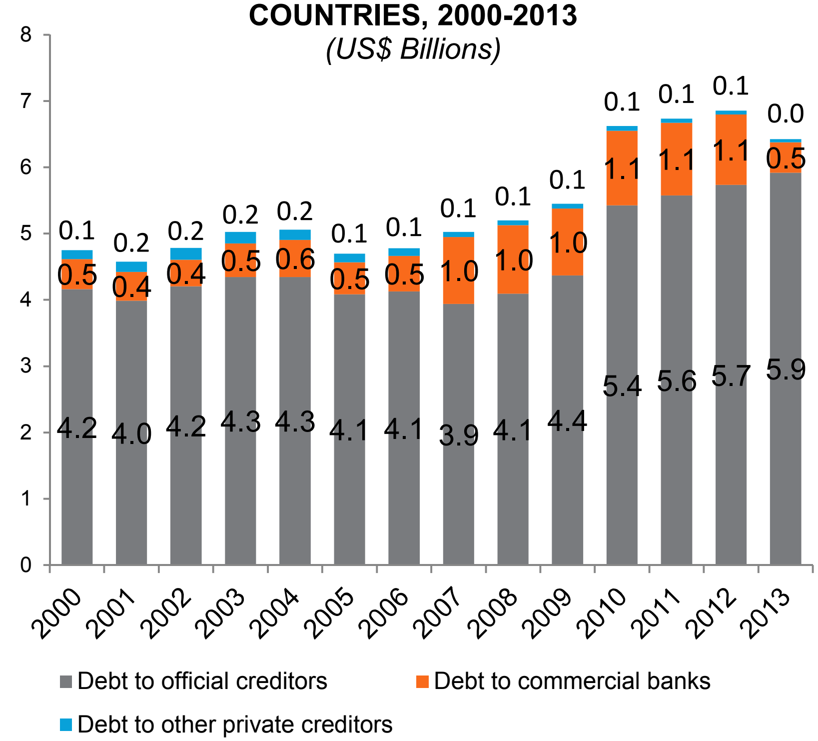




Source: ECLAC

Debt relief and debt swaps (2)

- Caribbean are middle income and expected to raise their own resources
- Small states constrained by access to finance
- All Caribbean countries except Guyana and Haiti exempt from MRDI and HIIP arrangements
- Biggest component of debt, multilateral



Source: WorldBank (2015) World Development Indicators Database
Note: Includes Belize, Barbados, Dominica, Grenada, Guyana, Jamaica, Saint Lucia and Saint Vincent and the Grenadines

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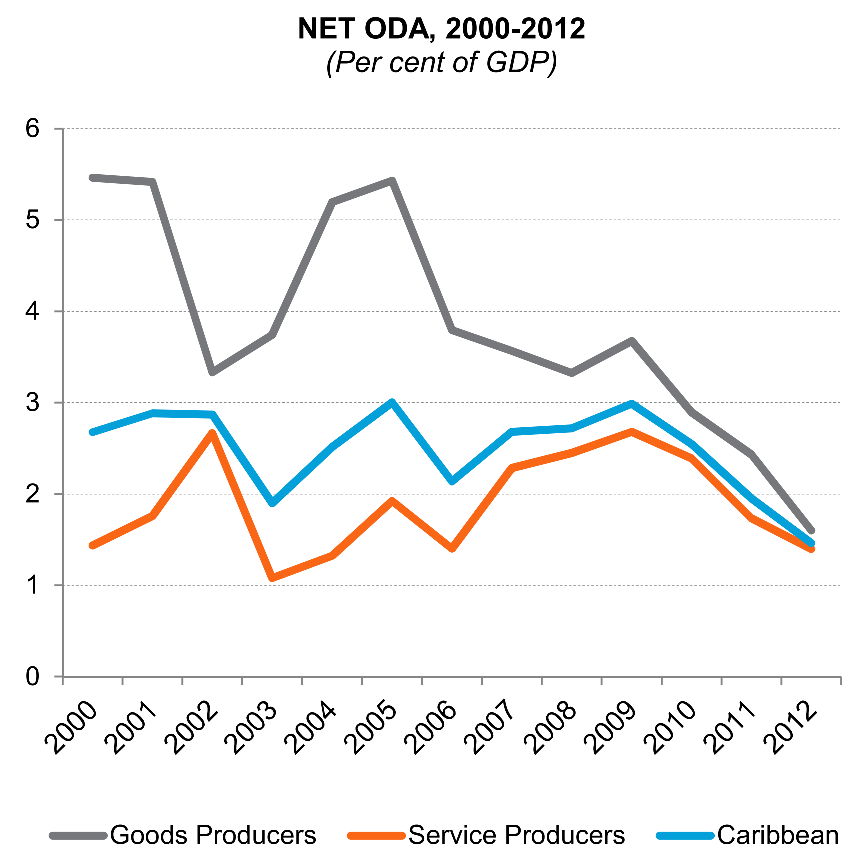
Debt relief and debt swaps (3)

- Paris Club debt tends to be rescheduled and not reduced. Not a major factor today
- Bond financing – increases indebtedness to private creditors
- Collective action clauses with bond holders – not all countries have this opportunity (Argentina and Belize cases)
- Domestic financing – higher interest rates
- Debt for nature and other swaps – should not be counted as ODA
- Need for a regional approach to debt reduction since adjustment affects other countries in the region.

ODA and Caribbean SIDS

- ODA has been declining for the Caribbean, with the exception of Haiti
- Service producers received less since they have higher per capita GDP on average. Yet they are most vulnerable.
- Need new criteria for such access



Source: World Bank World Development Indicators Database

Countercyclical loans

- Caribbean economies faced limited fiscal space after the global financial crisis and could not engage in significant counter cyclical spending
- Some facilities developed to facilitate repaid access to credit
- They are inadequate for the scale of the challenge and tend to attract costs. The AFD model seems more appropriate for small states.

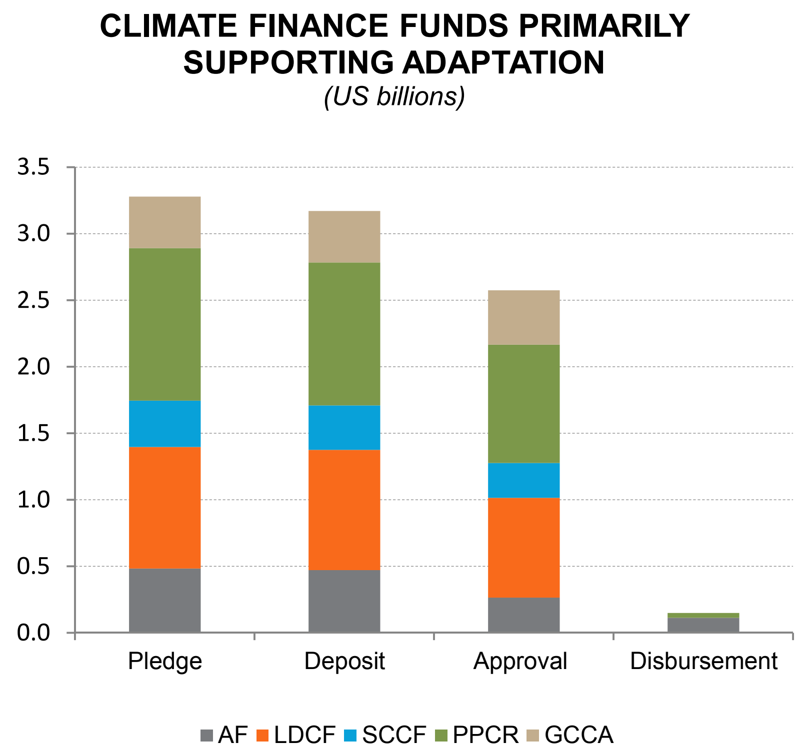
Emergency financing of SIDS

- IADB launched two credit lines in 2012 for LAC:
  - Development sustainability credit line
  - contingent credit line was expanded to address natural disasters
- IMF has the Emergency Natural Disaster Assistance (ENDA) facility and set up an Exogenous Shocks Facility
- World Bank established Global Facility for Disaster Reduction and Recovery

- Caribbean Catastrophic Risk Insurance Facility (CCRIF) is a multi-country parametric insurance scheme. Not enough insurance is taken out due to resource constraints.
- Such resources must not be a substitute for longer term financing

Climate Financing

- Climate change financing most intensive area for new funds
- Some 50 international public funds, a number of carbon pricing mechanism and equity funds.These included: GEF, AF, CIF, GCF; REDD+
- However, climate financing is difficult to access and has high transactions cost
- Pledges do not match disbursments



Source: Climate Fund Update, February 2015
Note: Adaptation Fund (AF), Least Developed Country Fund (LDCF), Special Climate Change Fund (SCCF), Pilot Programme for Climate Resilience (PPCR) and Global Climate Change Alliance (GCCA).

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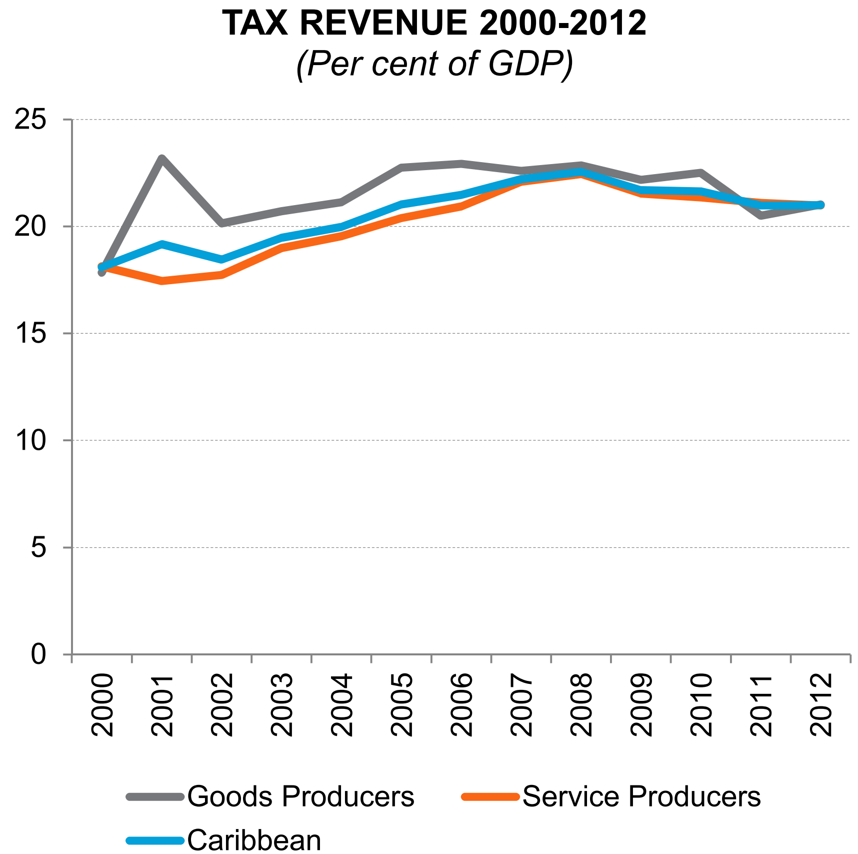
South/South cooperation

- China
- Taiwan
- India
- Brazil
- Arab donors
- Turkey
- Venezuela (Petrocaribe)

Forms of Financing



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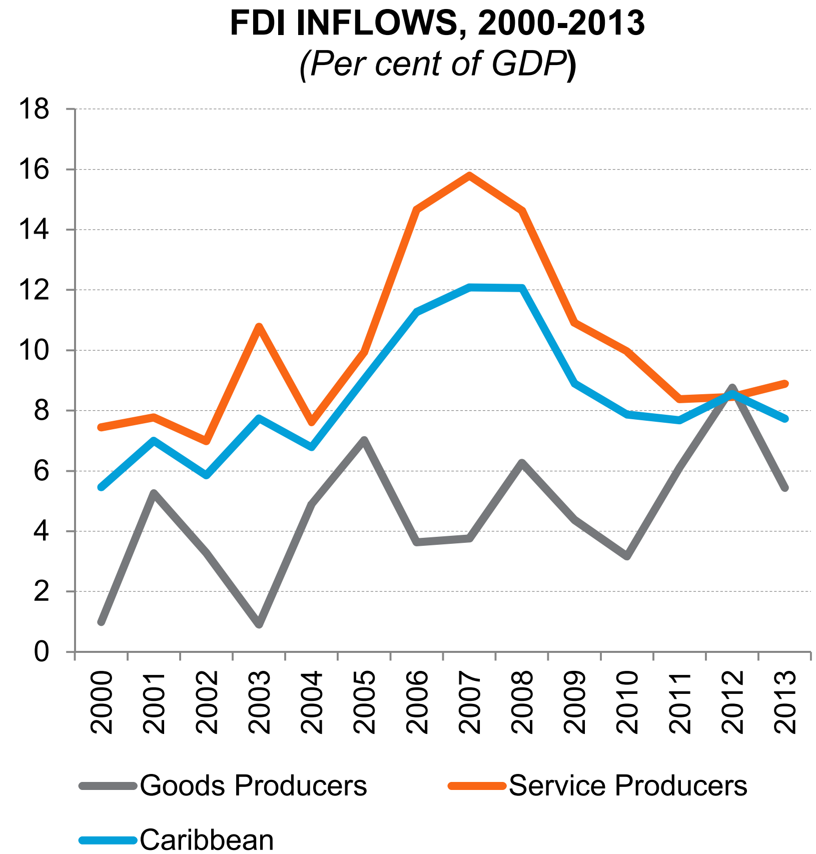


Source: World Bank World Development Indicators Database

Blended Financing

For:

- Mobilising additional resources
- Enhances ownership through the loan component
- Opening new opportunities for the private sector-reducing their risk
- Better coordination and efficiency
- Help develop the private sector

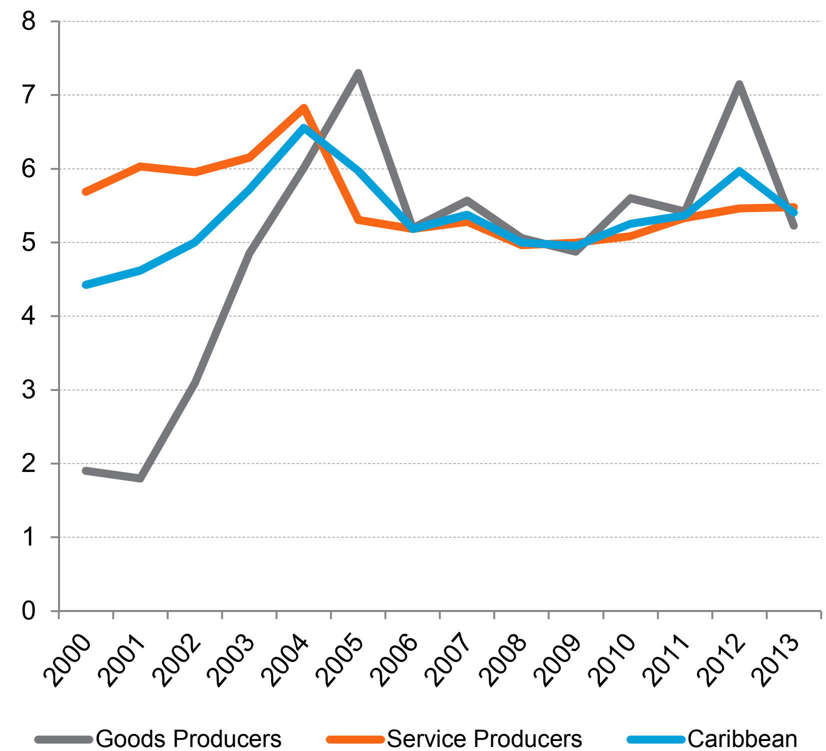
Against:

- Financial incentives outweigh development considerations. Return on investment outweigh development concerns.
- Sectoral preferences and a tendency for finance to gravitate to certain countries and regions
- Crowding out some aspects of the private sector
- Debt risks for small states

Other Private sources

- Remittances are an important source
- More robust than FDI in the Caribbean
- Countercyclical
- However, largely for household consumption and cannot be interpreted as development finance
- Encourage by reducing costs and a friendlier migration policy

CARIBBEAN MIGRANT REMITTANCES, 2000-2013
(Percent of GDP)



Source: World Bank World Development Indicators Database

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Aid for Trade

- Resources hard to access and not sufficient.
- Need resources for :
  - Customs facilitation
  - Logistics
  - ICT interconnection/Capacity building

Conclusion

1. Despite wide range of financing mechanisms, the flow of finance is not automatically being channelled to SIDS despite their inherent vulnerability.
2. Some scope for raising additional resources for development through the domestic private sector – transparency important so that public funds do not merely subsidise the private sector with guaranteed returns
3. Region needs the support through the SIDS process, through CELAC and international partnerships to make case for greater support in light of vulnerabilities as it pursue its SDG goals.