

# FINANCING FOR DEVELOPMENT IN THE ERA OF COVID-19 AND BEYOND: URGENT CONSIDERATIONS FOR THE CARIBBEAN



**COVID-19  
RESPONSE**

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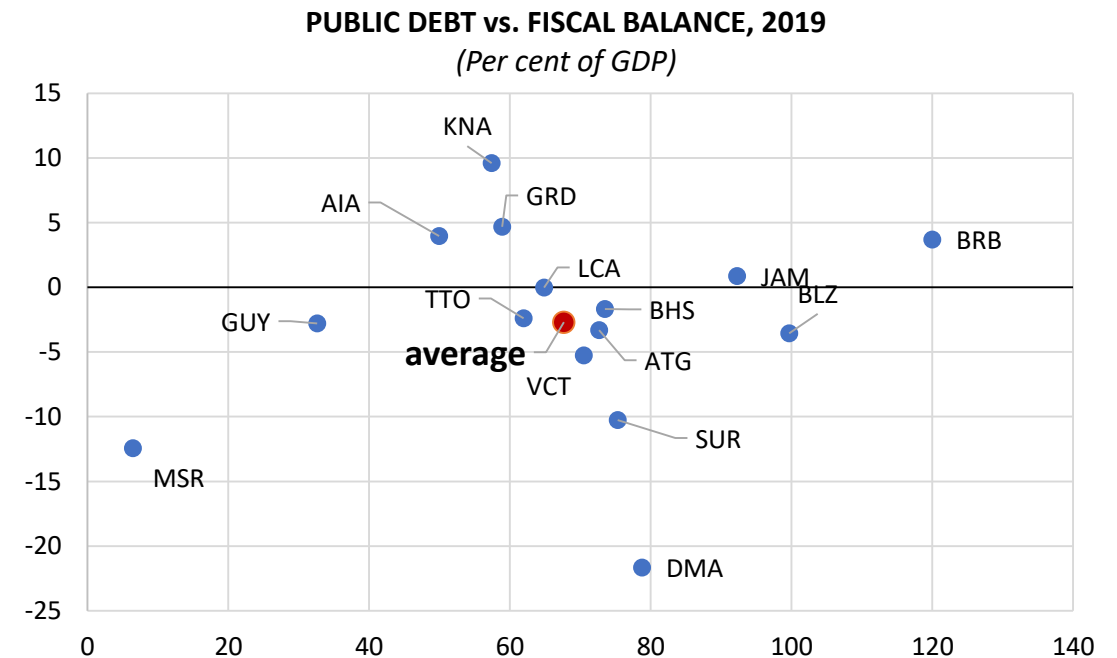
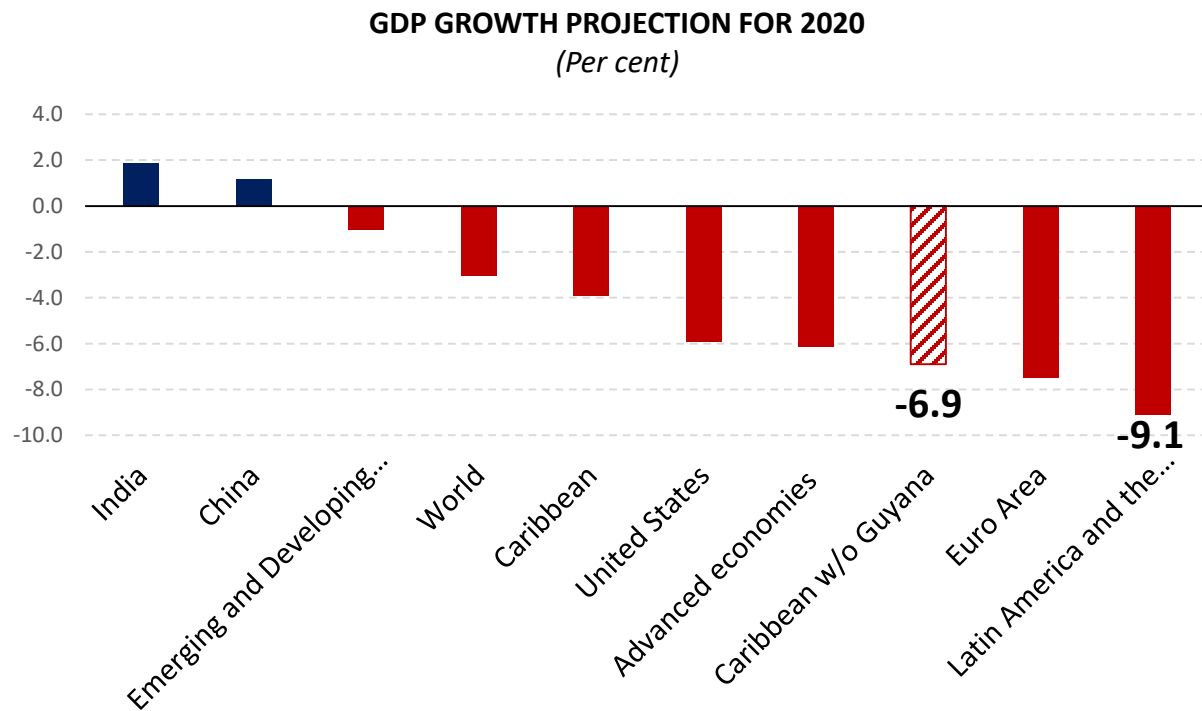
Executive Secretary

Economic Commission for Latin America and the  
Caribbean (ECLAC)

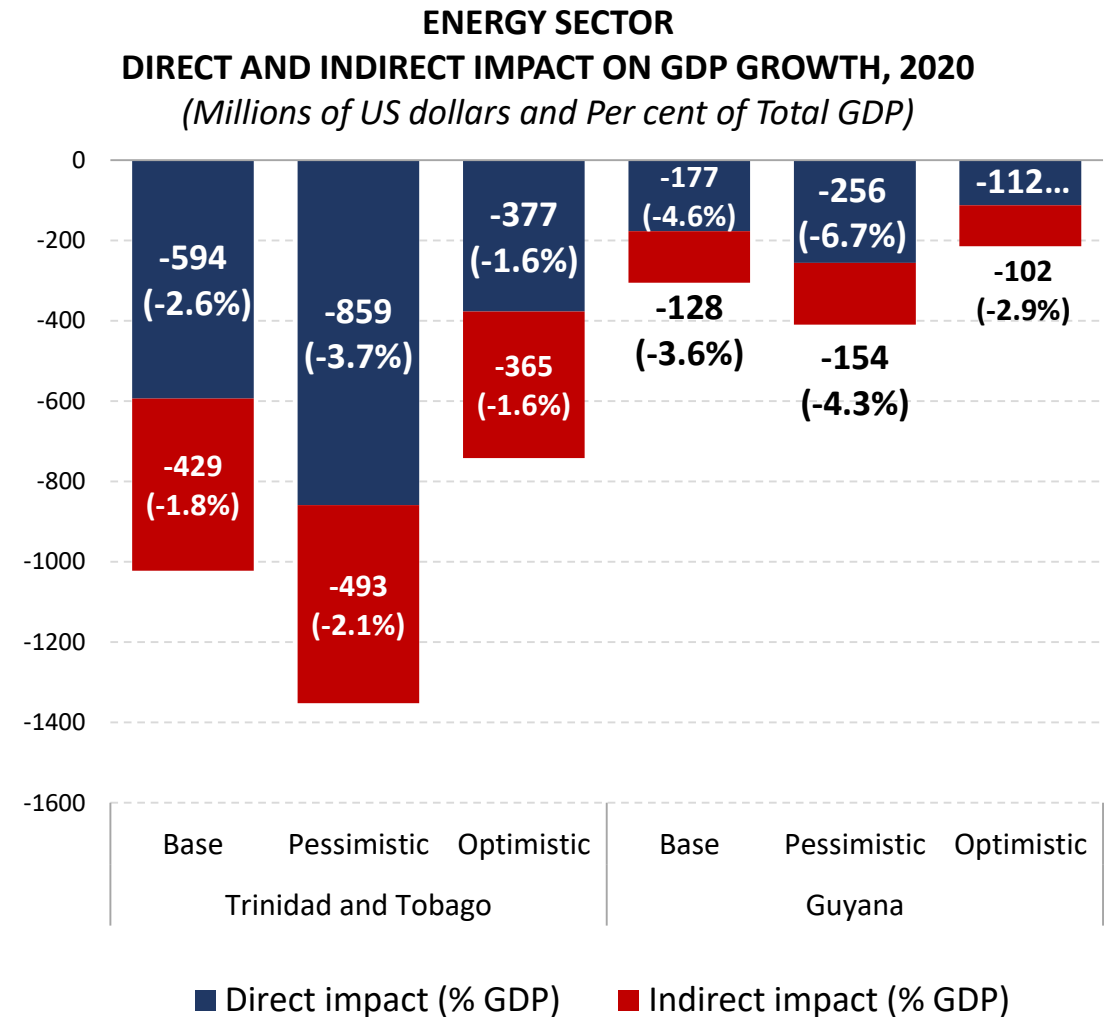
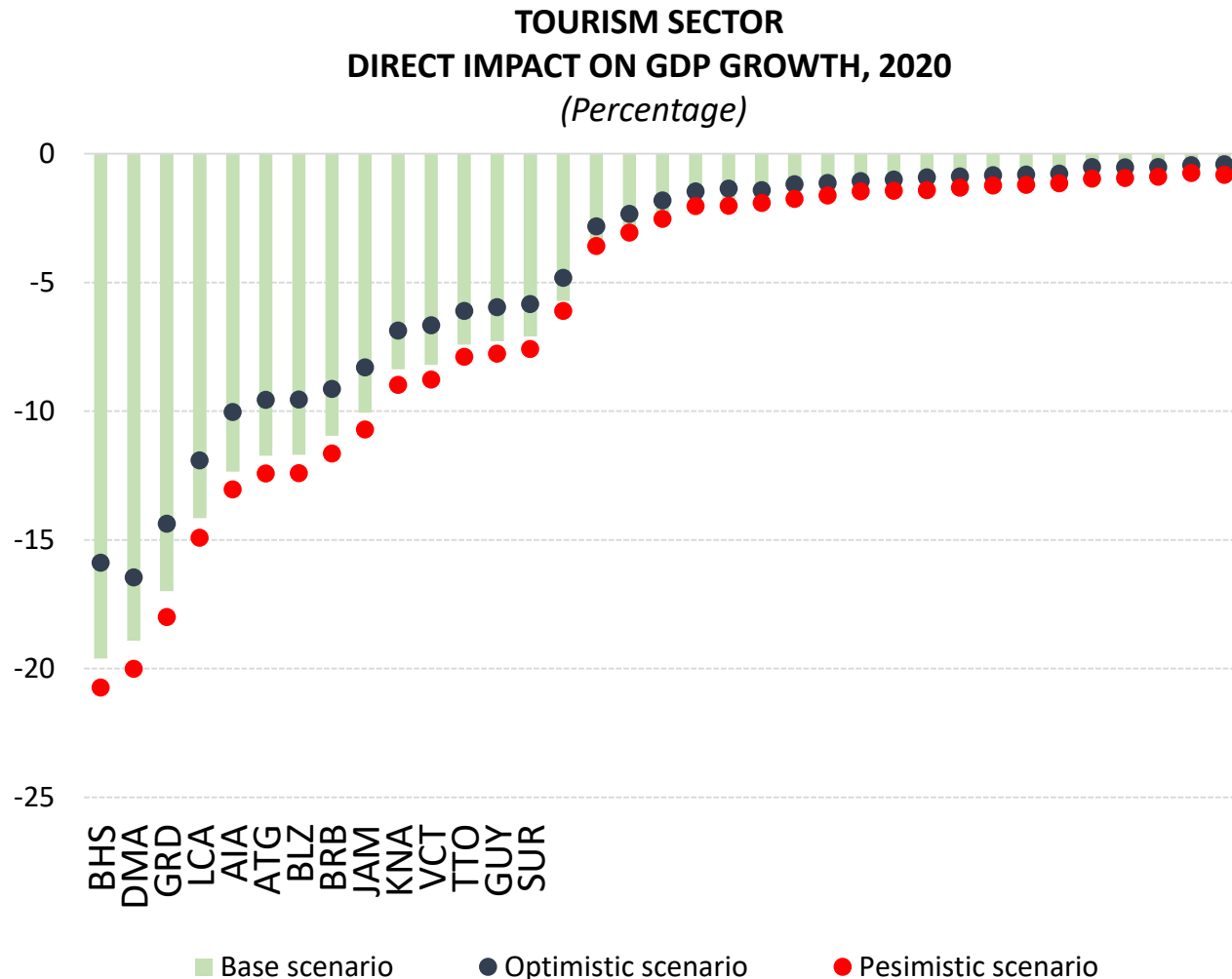
*10 September 2020*

# The economic impact of the Covid-19 pandemic across Caribbean economies has been severe

- Caribbean GDP growth projected to decline to **-6.9%** (excluding Guyana) ; lower than emerging and developing economies
- Fiscal deficits in 2019: **2.7%** of GDP in 2019 relative to 2.1% of GDP in 2018 and are expected to expand further in 2020
- Unemployment rates **expected increase in 2020** after falling by 2.9 percentage points over the last five years
- Persistently high debt levels standing at **67.6% of GDP as of 2019** are **expected to increase** as gov't's address the fallout from COVID-19 restrictions

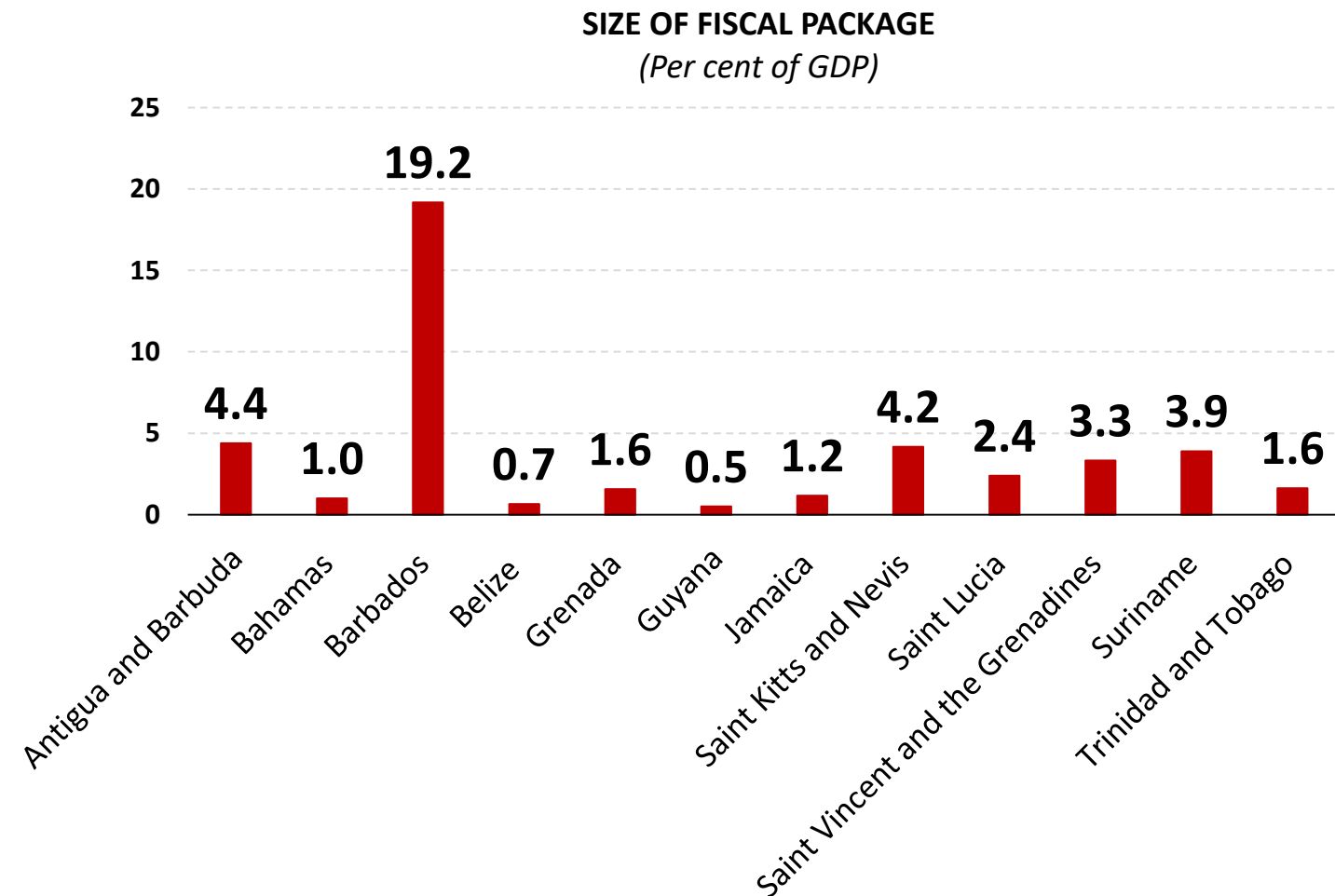


# Direct impact of COVID-19 on GDP growth in tourism is projected to be between 6.6% to 8.5% while total impact for the energy sector expected to be 5.8% (TT) and 11% (Guyana)



# Mitigating the Impact of Covid-19 on the Caribbean

Fiscal efforts in the selected Caribbean economies ranged **between from 0.5% to 5% of GDP** (except Barbados) and eight of these countries fell beneath the LAC average of 3.9%.



## Financial assistance from international donors to Caribbean countries

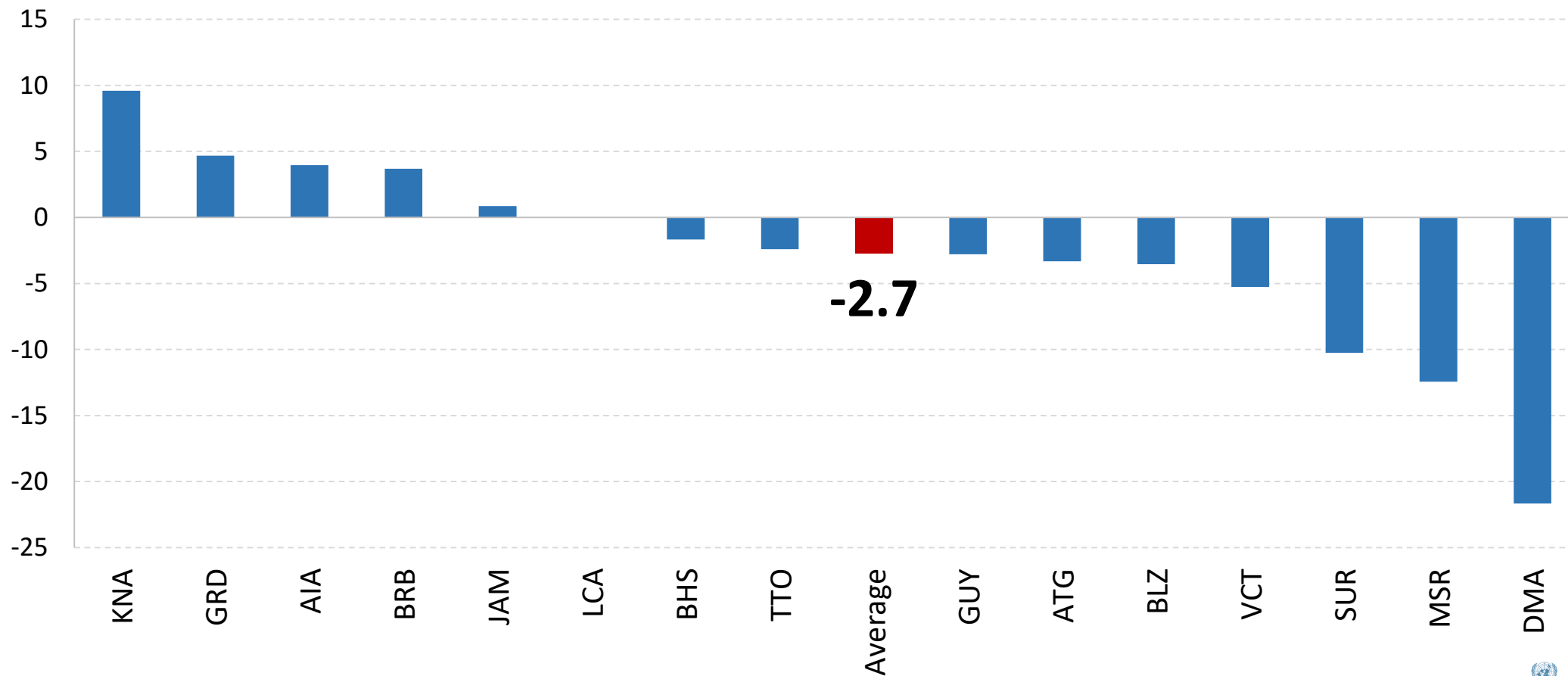
**Inadequate international assistance** by the international community to mitigate the impact of the pandemic on Caribbean economies

Jamaica, Trinidad and Tobago, Barbados and the Bahamas access upwards of \$US 190 million in loans, while the remaining countries access **no more than \$US 43 million**

Collective **Grants/Donations** to the region, by international community, **no more than \$US 40 million**

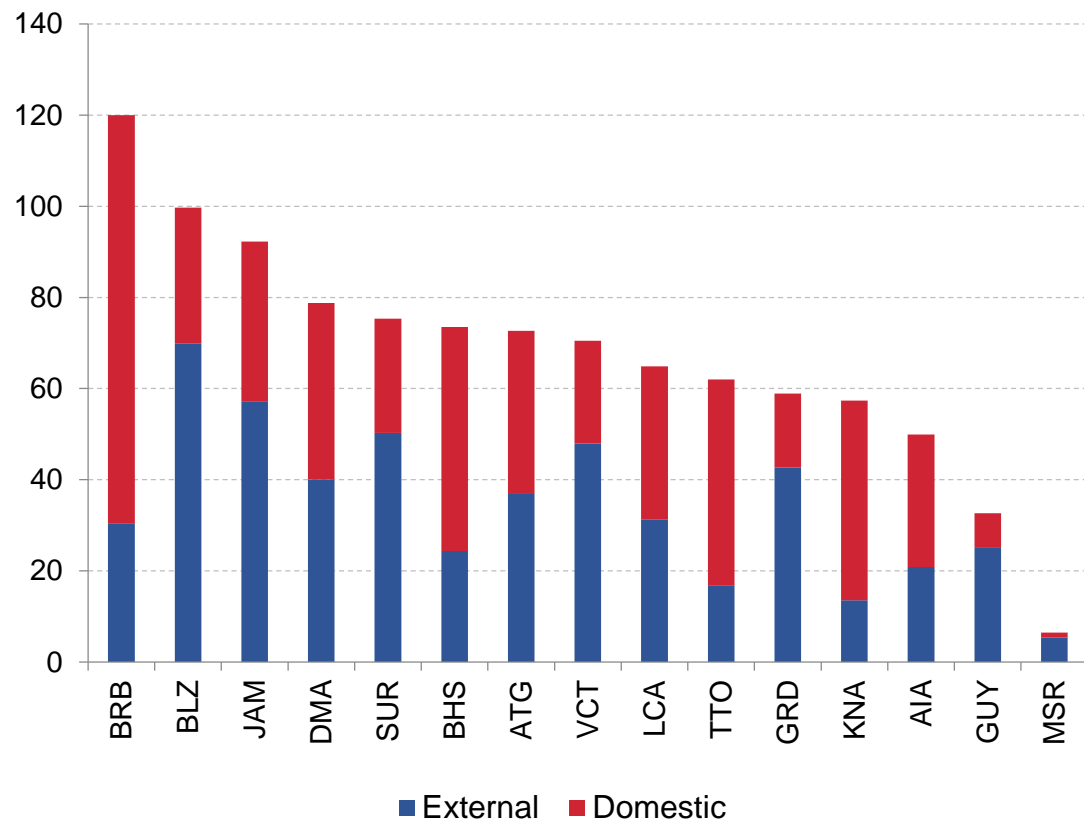
# Being liquidity the most urgent challenge facing the Caribbean, the COVID-19 pandemic has stressed fiscal policy

Fiscal balance, 2019  
(Per cent of GDP)

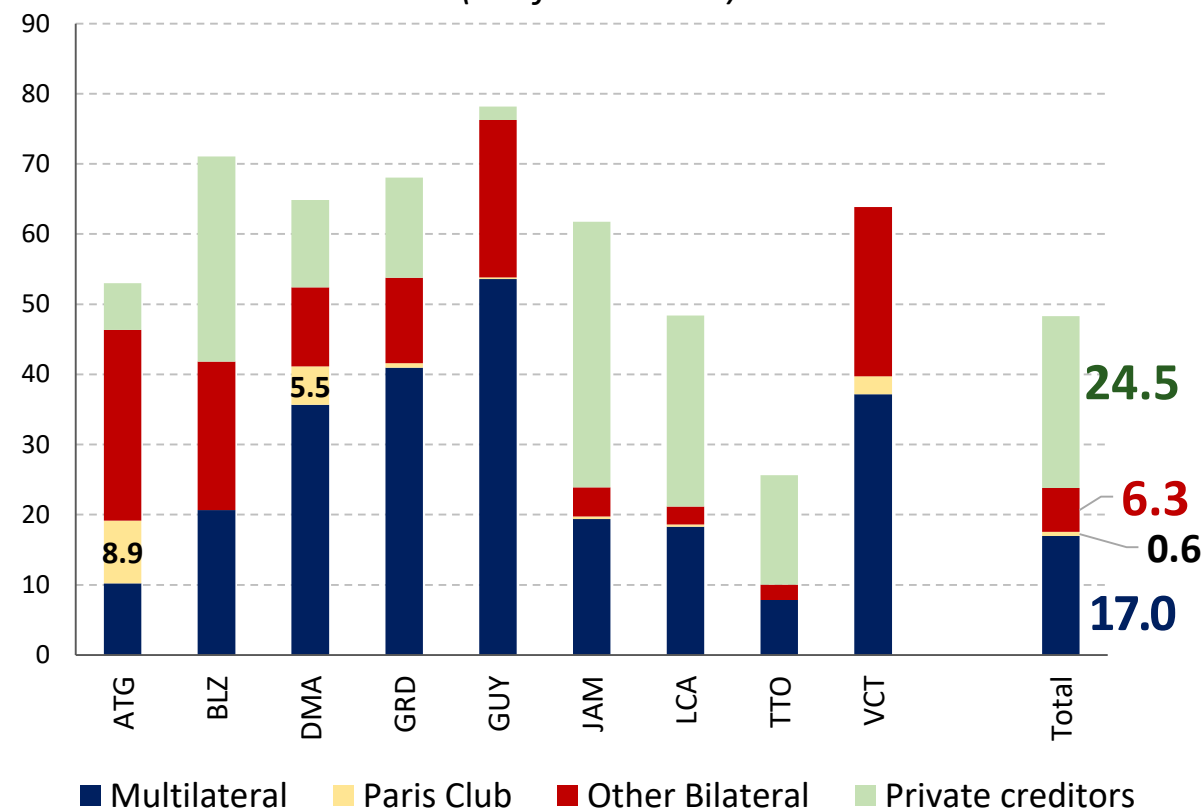


# Increased borrowing to cope with the pandemic will lead to a spike in the subregion's public debt in 2020

**Total public debt, 2019**  
(Per cent of GDP)



**Composition of external debt, 2018**  
(% of total debt)



# Financing for Development in the Era of COVID-19 and Beyond

Initiative convened by Prime Ministers of Canada and Jamaica and the UN Secretary-General António Guterres

## *Key milestones:*

- ✓ May 28. 2020 **High-level event on Financing for Development** in the Era of COVID-19 and Beyond
- ✓ September 8. 2020 **Meeting of Ministers of Finance**
- September 29. 2020 UN General Assembly-**Meeting of Heads of State**
- December 2020. Follow-up to benchmark and place progress in the context of 2030 Agenda Delivery

Six discussion groups co-led by Member States

**Finance.  
Remittances. Jobs  
and Inclusive**

**IV. Debt  
Vulnerability**

**II. Recovering  
better for  
Sustainability**

**V. Private Sector  
Creditors  
Engagement**

**III. Global Liquidity  
and Financial  
Stability**

**VI. Illicit Financial  
Flows**

# Benefits and challenges of ECLAC's proposals and endorsements

- **New SDRs issuance and reallocation to MICs**
  - Issuance of US\$ 500 billion would amount to **\$2 billion in extra international reserves in the Caribbean**
  - SDRs issuance is **subject to at least 85% of total votes**
- **Expanding G20 Debt Service Suspension Initiative (DSSI)**
  - Extend the term; broaden scope of beneficiaries (middle-income SIDs); include multilateral debt; enhance private sector participation
  - **Concerns over credit downgrades** and cross-default triggers would likely mean only limited participation
- **Debt-to-COVID response/SDG/or climate swaps**
  - Channel debt service payments into SDG-related investments
  - Could undermine country ownership and autonomy
  - Creditors and debtors have to agree to terms, which **takes time**



# Benefits and Challenges of ECLAC's proposals and endorsements

- **Creation of Regional Resilience Funds**
  - Quickly provide **low-cost medium-term finance** for small vulnerable economies
  - Partners should be convinced to participate
- **Institutionalizing State Contingent Debt Instruments**
  - Provide **fiscal space for middle income countries**
  - **Politically unpopular** during periods of high growth
- **International mechanism for orderly sovereign debt restructuring**
  - Establish a **sovereign debt forum** and **sovereign debt authority**/ standing body
  - processes to set up a sovereign debt authority might be protracted, **requiring further legal and procedural clarification**

# Benefits and Challenges of ECLAC's proposals and endorsements (3)

- **Reestablish Correspondent Banking Relations in the Caribbean**
  - Contribute **to lower cost of remittance** transfers and easier conduct of **legitimate transactions**
  - Find a balance between global regulation and the perspective of middle- and low-income countries
- **Expand the role of UN Tax Committee**
  - **Reduce country asymmetries** in the global tax and financial debates
  - Requires an important **institutional coordination effort**
- **Credit Rating regulation and a new public Credit Rating Agency (CRA)**
  - Incorporate longer-term SDG-aligned, social and environmental indicators into agency ratings
  - Creation of publicly owned CRAs was also proposed

# Five key policy recommendations

- 1. Special dispensation for the Caribbean through:**
  - Access to **grant and concessional funding**
  - **Debt relief/cancellation without conditionalities**
  - Access to **enhanced DSSI (bringing in private creditors)**
  - Regional Development Banks
- 2. Issuance/reallocation of SDRs**
- 3. Engage bilateral creditors including Paris Club (Antigua y Barbuda, and Dominica)**
- 4. Establishment of Caribbean Resilience Fund**
  - Facilitate the necessary capital investment to build economic and climate resilience
  - **Initial capitalization in the order of US\$6.9 billion (12.2% of regional debt)** is being sought
  - Need to be a regional facility with an appropriate member-based governance structure
- 5. Green Climate Fund's involvement in the ECLAC Debt Swap Initiative**
  - Access to concessional/grant resources from GCF and establishment of the Resilience Fund needs to be agreed to move the Initiative forward

# Urgent need to reform the international financial architecture

- Financial stability should be seen as global public good
- Liquidity should reconnect with real economy.
- The establishment of an independent agency in coordination with MDBs that could assist in the **liquidity and sustainability facility** to improve market access for African sovereigns and analyze applicability for Caribbean economies.
- **UN Tax Committee** to become an intergovernmental body and include the voice of small economies: to address the issues related to black/grey listing and correspondent banking
- **Review income-per capita criteria** for MICs/SIDS and include vulnerability indicators.
- ECLAC will continue to advocate for greater financial support to build resilience for the Caribbean SIDs