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

Alicia Bárcena
Executive Secretary
Economic Commission for Latin America and the Caribbean (ECLAC)

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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, 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)*

-2.7
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)*
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 Growth**
- **Recovering better for Sustainability**
- **Global Liquidity and Financial Stability**
- **Debt Vulnerability**
- **Private Sector Creditors Engagement**
- **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