

## Chapter 4

# The Road to 2050: the Caribbean We Want

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### 4.1 Introduction

The pathways presented in chapter 3 provide the Caribbean with a range of possible futures: a 'business-as-usual', a best-case and a worst-case scenario. The most compelling and appealing of the three clearly points to the implementation of strategies that will lead to the best-case scenario. Consistent with such a strategy is a vision for the Caribbean as peaceful, prosperous and inclusive; where its people are creative, enterprising and resilient, fully engaged in, and benefiting from, development within the framework of effective institutions that guarantee human rights and social justice.

More specifically, the Caribbean we want would need to be:

1. a creative and enterprising economy in which innovation is the driver;
2. one in which young people are fully integrated into national development;
3. a stable society where people are safe, secure and prosperous;
4. one in which environmental sustainability is mainstreamed into the development process;
5. a region built on clean, resilient energy systems that make use of plentiful, local, renewable resources, and is capable of providing stable supplies of energy to all sectors of society.

Moreover, the strategies should seek to balance the concerns of survivability today and sustainability tomorrow; address the need for improved region-wide data capture and analysis; and address the need for a truly transformational system of governance across the region.

### 4.2 Strategic framework for Vision 2050

In this chapter, we identify some key actions for achieving the Caribbean we want. These are further elaborated in the sector studies in section two of the book.

#### 4.2.1 A creative and enterprising economy in which innovation is the driver

Caribbean economies have a history of depending on low-value-added products or ones in which the majority of the benefits are expatriated because of their ownership structure. To achieve creative and enterprising economies in which innovation is the

driver, the region will need to make substantive efforts in order to effect a transition from low-value-added economic activity to activities that are driven by local creativity and enterprise in the private as well as the public sectors. To increase TFP by 2 per cent per annum, we recommend developing human capital competencies for the knowledge economy. This can be achieved by implementing regional curriculum reform to build competencies in core and technology-based subjects, as well as problem-solving/analytical workplace skills and developing capability in research and development (R&D) and increasing ICT connectivity in the underserved areas of the region using access to global grant schemes.

Another desirable outcome for the region is to generate a 4 per cent average annual GDP per capita growth rate. In this regard, institutional strengthening, enhancing financing and marketing arrangements, and incubation for businesses will greatly aid achieving this objective. Finally, improving the enabling environment for greater private sector participation, by strengthening policy implementation, governance, accountability and transparency, is a minimum requirement for the transformation of these economies and the creation of economic opportunities region-wide.

#### **4.2.2 Youth fully integrated into national development**

The review of the socio-economic situation and global trends suggests the need for youth-specific interventions, as well as for initiatives designed to more closely align the region's human resources with the requirements of the twenty-first century. In order to achieve Vision 2050, young people must be viewed as the region's most valuable and creative asset, which needs to be developed with the mind-set that they are partners in the development of the region as we transition from the present situation to the future that we envision for 2050.

To ensure young people are fully integrated into national development and achieve the required increase in youth employment of 5 to 10 per cent per annum will require, among other things, stimulating creativity at the early childhood and primary school levels by re-engineering curricula and teaching modalities to respond to different intelligences and modalities. Other recommendations are to utilise talent management and workplace training to engender creativity and problem solving, aligned to private sector needs and improving youth employability through workplace skills. It would also be important to reinforce these policies by expanding/strengthening project-based entrepreneurship activities at the secondary level, instituting regional annual art and science fairs, investing in talent programmes and innovation skills, and providing incentives and awards to enterprising young people. Adopting this multisector approach to youth development will ensure that young people are fully integrated into national development

#### **4.2.3 A stable society where people are safe, secure and prosperous**

The safety, security and prosperity of the region are key elements in Vision 2050, reflecting the pre-eminence of these three characteristics in the attractiveness of the Caribbean as a destination for visitors and investors. With the commitment to

freedom of movement across the region, there is a need for a re-energised regional approach to the challenges that insecurity and depressed economic activity present to social cohesion. There is also a need to improve teacher and teaching standards and approaches across the region, to emphasise the development of innovation and technological educational opportunities, and to ensure equal access, regardless of gender or financial resources. A teacher rotation scheme, through which effective teachers support transformation across the region's most vulnerable and poorly performing schools, has the benefit of improving standards using recognised talent from within the region.

Meeting the requirements of the knowledge-based economy calls for a system-wide approach to human resource development. This requires a comprehensive assessment of the formal education system, post-secondary, informal education, workplace education and training programmes. Where appropriate, the curricula and programme content should be re-engineered to incorporate orientation in the following competencies, in addition to the core education subjects:

- problem solving;
- critical thinking;
- creativity and entrepreneurship;
- team building, leadership and self-management skills;
- ICT and technological skills.

Paramount to the achievement of social cohesion is the implementation of measures that effectively and holistically protect the vulnerable – specifically children, the elderly and the differently abled – who are disproportionately represented among the poor. The region needs to co-operate in developing an appropriate and sustainable social protection safety net. To ensure a stable society where people are safe, secure and prosperous, countries are encouraged to transform social services so that they operate at the community level and provide a closer link between services and potential beneficiaries.

Another important consideration is the reduction of intergenerational poverty, which can be tackled by reinvigorating and integrating plans for poverty reduction, settlement and development in order to improve implementation. Creating economic opportunities and tackling poverty in a more integrated manner has an added spillover impact on crime reduction. The analysis assumes a reduction in homicide rates to 4 to 5 per 100,000. Tackling the root causes is likely to yield greater results than addressing the symptoms. This reduction may also be facilitated by strengthening security capabilities, through enhanced regional monitoring, exchanges and policy frameworks, including sharing intelligence via databases and electronically within the Caribbean and with partners.

One issue of paramount importance to ensuring a stable society is building resilience to natural hazards, as this underpins all other aspects of developing a prosperous and secure society. The region as a whole is vulnerable to many disasters, and therefore a

co-operative effort to implement reductions in vulnerability and build resilience to natural disasters requires a collaborative approach – to build databases of vulnerability and to devise and implement strategies that take advantage of the globally available funds for these purposes. In addition, planning and building protocols need to be amended to prevent further shoreline development and losses.

#### **4.2.4 Environmental sustainability mainstreamed into the development process**

The natural environment is a major element of the attractiveness of the Caribbean in a variety of sectors and ways. Tourism in particular is heavily dependent on the various elements of the natural environment that give rise to the quality of water supplies, coral reefs, environmental aesthetics, and other goods and services. The region needs to co-operate in the development and sourcing of the financing for measures that advance the recommendations relating to adaptation to climate change, which will help to reduce the projected impact of climate change events on the region. Work has been done by the Economic Commission for Latin America and the Caribbean (ECLAC) to estimate the potential costs, which have proved to be substantial. The best option is therefore for collaborative efforts in handling the response to such a regional threat.

To ensure that environmental sustainability is mainstreamed, it is important to develop the blue and green economies: namely, developing plans to protect green and blue resources and leveraging the opportunities they present. A 10 per cent annual increase in value-added is possible from responsibly developed environmental products. The progression and implementation of regional projects that target globally available funds and which support adaptation and mitigation efforts would greatly assist these countries in mainstreaming environmental sustainability, by reducing vulnerability and improving resilience to natural disasters in the form of mitigation and adaptation to climate change.

#### **4.2.5 A region built on clean, resilient energy systems that make use of plentiful, local renewable resources, and is capable of providing stable supplies of energy to all sectors of society**

The Caribbean's overwhelming dependence on expensive fossil fuels is unsustainable from both economic and environmental standpoints. To transition to a viable and sustainable renewable energy sector, the region must act to enable national renewable energy regulations and legislation, establish national renewable energy and energy-efficiency policies, facilitate access to low-cost capital, and work to minimise locally induced impediments and risks to investors.

It is expected that wind and solar photovoltaic systems will outstrip the use of fossil fuels as the primary energy source by 2050, and that an imminent future scenario would be one in which there is a shift away from an unsustainable homogeneous energy source to a sustainable diverse energy mix that is indigenous to the region. In this context, energy diversification, conservation and management are three areas of critical importance to economic and natural environment issues across the region,

as most countries are net importers of oil. Specifically, there is a need to implement alternative energy generation options and to reform legal frameworks to ensure that excess energy generation is saleable on national grids. This will provide a unified policy environment.

In order to achieve the vision of a region built on clean and resilient energy systems, energy security and resilience through 100 per cent renewables by 2050 should be promoted. This can be achieved through cost-effective renewable energy production and would require the enactment of national energy regulation appropriate to fostering innovation and implementation of renewables, the establishment of national renewable energy and energy-efficiency policies, and the facilitation of access to low-cost capital for the implementation of renewable energy projects at the household and commercial levels. It would also be important to promote local investment and ownership of innovation in energy and to reduce impediments and risks to investors. Another important consideration to achieve clean and resilient energy systems would be to minimise environmental loss/footprints by developing systems to ensure that economic and social development do not increase environmental losses.

#### 4.2.6 Regional approaches

When taken together, these elements could address some of the major challenges that are common to the region and that require regional efforts to solve. The framework offers strategies that will seek to balance the concerns of survivability today and sustainability tomorrow; recapture the potential of the young people across the Caribbean; renew and re-energise the focus on the need to secure the energy requirements of the region; and address the need for a truly transformational system of governance across the region, while strengthening systems that safeguard against corruption and ineffectiveness.

The regional approach recognises the important role that regional integration and co-operation can play in helping small states to address many of their key development challenges. The Caribbean has a long history of regional integration and co-operation. The region has long expounded the importance of its member countries working together in a unified manner, to ensure sustainable development and given the myriad of challenges they face. This collaboration acts, in contrast to a national approach, as a synergistic and effective way of overcoming the resource challenges of being small developing, externally dependent island economies.

### 4.3 Some considerations and requirements

#### 4.3.1 Introduction

This section examines some important considerations for implementing the preferred future for the region. First, given the region's economic context, improving financial flows in support of achieving development goals will be paramount. Financing development has been particularly challenging for many small states, most of which have 'graduated' from concessional financing on the basis of their relatively

high per capita incomes. Moreover, access to global capital markets for critical development finance is difficult, and domestic resource mobilisation is constrained by the unfavourable economic climate and small tax bases. In addition, the limited human and technical capacity of these countries will undoubtedly hamper their ability to implement the strategies. Consequently, efforts in pursuit of the preferred approach will need to be buttressed by strong technical and financial support from development partners.

#### 4.3.2 Financing for development

For any given country in the world, economic development projects are funded through several sources – including taxes, capital markets, loans, foreign direct investment and international aid. Each of these funding sources presents its own risks and opportunities. However, small states, such as those in the Caribbean, face particular challenges in financing development projects through these means, due in part to their small size and inherent vulnerability to external shocks.

Caribbean economies have a limited capacity to raise revenue from taxation given their small populations, and consequent modest tax base. In addition, the local financial system has not served as an adequate conduit for transforming savings into investment. The inadequacy of affordable financing has been identified to be a limiting factor in private sector development, resulting from a perception by the commercial banking sector of the riskiness of development-oriented financing.

Consequently, Caribbean economies face immature domestic capital markets and limited access to international capital markets. There is evidence that private capital markets, used by small states to compensate for adverse shocks and income volatility, tend to see small states as more risky than larger states. As a result, spreads are higher and market access more difficult.

Ultimately, the existing high debt burden cripples their ability to respond to the frequent and severe natural disasters to which they tend to be exposed disproportionately, which in turn increases administrative costs as well as the public debt. The outcome of this situation is sharp increases in the frequency of sovereign debt restructuring and a heightened probability of sovereign debt default. High and unsustainable debt burdens in these countries also add to the challenge of financing development. As previously discussed (chapter 2), several countries in the Caribbean are among the most heavily indebted in the world, which constrains their ability to generate both domestic and international resources to support development.

The high debt burdens of these countries hamper growth prospects, exacerbate vulnerability to external shocks and negatively affect domestic policy efforts, as well as their attempts to build resilience. This is partly because more funds have had to be diverted away from development and growth-enhancing objectives to service public debt obligations. Additionally, economic output has been further negatively affected by fiscal restraint, threatening the achievement of national development objectives, including improvements in human development.

The important question is what are the underlying reasons for this debt accumulation? A number of common elements have been identified in several studies.<sup>2</sup> While self-inflicted weaknesses such as lack of fiscal discipline and inadequacies in debt management practices have been singled out as contributors to this problem, exposure to external economic shocks and natural disasters has also been identified as a significant contributor. The analysis suggests that small states must seek to improve their economic governance, including fiscal discipline and debt management, but this must also be supported by the international community. Many Caribbean countries have ‘graduated’ from concessional financing because, on the measurement of per capita income, they are rated as middle-income countries. Consequently, financing the development of the SIDS of the Caribbean is challenging: they are considered too developed to be a high priority for many international donors, but they are too economically vulnerable to completely self-fund their own development, and potential damage from natural disasters attracts considerably less financing.

Historically, many large development projects in the Caribbean were funded by development banks such as the Caribbean Development Bank (CDB), which continue to play an important role to compensate for the international donor community’s reluctance to lend to the region.

Brunton and Kelsick (2001) noted that the countries of the Caribbean are relatively unattractive markets for global lenders given their ‘small size and associated structural inefficiencies, limited natural resource base and high transportation costs to export markets’. They argue that, when combined, these factors make it difficult for lenders to adequately measure and allocate risks. In assessing the relative unattractiveness of small states, Collier and Dollar (2001) found that small countries are generally perceived to be riskier than larger countries, even when they have good policies.

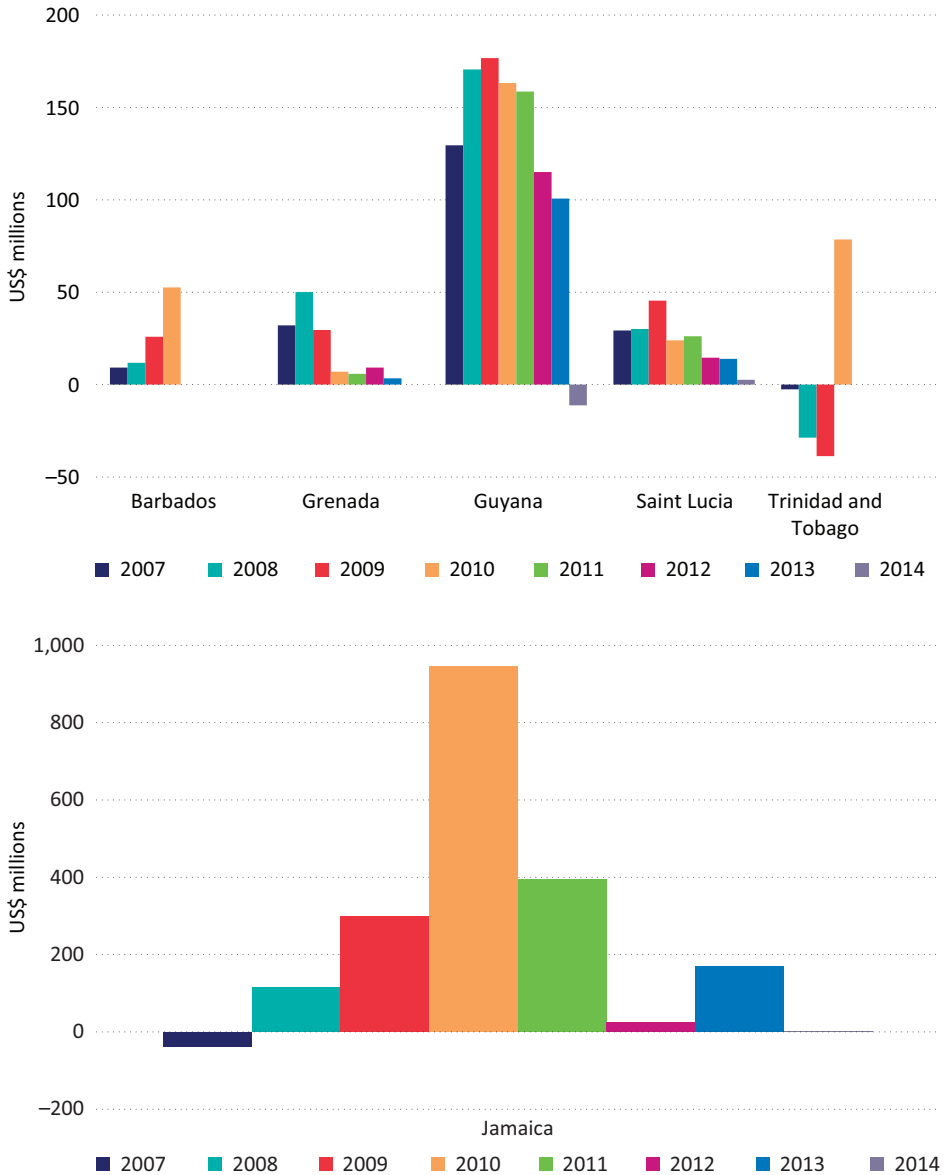
#### **Box 4.1 Official development assistance flows 2007–2009**

Between 2007 and 2009, official development assistance (ODA) rose in all countries except Trinidad and Tobago, which was a net lender. From 2010, however, ODA declined in all countries for which data is available (see Figure 4.1). At the same time, total net ODA extended by the OECD’s Development Assistance Committee (DAC) members (see below) has risen (see Figure 4.2). It can be argued that, although total net ODA by DAC members rose, the average rate of increase has slowed considerably in 2007–2014 (3.4 per cent) relative to the previous eight years (9.8 per cent), as many of these governments have struggled with their own internal fiscal and economic challenges. In fact, examining the data from 2010 onwards suggests that growth in ODA has been relatively flat. Therefore, it may not be surprising that the countries of the Caribbean have experienced declines.

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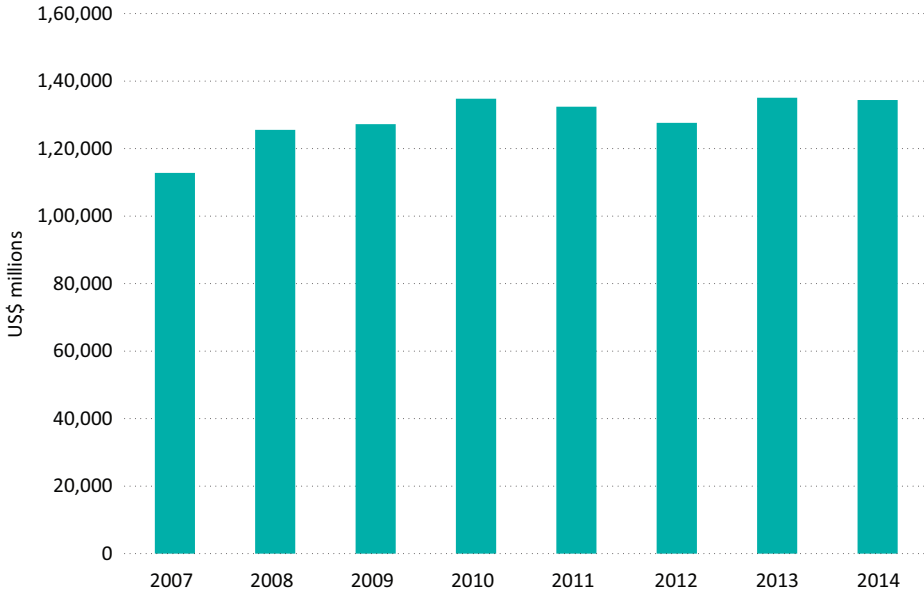
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**Figure 4.1 Trends in official development assistance, 2007–2014\***



**Source:** [http://stats.oecd.org/Index.aspx?DataSetCode=REF\\_TOTAL\\_ODF#](http://stats.oecd.org/Index.aspx?DataSetCode=REF_TOTAL_ODF#)  
 Development Assistance Committee (DAC) members of the OECD include Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, the European Union, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

(continued)

*(continued)***Figure 4.2 Trends in net ODA from DAC countries,\* 2007–2014 (US\$ million)**

**\*Note:** Data not available for Barbados and Trinidad and Tobago after 2010.

**Source:** <https://data.oecd.org/oda/net-oda.htm>

### 4.3.3 Financing options

There is clearly a need for other sources of finance to support the development effort. The development community within the region, along with national governments and regional bodies, has been considering a number of alternatives to traditional financing. One of the most popular is the diaspora bond. Globally, remittances were estimated at US\$435 billion in 2014 and have outstripped foreign direct investment and ODA flows. Within the Caribbean, remittances are an important flow, with Jamaica, Haiti and Guyana being identified as the most heavily dependent on this source of income. Remittances represent 20 per cent of GDP in the case of Haiti, 15 per cent in the case of Jamaica and more than 10 per cent in the case of Guyana (Central Bank of Trinidad and Tobago 2014; The Commonwealth and Organisation Internationale de la Francophonie 2015). While remittances have long provided much-needed assistance to poverty alleviation in Caribbean countries, there is a need to stimulate/expand the investment role of the diaspora communities. A best practice in this regard has been the floating of a diaspora bond, which has over time yielded more than US\$25 billion and US\$11 billion in Israel and India respectively (Bensoussan et al. 2013).

Two main variations of a diaspora bond have been put forward. The first is a government-backed bond issued to emigrants from the region living in other parts of the world. The incentive for investors is that they would be able to invest in a

government security from their home country and aid in the country's development. The incentive for governments is that they would attract funding from a previously untapped source, and would not have to depend solely on the resident market for 'domestic' financing. The second option, which was put forward by the Grenada Diaspora Organisation (*Caribbean News Now* 2011), is to create a certificate of deposit – which they would also refer to as a Diaspora Bond – as an alternative to the certificates of deposit offered in the local banks of the countries where emigrants have made their new homes. This format, they argued, would save the government from adding to its debt burden; would be targeted towards specific development projects; and would be isolated from the political process, since it would be managed by a consortium of banks.

Tapping into the diaspora is potentially lucrative. infoDev (2013) found that a quarter of the respondents in the infoDev Caribbean Diaspora Survey, April–May 2013, had net investable wealth or annual incomes above US\$100,000. Furthermore, the diaspora maintains a meaningful connection to the region (60 per cent visit the region at least once a year) and is highly engaged (84 per cent either send money to individuals living in the region or volunteer, mentor or invest in entities in their home countries). Interestingly, 21 per cent of respondents in the survey already invest in companies or stocks 'back home', and 78 per cent stated that they would be willing to invest capital in select businesses in the Caribbean. Notwithstanding these encouraging statistics, only 63 per cent of respondents were interested in diaspora bonds, compared with 86 per cent interested in supporting their alma mater and 78 per cent interested in investing in businesses. Interest in diaspora bonds could be improved with greater transparency and accountability on how the fund was used, the governance structure of the fund and the general administration of the fund. It is also interesting to note that diaspora investors were interested in investing in other Caribbean countries, not just their home country, potentially creating an even larger market for diaspora bonds.

In order to actualise the potential contribution of remittances to Caribbean economies, a number of regulatory and administrative hurdles need to be overcome. It has been argued, for example, that the anti-money laundering and countering the financing of terrorism (AML/CFT) regulations have been having some adverse and unintended consequences on the flow of remittances. These include the 'de-risking' of financial institutions, evidenced by regional banks limiting their exposure to high-risk customers such as the casino and gaming industry; regional banks limiting services considered to be high risk; and US banks discontinuing corresponding banks' relationships. There is also the issue of the capacity to implement the AML/CFT regulations. This has prompted the following recommendations:

- the international community should promote greater awareness of the regulation;
- countries should undertake national risk assessments to address their specific circumstances;
- regulators should avoid an over compliance approach and should provide guidance when financial institutions over estimate the risks or adopt extremely conservative controls; and

- countries and their development partners should create a pool of AML/CFT expertise to assist in capacity building (Central Bank of Trinidad and Tobago 2014).

Another alternative to traditional financing is a debt-for-nature swap. This involves a creditor forgiving a portion of the debt of the debtor if the country agrees to meet certain environmental conditions. In other cases, a conservation organisation may purchase the country's outstanding debt and transfer it to the country (essentially writing it off), in exchange for the country's commitment to enact certain environmental policies. Debt-for-nature swaps have been used throughout the developing world. In the Caribbean, Jamaica has successfully used this instrument to cancel almost US\$13 million of its debt to the United States and create a trust fund to manage the country's national parks and forest reserves (Nature Conservancy 2004).

There are numerous benefits to debt-for-nature swaps. Borrowers are able to reduce their outstanding debt and fund conservation initiatives, as well as receive indirect economic benefits such as increased tourism and improved sanitation. Creditors are able to improve the risk of their portfolio by eliminating high-risk claims, while conservation organisations benefit from the long-term financing of conservation initiatives. The main drawbacks are that these swaps may not have a meaningful impact on total debt; they may not significantly foster environmental conservation because the supporting infrastructure is weak; and they may not lead to any significant benefits for persons directly affected by the conservation efforts. Nonetheless, these are attractive instruments in a region as geographically diverse as the Caribbean.

#### 4.4 Building capacity

Caribbean countries, like most small states, face serious human capacity constraints, which limit their growth prospects. Sovereignty necessitates certain fixed costs for providing public services, including for policy formulation, regulatory activities, education and social services, justice, security and foreign affairs. Indivisibilities in the provision of these public goods mean that small states face high costs per person.

Strong institutions are especially important in small states seeking to cope with shocks. The evidence indicates that small countries with high-quality institutions have a lower degree of growth volatility, and that those with stronger state capacity, in particular, are more likely to enjoy higher rates of economic growth. While the constraints faced by small states with regard to institution building mostly arise from the overhead cost indivisibility problem, rendering institutional structures more expensive per capita, a lack of necessary specialised expertise also contributes to the problem. The limited pool of skilled human resources to perform the vital roles of the public service and a lack of depth in specialisation affects implementation and, by extension, absorptive capacity and is made worse by brain and skill drain.

Brain drain is a massive barrier to any type of development within small states. Scarce financial resources have to be devoted to education and training, and are a considerable investment for small economies. While small states' governments are

striving to maintain spending on health and education, responding to shocks and international migration are undermining their efforts.

This limited capacity not only constrains internal development, but also the ability of small states to meaningfully and effectively track, participate in and engage with the international community on many of the key issues that affect them. Consequently, many of the international rules, regulations and mechanism that they are required to adhere to are not designed to take account of their peculiar challenges, and often exacerbate these problems.

Clearly there is also a need to improve data and intelligence to better inform decision-making. A lack of data for small states is hindering the efforts of these countries and the international community to formulate and implement sound and informed policies for sustainable growth and development. The absence of institutional and human capacity is a key constraint, and efforts are needed to explore practical ways to enable small states to fill these gaps.

Research and development networks across the region need to be re-energised and reinvigorated in order to revitalise the development agenda. This effort can be centred at the universities, other high-quality research nodes and other strategic partnerships that can support the infusion of new ideas and new thinking.

## 4.5 The role of the international community

It is evident that, while the requirements and strategies for building resilience are clear, the ability of small states to do so is constrained. There is strong evidence that, with the right mix of policies, these countries can improve their ability to respond to adverse shocks. However, the reality for most small states is less orderly, with shocks to key sectors often derailing their efforts at internal and external balance, as illustrated in chapter 3 (worst-case scenario), requiring concerted fiscal effort to return these economies to a growth path and contributing to higher levels of debt.

Similarly, improving the efficiency of small states' markets is constrained by their limited human and financial resources, although there is scope for ongoing national efforts to simplify procedures for setting up and doing business, as well as to remove other impediments to the efficient operating of markets. Equally important for small states is the quality of their institutions.

These countries have limited resources and ability to cope with these events without significant international support. For small states, international support is required in accessing resources on favourable terms to fund critical infrastructure projects; and filling capacity gaps that hamper their ability to cope with emerging economic, social and environmental issues. Moreover, grappling with the requirements of an increasingly interconnected global economy necessitates improved access to trade finance and support in adapting and innovating. Since income and employment derived from trade represents a very significant component of growth, development and poverty reduction efforts in small states, addressing deficiencies in trade-related infrastructure, production and cost efficiencies is important for small states. Access to shock facilities

and other support is also necessary for small states. Equally important is assistance in addressing their significant debt burden, which can act as a further drag on growth, constraining their ability to achieve their sustainable development goals.

For small states, high debt and debt-financing costs, and their limited access to concessional resources, must be addressed. With the exception of those small states eligible for the ‘small island economy exception’, these countries have not generally had access to concessional finance. Consequently, they have relied mainly on commercial resources to finance their growth and development, as well as their recovery from shocks, the result of which has been an increase in public debt.

Some progress has been made in international recognition of the fact that using GDP per capita as the only or major indicator for allocation of aid puts many middle-income vulnerable countries in a disadvantaged position. Some multilateral organisations have changed aspects of their mechanisms applicable to small states. The World Bank and the IMF have given more attention to the special constraints faced by small vulnerable economies. However, there is still no consensus among international organisations in favour of introducing programmes specifically designed for small states or recognising them as a category of countries.

The current environment is not sufficiently supportive of these countries. This is perhaps a reflection of their size and limited ability to effectively engage in, and consequently influence, international decision-making. Multilateralism and international platforms provide the region with opportunities to play a role in global affairs that is disproportionate to their size. Yet they continue to be disconnected from the most salient debates at both the regional and international levels.

With more than half of its members made up of small states, of which the Caribbean comprises over 30 per cent, the Commonwealth has long been sensitive to the unique needs of these countries. For more than three decades, the Commonwealth has played a leading role in articulating the challenges that small states face. The Secretariat has engaged in a programme of advocacy, policy research and technical assistance targeted at supporting small states. Arising from this work, the Commonwealth has tabled the following recommendations to the international community.

#### 4.5.1 Recommendations

##### *Addressing debt challenges*

**Proposal 1:** Providing debt relief – debt swaps for climate change adaptation and mitigation.

**Proposal 2:** Addressing debt accumulation – counter cyclical loans to mitigate against debt accumulation and growth challenges.

Despite debt-restructuring operations undertaken by indebted Commonwealth small states, most continue to face high and unsustainable debt burdens. This implies that existing mechanisms are not sufficient to deliver the volume of relief needed to contain small states’ debt issues. At present, there is no appetite for debt relief after the Heavily Indebted Poor Countries initiative, particularly given reduced donor

resources. However, it is evident that to resolve the escalating situation in small states requires some form of debt relief, as a number of small states show non-negligible risks of debt default.

Swaps of debt for climate change adaptation and mitigation are innovative ways of providing small states with urgent and necessary debt relief (Mitchell 2015a). This initiative marries small states' indebtedness with their need for finance for climate change adaptation and mitigation, given their high environmental vulnerability. Counter cyclical loans would allow a suspension of debt service in times of shocks through established triggers and flexible grace periods. Therefore, if broadly applied by international finance institutions (IFIs), countercyclical loans could help to avert unnecessary adjustment costs, further debt accumulation, and ill-timed debt restructuring and accompanying output declines.

### *Improving access to concessional resources*

**Proposal 3:** Revising the graduation criteria of key IFIs to take into account the vulnerabilities of small states.

**Proposal 4:** Using vulnerability as a criterion for determining foreign aid and other assistance by external donors.

Using vulnerability as a recognised category agreed upon by international organisations would improve many aspects of donor co-ordination and access to resources by small states (Mitchell 2015b). In addition, it could produce a major incentive for low-income small states to improve their performance and economic governance. Before introducing the recent reforms in concessional funding, some of which are beneficial to small states, the World Bank conducted a cost analysis and found that the reforms were not likely to be very expensive for the bank. These small changes in key IFIs and other international organisations have the potential to generate significant positive gains in small states.

### *Strengthening the capacity of small states*

**Proposal 5:** Broadening the scope of IFIs' work to cover designing appropriate policies to build resilience.

**Proposal 6:** Providing technical assistance to fill the knowledge and data gaps, especially in the areas of environmental and governance issues.

For access to international and bilateral aid, and in debt restructurings, most countries have had to agree to an IMF programme that does not give due consideration to the need to strengthen developmental elements. Greater attention among IFIs to resilience building would require an articulation of the social, institutional/governance and environmental constraints, not only macro-economic adjustment. These efforts will contribute to the benefit of small states and will greatly assist in filling knowledge and data gaps in these important areas.

### *Strengthening voice and participation*

Below are some of the options for small states to elevate their voice for successful outcomes.

**Proposal 7:** Enhance high-level political advocacy by improving bargaining power by strengthening regional alliances; prioritise regional areas of concern; and enhance the institutional framework.

It is well documented that small states are confronted by capacity constraints in terms of human resources and institutions to fully participate in global fora. As a result, they have particularly acute challenges in acquiring information, both qualitative and quantitative, as well as feeding into these fora with their concerns and interests. Small states can benefit from better sharing of resources to mitigate their capacity deficiencies. It is paramount that they exploit areas of mutual interest and benefit. By choosing to focus on one or two particular issues and working collectively, they can better advocate for meaningful change. Across all international and regional institutions in which small states are represented and where policy outcomes are negotiated, small states can, by strengthened co-ordination, extract more meaningful concessions from the international system.

## 4.6 Conclusion

In financing their development, small states are challenged by their narrow tax bases, high debt, large trade deficits, underdeveloped domestic financial markets, small private sectors, fragile banking systems, the need for institutional and legislative reforms and inadequate IT infrastructure. Recommendations for grappling with these issues and mobilising greater levels of domestic financing include wider use of public–private partnerships; debt reduction measures (e.g. debt buyback operations and debt swaps); innovative investment initiatives (e.g. citizenship by investment programmes); tax enforcement and strengthening (compliance and reducing tax concessions); tax consolidation (regional revenue authorities); and tax incentive initiatives (a regional code of conduct). However, the reality is that, even with these measures, small states will not achieve the level of domestic resources mobilisation needed to finance development goals.

Efforts being made domestically to enhance efficiency and effectiveness in terms of tax reforms, the introduction of VAT, wider public sector reforms, legislative and IT improvements and economic diversification will need an injection of resources.

Moreover, maximising the effectiveness of existing resources will require international assistance with building institutional capacity. Assistance is also needed to promote other sources of financing, including FDI, public–private partnerships and de-risking mechanisms and to utilise savings as a tool for mobilising domestic resources – for example, through diaspora bonds and generally using remittances effectively to contribute to sustainable development goals.

In spite of their challenges, some small states enjoy relatively high GDP per capita, which gives the impression of economic strength, when in reality these economies are fragile, disproportionately affected by external shocks and lack resilience. This has adversely affected the level of support offered by the international community to these countries. Globalisation has increased the potential for adverse shocks to feed

through to these economies, and will continue to do so in 2050. The evidence suggests that the impact of each wave is cumulative, thus further reducing the ability of small states to cope with future shocks. The lower levels of international support, therefore, will challenge small states in their efforts to achieve their sustainable development goals.

Countries in the region need to develop a strategic, collaborative and co-ordinated approach to interacting with the international community to achieve their vision of the Caribbean of the future.

## Notes

- 1 Inputs to this chapter were provided by Stacia Howard, Marsha Atherley-Ikechi, Anthony Clayton, Winston Moore, Ryan Peterson and Tom Rogers.
- 2 In 2013, the Commonwealth commissioned three debt studies focusing on: (1) what are the root causes of debt in Commonwealth small states; (2) what explains the frequency of debt restructurings observed over the last decade among small states and what lessons can be learned; and (3) what are the economic and financial implications of small states' unsustainable and rising debt burdens?

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# Section Two

Key Sectors for Catalysing Sustainable  
Development in the Caribbean

