

Rebuilding Policy Space Post Covid 19: Opportunities for Increasing the financial space for sustainable development.

By

Dillon Alleyne Ph.d

Deputy Director,

ECLAC subregional headquarters for the Caribbean.

Presented to the 53rd Annual Monetary Studies Conference, under the theme,
Economic Growth and Resilience: Post Pandemic Policies for a Sustainable recovery in Small Open
Economies, The Central Bank of Bahamas.

31st October -2nd November 2022.

Abstract

The Covid19 pandemic has had a devastating effect on Caribbean economies and the additional debt and reduced fiscal space has resulted in further policy constraints. The high level of indebtedness resulting from a lower tax intake coupled with increased current transfers to support households and businesses has heightened countries' liquidity needs, despite the considerable heterogeneity in their fiscal situation and debt vulnerability. This situation has reduced the fiscal policy space to implement countercyclical policies, undermining the capacity to build forward better.

Covid-19 has exposed the ugly truth that in a variety of areas, especially in the economic and social spheres, the Caribbean has underperformed and much more has to be done to address future health pandemics.

Covid-19 is not over and vaccinate hesitancy has delayed the full opening of economies, but notwithstanding much progress is being made. This paper begins with some theoretical insights on how to properly address the rebuilding of fiscal policy space in the context of considerable vulnerabilities including climate change, natural disasters, and exposure to other external shocks.

It argues that rebuilding the fiscal policy space has to be addressed within the context of what are the financial needs of the subregion and where are the sources of finance. It lays out a strategy being initiated by ECLAC to establish a Caribbean resilience Fund to leverage long term affordable finance to address SDG gaps and it also highlights the use of liability Management Operations to address the high debt service cost in the Caribbean. Finally, it emphasizes the importance of future borrowing to address fiscal gaps and those opportunities including guarantees necessary to reduce risk and other the fiscal challenges arising from future shocks.

Contents

Introduction and theoretical considerations.....	4
Low Growth, Falling FDI, the Debt challenges and Nationally determined Contributions.....	8
The CRF and LMO operations	14
Future Borrowing requirements-the opportunities and a way forward	16
Expand and redistribute liquidity from developed to developing countries.....	16
The Utilization rates of SDRs.....	18
Reform the multilateral debt and financial architecture.....	Error! Bookmark not defined.

Introduction and theoretical considerations.

It should be clear that in the context of the vulnerability of SIDS, the focus should be on sustainable development and resilience building and within this context growth is very important (Alleyne 2018). But growth must not be disentangled from sustainable development since the countries of the Caribbean subregion remain highly vulnerable to effects of climate change, natural disasters, and extreme weather events. A disaster resulting in damage and losses in excess of 5 per cent of GDP can be expected to hit any Caribbean country every few years.

As demonstrated by the 2017 hurricane season, storms are the most dangerous natural hazards affecting Caribbean countries. ECLAC estimated that in 2017, damage and loss to Antigua and Barbuda, The Bahamas, Dominica and Saint Kitts and Nevis due to hurricanes were in excess of US\$1.7 billion. If Cuba and Puerto Rico are included, the hurricane season of 2017 was the third worst in history at a cost of US\$93 billion (Cuba US\$13b and Puerto Rico US\$68 billion)¹.

The Caribbean Community Climate Change Centre estimates that damage and loss costs of climate change to the Caribbean are estimated to be US\$11 billion by 2025 and US\$22 billion by 2050².

In the wake of such disasters Caribbean governments have no choice but to increase public spending to support recovery and reconstruction efforts. Such expenditures are funded mostly by debt accumulation which can grow rapidly.

Moreover, disaster-related costs are expected to escalate in the Caribbean due to population growth and rapid urbanization of coastal areas where the impact of hydro-climatic events is greatest, increased exposure of assets to damage and loss, and climate-change-related phenomena.

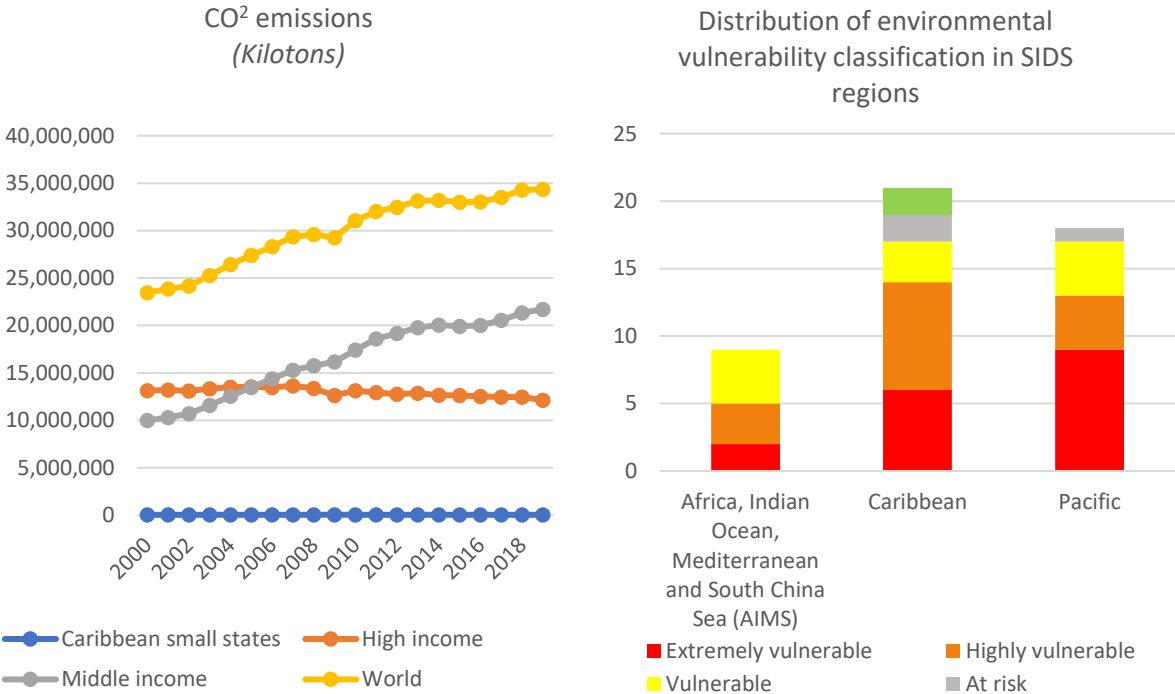
Given the Caribbean's limited contribution to climate change, but high vulnerability to its impacts, climate finance from developed countries is a key aspect of climate justice.

¹ Consider, for example, the impact of Hurricane Dorian on The Bahamas in 2019, which cost an estimated US \$3.4 billion in damage and losses, exacerbating debt levels and other fiscal stresses. Similarly, Dominica suffered damage and losses equivalent to 226 per cent of its GDP when it was devastated by Hurricane Maria in 2017, with recovery estimated to take at least five years based on its projected rate of economic recovery (Hummingbird ECLAC April 2022).

² Recent research by ECLAC which compares the impact of natural hazards in the Caribbean versus the AIMS and the Pacific region from 1970-2017, finds such disasters are more costly and more frequent in the Caribbean.

To these must be added other shocks whether from the terms of trade, the war in Ukraine and other effects which these economies must constantly face partly due to their undiversified economic structure. A limited set of activities and sectors, limited access to concessional finance because of their middle-income status and limited technological capacity have conspired to subject these economies to constant shocks³.The results is a virtuous circle in which external shocks affect incomes which feedback on debt accumulation and this sets off a vicious spiral.

Figure 1: Caribbean emissions and vulnerability



Source: Source: World Bank World Development Indicators database; South Pacific Applied Geoscience Commission, Environmental Vulnerability Index 2004

The IFIs have tended to see this growing debt problem as one of fiscal irresponsibility and have focused on building fiscal capacity to manage budgets and cut unnecessary expenditure(Alleyne 2018).However with constant damage and losses this nexus between vulnerability and economic performance is now well established. In addition, causation studies between the Fiscal balance and the Balance of payment shows

³ Caribbean exports are concentrated in a few major markets, particularly the US, EU, Canada with the intra-regional market being the third largest. In the period 2006 to 2015 between 70 per cent and 90 per cent of Caribbean exports were to Canada, the Caribbean, the European Union, the Mercosur bloc, the SICA bloc, the United States and the wider Caribbean region. In 2005, the US accounted for 49.4 per cent of Caribbean exports and this fell to 33.7% in 2015. The market share lost by the United States went to Mercosur, which grew from 0.6 per cent to 2.4 per cent; the EU, which grew from 15.3 per cent to 19.8 per cent; and Canada, which grew from 4.2 per cent to 11.1 per cent of Caribbean exports(McLean et al 2017)

a strong relationship for a number of Caribbean countries (Alleyne 2018). In their working paper by Chamon et al (2022) in a recent IMF working Paper, grudgingly admitted that debt restructuring and climate resilience may be related.

They argue.... “ debt relief can be used to restore debt sustainability where it is lacking, while subsidized finance can be calibrated to address climate externalities (when such finance supports emission mitigation) or to a moral argument (namely, that countries that historically generated, or are currently generating, most emissions should support adaptation investments in developing countries suffering from those emissions) (Chamon et al 2022) .

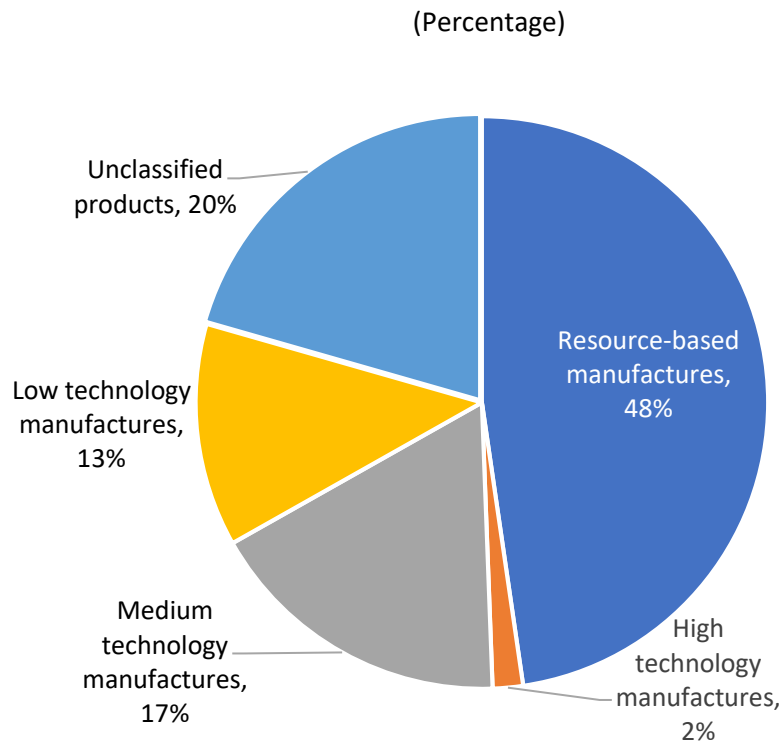
The central thesis of this paper is that while public policy can address a number of issues, a strategic approach must identify the core challenge faced by Caribbean economies in order to solve the development challenge. Following James and Hamilton (2022) there is a high correlation between the GDP per capita a country can attain and: (i) the share of resources devoted to capital production, presumably up to some limit⁴; (ii) the resources devoted to upgrading the level of technology⁵ ⁶;and (iii) the resources devoted to developing the institutional foundations of the economy. These three forces form an integrated development fabric whose components work interactively.

⁴ This “domestic capital” cluster includes sectors such as education, healthcare, ICT, finance, engineering, architecture, and the creative industries, as well as the using industries such as tourism, travel services, wholesale and retail (James August 2018. Best and The Engines of Caribbean Growth and Development: Theory and Evidence, unpublished)

⁵ Caribbean countries are dependent on a narrow range of exports for their foreign exchange earnings and a larger share of foreign exchange earnings is going toward servicing external debt. The subregion’s BOP constraint is manifested through low tech exports when inspecting the technological intensity of exports. Much of the Caribbean’s technological intensity of exports natural resource-based manufactures (48%) and medium technology manufactures (17%) with only a small percentage focused on **high technology manufactures (2%)**. Further, CARICOM’s top 10 exports are highly concentrated, accounting for an average of **73.6% of the overall value of its global shipments from 2010 – 2020. The Caribbean needs substantial development and financial support** to diversify their exports and facilitate the trade needed to promote economic development. Technology transfer to the Caribbean is key to building a dynamic and competitive economy to generate the counterpart domestic financing to combat climate change. Developed countries could help with productive technologies such as for green energy, climate-resilient infrastructure and also with smart technologies for improving early warning systems and monitoring and forecasting the impacts of storms and hurricanes.

⁶ Alleyne, Dillon.Reimagining Caribbean Education post COVID-19. What is to be done ? The 15th annual Caribbean Child Research Conference hosted by the Sir Arthur Lewis Institute of Social and Economic Studies, Cave Hill in partnership with UNICEF, Eastern Caribbean Office. November 25-26, 2020

Figure 2: Technological intensity of exports for CARICOM economies, 2019



Source: United Nations Conference on Trade and Development (UNCTAD).

Caribbean countries are dependent on a narrow range of exports for their foreign exchange earnings and a larger share of foreign exchange earnings go toward servicing external debt.

The subregion's BOP constraint is manifested through low tech exports when inspecting the technological intensity of exports.

Much of the Caribbean's technological intensity of exports natural resource-based manufactures (48%) and medium technology manufactures (17%) with only a small percentage focused on **high technology manufactures (2%)**. Further, CARICOM's top 10 exports are highly concentrated, accounting for an average of **73.6% of the overall value of its global shipments from 2010 – 2020**. **The Caribbean needs substantial development and financial support** to diversify their exports and facilitate the trade needed to promote economic development.

Technology transfer plus investing in the capital making sector in the Caribbean is key to building a dynamic and competitive economy to generate the counterpart domestic financing to combat climate change⁷.

James and Hamilton (2022) have demonstrated that the most important of the factors is the development of capacity to produce capital, but it is almost as important to allocate resources to institutional development and to the level of technology. The combinations of these forces adopted by any country can be treated as a manifestation of its global competitive strategy. The implication is that while the debt burden is a challenge, the proper relationship should be between resilience and sustainable growth in which the capital services sectors is the critical factor in enhancing growth and development. This is not an argument against reducing the debt, however fostering growth in which the rate of return on investment is above the borrowing rate will decisively reduce the debt burden over time. This paper has several sections. Section two considers low growth, the debt stock and debt service, reduced FDI, unemployment and financing for Nationally Determined Contributions of Caribbean members states. Section three examines the CRF and LMO proposals while section four addresses future borrowing requirements and opportunities to reduce risks. The paper ends with a conclusion.

Low Growth, Falling FDI, the Debt challenges and Nationally determined Contributions

Turning now to the economic challenges, figure 3 shows that Caribbean economies are estimated to have grown by 5.1% on average in 2021, following a contraction of 9.2% in 2020. Three economies contracted in 2021 and these were Saint Kitts and Nevis, Suriname and Trinidad and Tobago. In 2022 all economies are expected to post positive growth, leading to an average growth of 10.5%.

Looking at figure 4, however, due to the size of the economic contractions in 2020, all Caribbean economies (except Guyana) will still be below their real 2019 levels in 2022. With Guyana, the Caribbean real GDP index will be 105.4 in 2022, meaning that the Caribbean economy will be 5.4% larger than in 2019. Excluding Guyana, the GDP index falls to 94.0, which means that the Caribbean economy will be 6.0% smaller than in 2019.

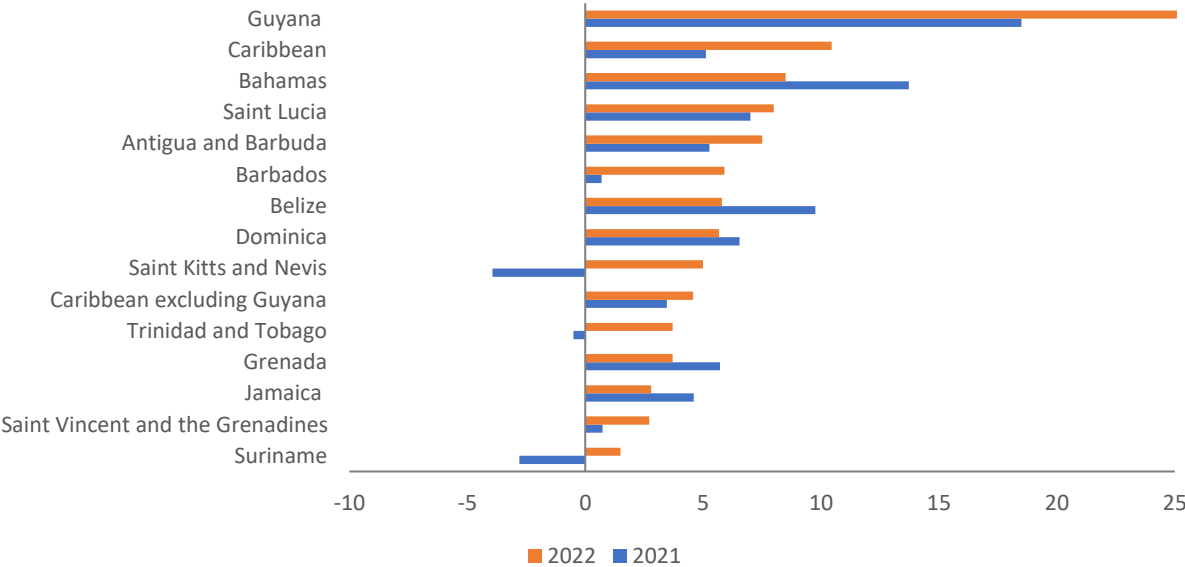
GDP growth for Caribbean economies in 2021 is estimated to have improved to 3.0% following the substantial contraction of -7.6% in 2020. However, the recovery has been slower than expected given the ongoing nature of the pandemic as growth remains below 2019 rates (excluding Guyana). Given the size of the economic contractions in 2020, all Caribbean economies (except Guyana) will still be below their real 2019 levels in 2022. Including Guyana, the Caribbean real GDP index will be 105.4 in 2022, meaning that the Caribbean economy will be 5.4% larger than in 2019. Excluding Guyana, the GDP index falls to 94.8, which means that the Caribbean economies will be 5.2% smaller than in 2019.

⁷ Developed countries could help with productive technologies such as for green energy, climate-resilient infrastructure and also with smart technologies for improving early warning systems and monitoring and forecasting the impacts of storms and hurricanes.

In 2022 all economies are expected to experience positive growth, leading to an average growth of 8.5%.

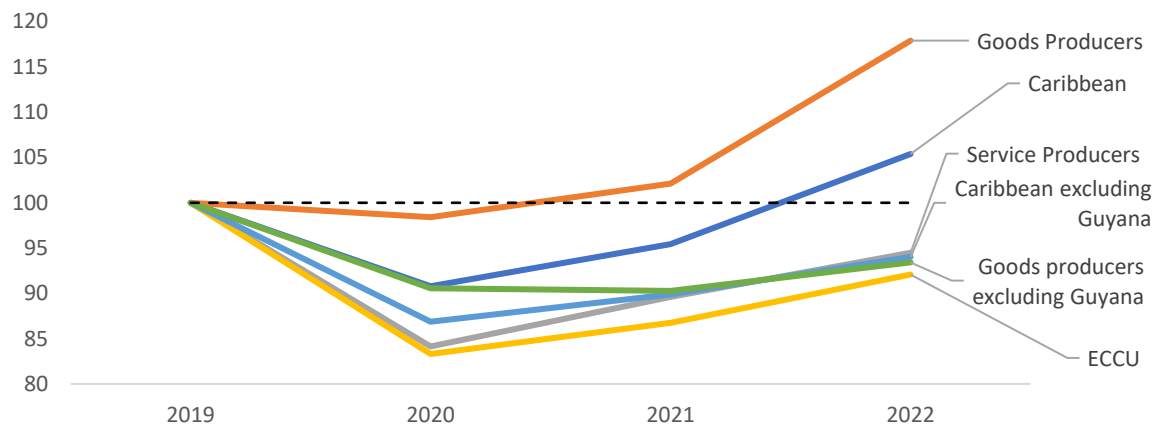
There is, however, **much downside risk to a stronger recovery in the short-term** given the fallout from the Ukraine-Russia conflict, supply chain issues, rising inflation, and continued uncertainty surrounding the management of the COVID-19 pandemic.

Figure 3: Real GDP growth, 2021 and 2022
(Percentage)



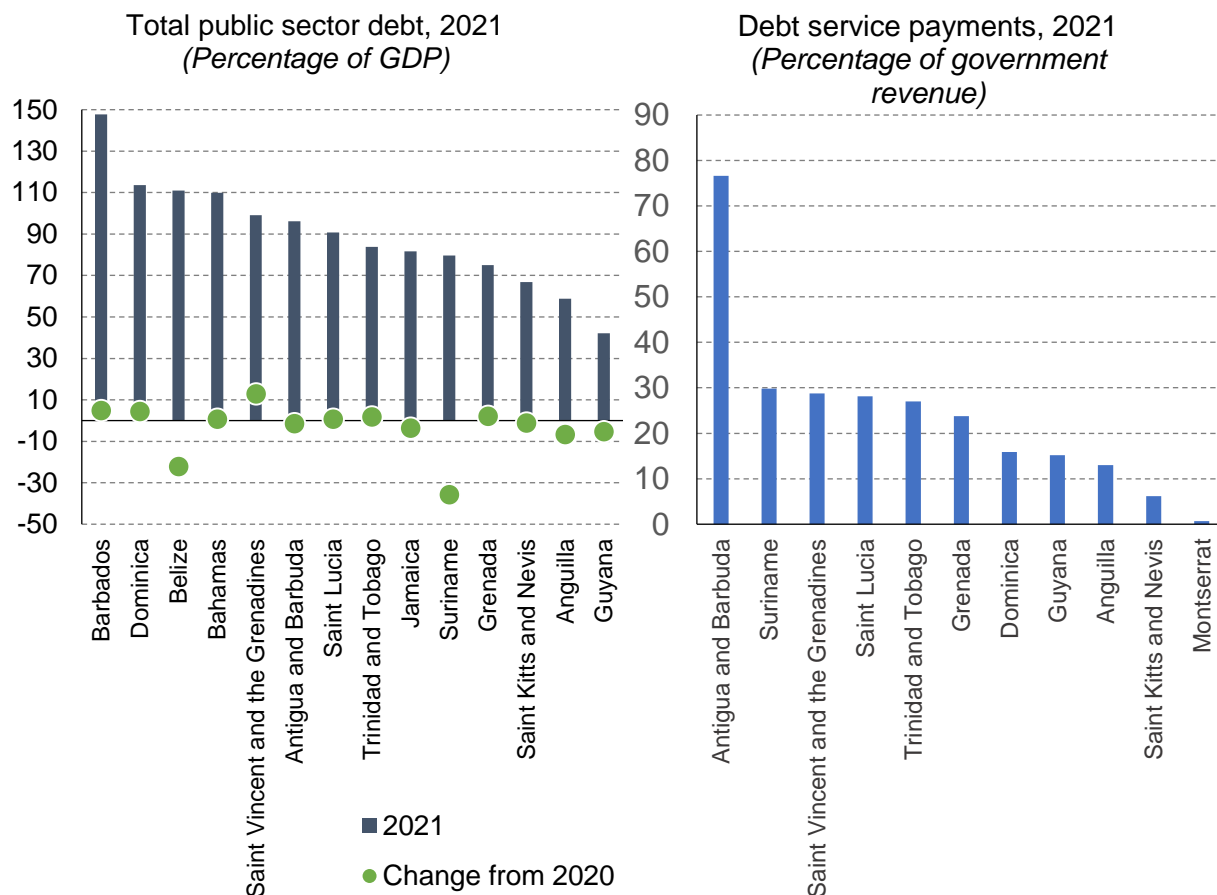
Source: Economic Commission for Latin America and the Caribbean (ECLAC) based on official figures.

Figure 4: Caribbean real GDP index
(2019 = 100)



Source: Economic Commission for Latin America and the Caribbean (ECLAC) based on official figures.

Figure 5: Public debt indicators



Source: ECLAC based on official figures.

Note: Debt service data excludes Barbados

Following the exceptional financing necessary to fund governments' responses to the pandemic, total public debt in the Caribbean grew from 67.1% of GDP in 2019 to 87.3% in 2020. **Average Public debt has widened significantly, skyrocketing to 84.1% of GDP** in 2021 (well above pre-COVID levels) with 13 out of 15 economies carrying debt at or above the internationally accepted debt threshold of 60%. The public debt ratios ranged from 147.7% in Barbados to 42.1% in Guyana.

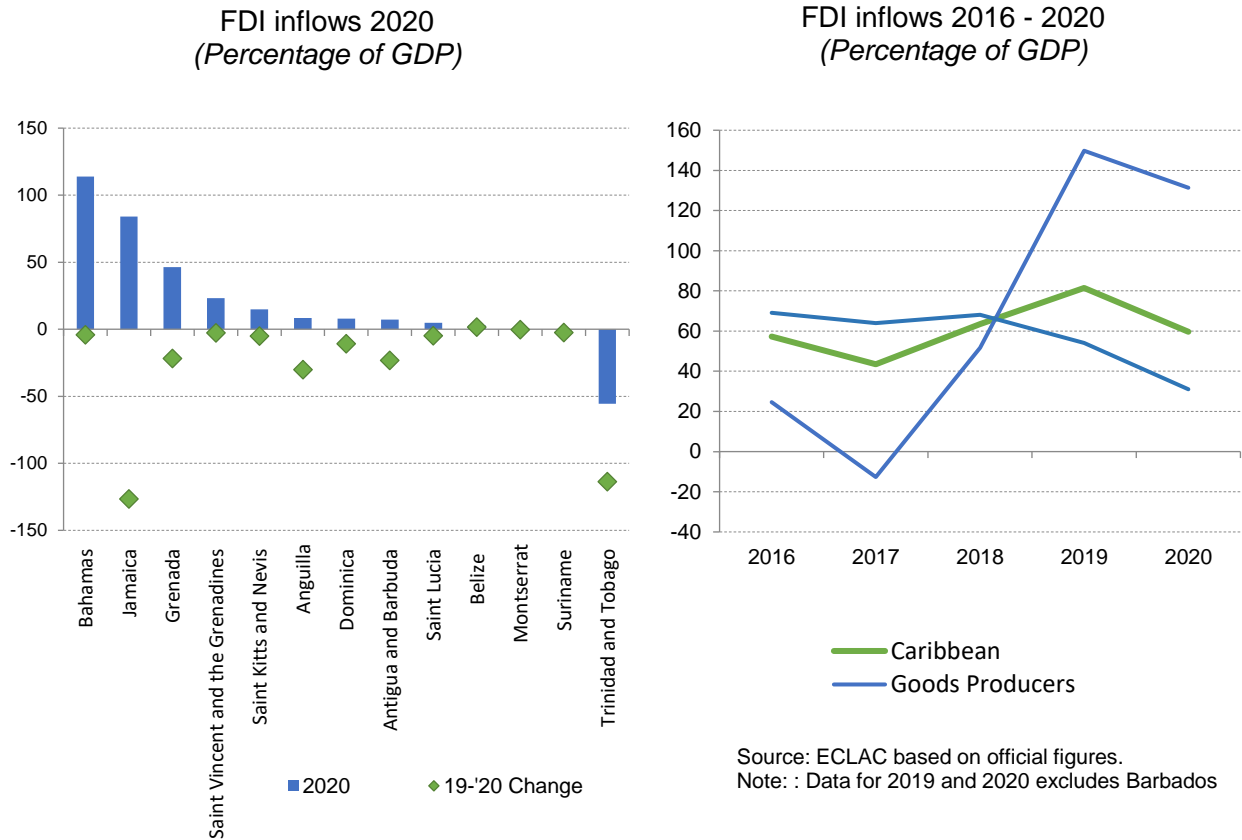
Debt service payments were high in 2021, averaging 24.1% of government revenue. Antigua and Barbuda was an outlier, with debt service payments above 76% of government revenue. Debt service ratios for the rest of the Caribbean ranged from 29.8% in Suriname to 0.7% in Montserrat.

Fiscal deficits widened in 2020 to 6.5% of GDP as regional governments made efforts to address the fallout from the introduction of COVID-19 measures. However, the **average fiscal deficit has now narrowed to 3.9% of GDP** in 2021

Foreign direct investment (FDI) is an important source of foreign exchange inflows, of investment and employment and in some cases technology transfer. Net FDI for Caribbean economies is estimated to have fallen on average to US\$188.4 million (-21.8% of GDP) in 2020 relative to 2019. For the service-based

economies, net FDI fell to US\$98 million (-23.8% of GDP) while for the goods producing economies⁸, net FDI fell to US\$414.5 million (-18.1% of GDP).

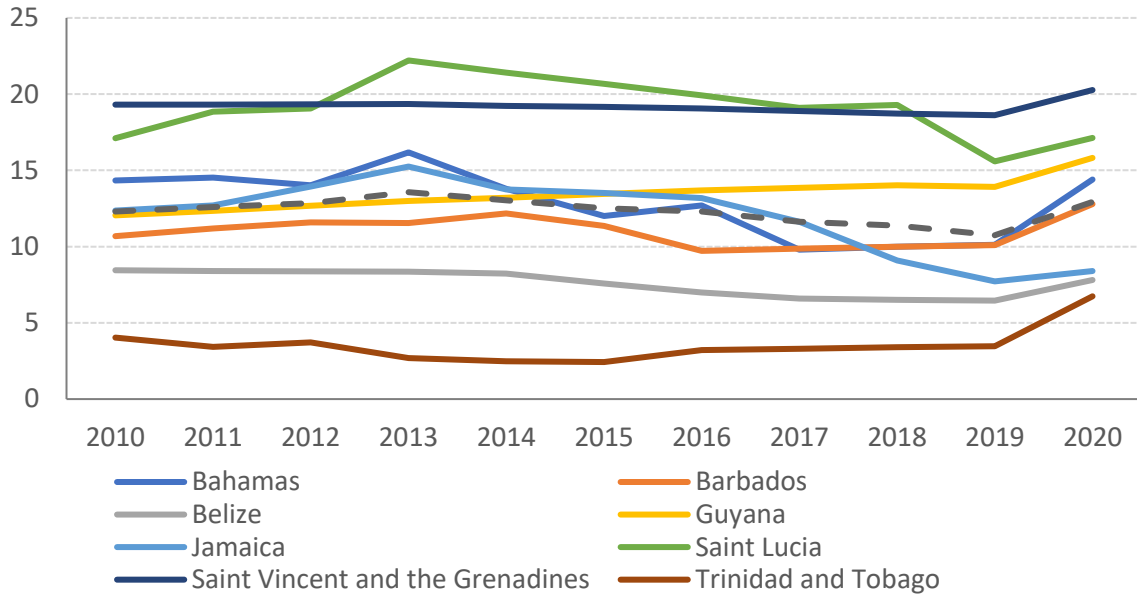
Figure 5: Foreign Direct Investment inflows



Low growth and economic decline impacts employment generation. While there was a general decline in unemployment in the Caribbean since 2010 all economies faced higher unemployment as a result of the crisis. However, unemployment has been relatively high with the 10-year average youth unemployment at 28% and over the same period female unemployment was 18.5% well above the male rate of 14.9%.

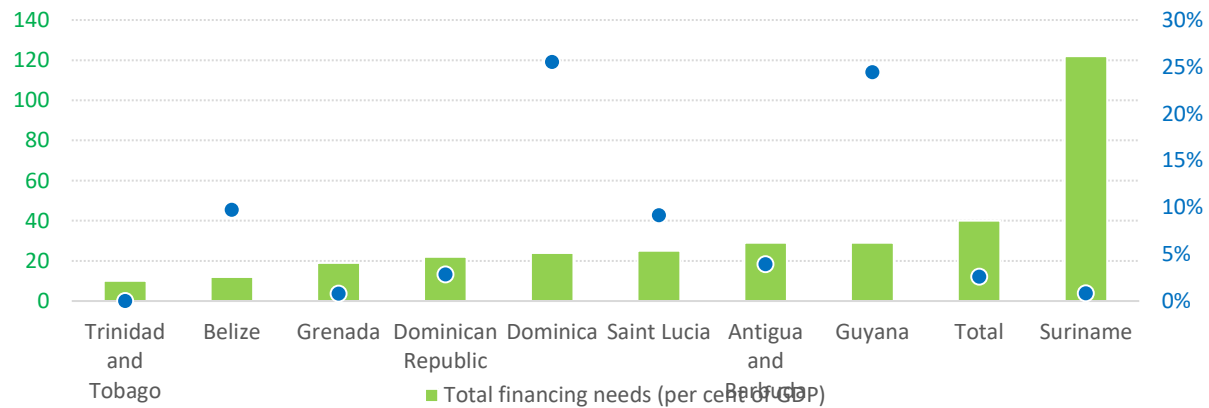
Figure 6: Unemployment rate (Percentage)

⁸ The goods-based economies are Guyana, Suriname, Belize and Trinidad and Tobago.



Source: ECLAC based on official figures.

Figure 7: Caribbean Nationally Determined Contributions (NDCs) financial needs (2015-2030) and commitment estimates (2010-2015)



Source: Authors calculations based on Mohan, Preeya S. 2022. Implementing nationally determined contributions under the Paris agreement: an assessment of climate finance in Caribbean small island developing states.

Several Caribbean countries have submitted their plans for climate action under the United Nations Framework Convention on Climate Change, known as Nationally Determined Contributions. These plans identify the cumulative climate mitigation and adaptation financing needs of these countries between 2015 and 2030 (Mohan 2022). According to Mc Lean (2022) The size of the financing needs ranges from 10% of 2021 GDP in Trinidad and Tobago to 175% of 2021 GDP in Haiti.

Countries have also received climate financing commitments from various sources. The size of the commitments received between 2010 and 2015, relative to the total financing range from 0.0% in Trinidad and Tobago to 25.5% in Dominica (McClean 2022).

No country has more than 26% in pledges from donors; disbursements lag even further behind commitments.

The gap between climate investment needs and disbursements is significant and hampers investment in resilience building activities, including infrastructure and institutions.

IDA financial flows to the Caribbean has averaged 0.04% of GDP from 1995 to 2019. While this is greater than the IDA flows to Latin America and the Caribbean IDA and IBRD countries (0.01%), it lags way behind IDA flows to Sub-Saharan Africa IDA and IBRD countries (0.37%) and the aggregate for all IDA-only eligible countries (0.59%). Any additional finance accessed by the Caribbean will be at less-affordable market rates.

The CRF and LMO operations

To address the challenges faced by the Caribbean, ECLAC proposes the development of a Caribbean Resilience Fund. The CRF is a special purpose financing vehicle intended to leverage long-term affordable development financing for the Caribbean while at the same time ensuring the availability of resources for investment in adaptation and mitigation initiatives in the development of green industries. By providing financing for strategic interventions across the Caribbean, it is expected to counter regional challenges including environmental vulnerability, relatively low economic growth and high debt. It will function to address gaps in SDG financing arising from limited access to concessional finance. It is an opportunity to promote much needed resilience building and structural transformation for Caribbean economies. As set of principles guide the CRF in term of its focus and it is to be noted that it is a complement to existing mechanisms but not a duplicate of such effort.

At least seven Principles should guide the CRF

1. Respond to a vision of development that recognized the key challenges facing the Caribbean.
2. Implement sound governance and be nimble in procedures that deliver results
3. Crowd in the private sector
4. Focus on long-term development projects including regional projects
5. Contribute to the creation of national and regional public goods
6. Promote and foster financial innovation across the Caribbean
7. Adopt best regulatory and supervisory practices in a flexible way and in accordance with its purpose and scale of transactions⁹

The CRF is conceived of as a Special Purpose Vehicle in the CARICOM Development Fund, and to be co-managed by Caribbean Community Climate Change Centre, the Caribbean Catastrophe Risk Insurance Facility and ECLAC¹⁰. At the moment at least four pilot countries have committed themselves to supporting

⁹ Taken from a list contributed by Esteban Perez to the establishment of the CRF

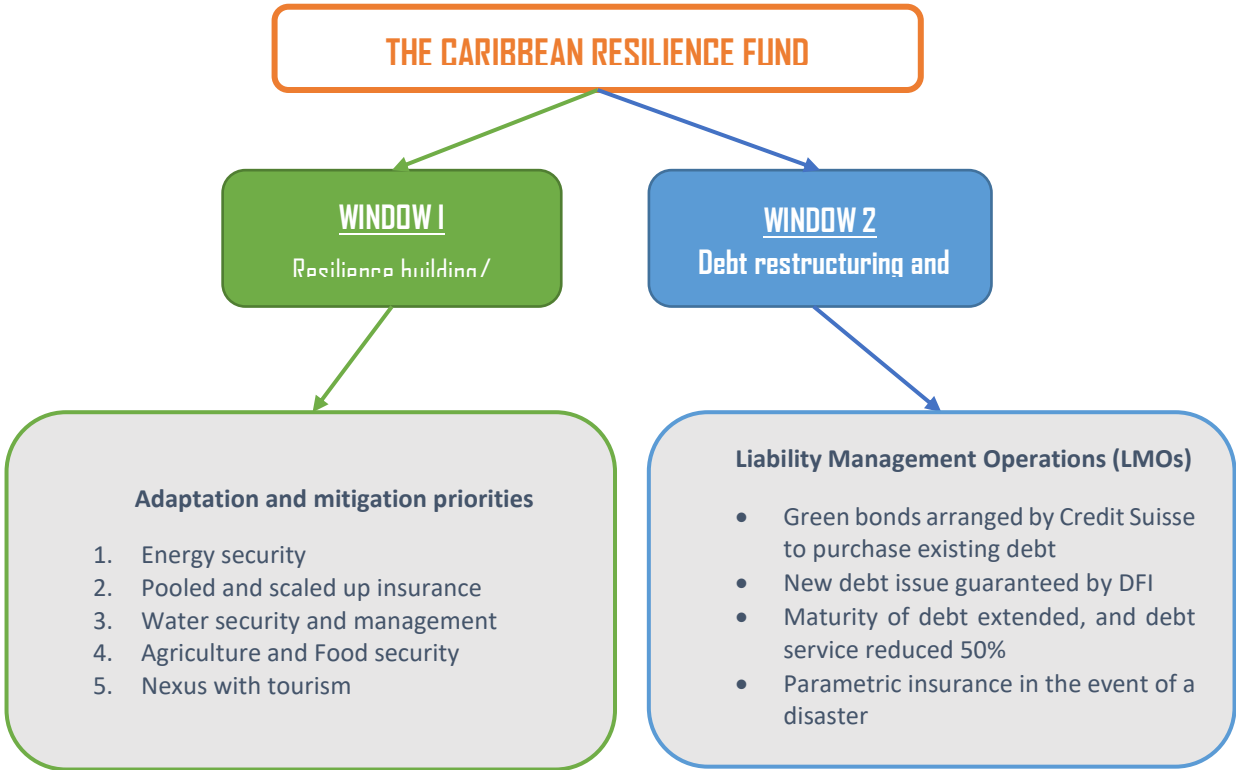
¹⁰ This group is likely to expand at its establishment.

the launch of the CRF which will be extended to all Caribbean countries. The CRF will comprise two windows with different functions as follows:

Window 1: Resilience Building - A Resilience Building Fund would provide financing to public and private sector activities that focus on resilience building. The initial areas of focus for the CRF's projects should be diversifying energy sources and lowering the cost of energy, pooling and scaling up insurance, and promoting water and food security while integrating with the tourism sector.

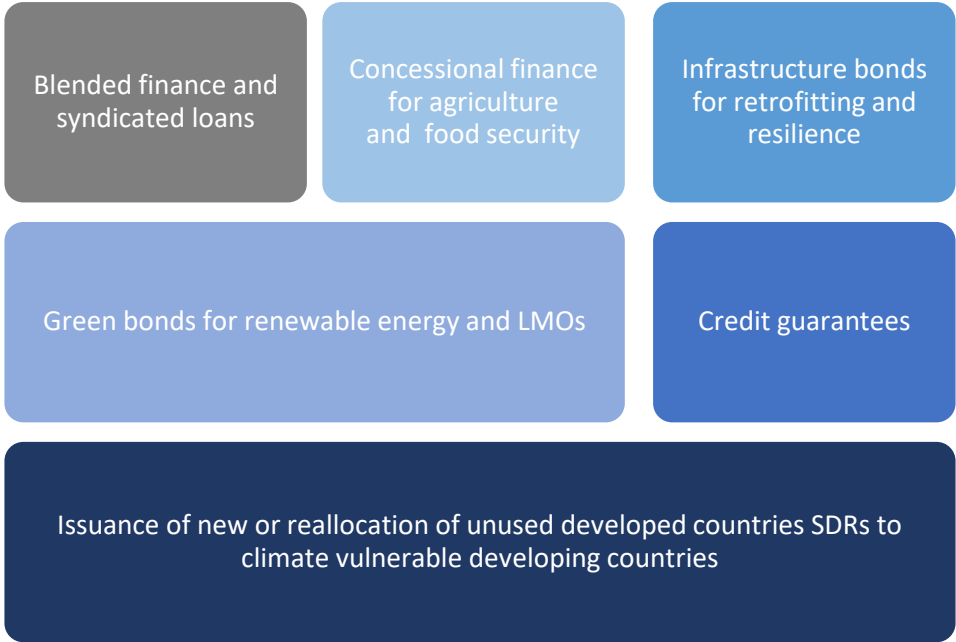
Window 2: Debt restructuring and liquidity enhancement - The second window will feature Liability Management Operations (LMOs) which seek to buy-out high-interest short-term debt and replace with a lower interest, longer-term (12-20 years) green bond, targeting a block of Caribbean countries as part of a regional strategy. The LMO's are to be implemented in collaboration with other partners such as the IADB, CDB, the Development Finance Corporation (DFC) of the United States, The Nature Conservancy (TNC), and Credit Suisse among others. The LMOs will create extra fiscal space for governments, 50% of which must be directed to climate-resilient activities.

Figure 8: **The Caribbean Resilience Fund**: A special purpose financing vehicle intended to leverage long-term affordable development financing for the Caribbean



The range of financing instruments should span the range from short- to medium- and long-term¹¹. They should facilitate economic restructuring and renewal and the building of a knowledge economy and society, while accelerating the green, sustainable transition with a strong focus on growing decent jobs and improving social equity.

Figure 9: Financing instruments to be offered through the CRF windows



Note: Each window will offer a range of instruments to meet the unique needs of member states.

Future Borrowing requirements-the opportunities and a way forward

Expand and redistribute liquidity from developed to developing countries

Whatever the success of the CRF and the use of LMO to reprofile the Caribbean debt, the climate crisis will require considerable finances to build resilience. SDRs are an important avenue for unleashing such finance especially for SIDS, at scale. In August 2021, the general allocation of SDRs equivalent to US\$ 650 billion dollars (SDR 456.5 billion) by the International Monetary Fund (IMF) became effective. It is the

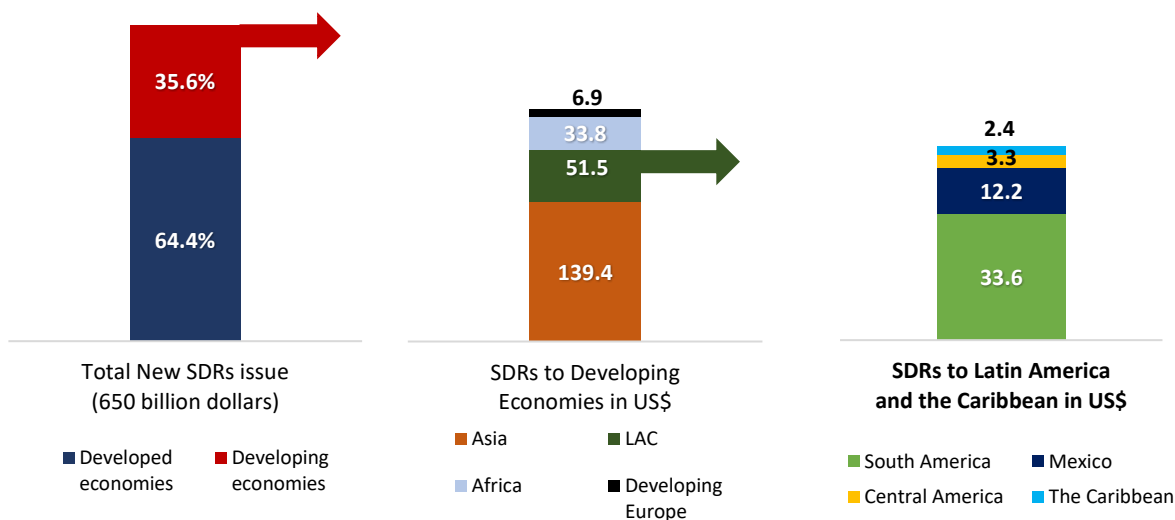
¹¹ Each window will offer a range of instruments to meet unique needs of member states. These include:

- Blended finance and syndicated loans
- Concessional finance for agriculture and food security
- Infrastructure bonds for retrofitting and resilience
- Green bonds from renewable energy and LMOs
- Credit guarantees
- Issuance of new or reallocation of unused developed countries SDRs to climate vulnerable developing countries

largest in IMF history and the maximum amount that can be issued without the approval of the United States Congress¹².

SDRs offer six advantages to IMF member countries. First, they are an automatic credit line —up to 100% of a country’s quota— and are available to all countries regardless of their income level. Second, SDRs do not generate debt, as they do not entail an obligation for repayment of the principal. Third, SDRs do not carry any conditionalities. Fourth, the use of SDRs generates a very low, below-market, interest rate (0.05%), which is advantageous for countries that have high risk premiums. Fifth, SDRs increase reserve assets without countries having to incur the costs that are normally associated with reserve accumulation. Finally, besides improving financial stability, SDRs can be an instrument of economic and social development by freeing up resources for domestic spending on public goods. Developed countries received 64.4% of the new SDR issue (US\$ 418 billion) and the rest (US\$ 231 billion or 35.6% of the total) was distributed to developing countries. Latin America and Caribbean received US\$51.5 billion (7.9 of the total and 18% of the allocation to developing economies).

Figure 10: Issuance of Special Drawing Rights (SDRs) to Developed and Developing economies and Latin America and the Caribbean



Source: ECLAC (2021), IMF (2021) and World Bank (2021)

Note: Developed countries received 64.4% of the new SDR issue (US\$ 418 billion) and the rest (US\$ 231 billion or 35.6% of the total) was distributed to developing countries. Latin America and Caribbean received US\$51.5 billion (7.9 of the total and 18% of the allocation to developing economies)

Figure 11: SDRs Received
(Percentage of International Reserves)

¹² To date, there have been four new issuances of SDRs (US\$ 13 billion in 1972, US\$ 17 billion in 1981, US\$ 206 billion in 2009 and US\$ 650 billion in 2021).

¹² To date, there have been four new issuances of SDRs (US\$ 13 billion in 1972, US\$ 17 billion in 1981, US\$ 206 billion in 2009 and US\$ 650 billion in 2021).

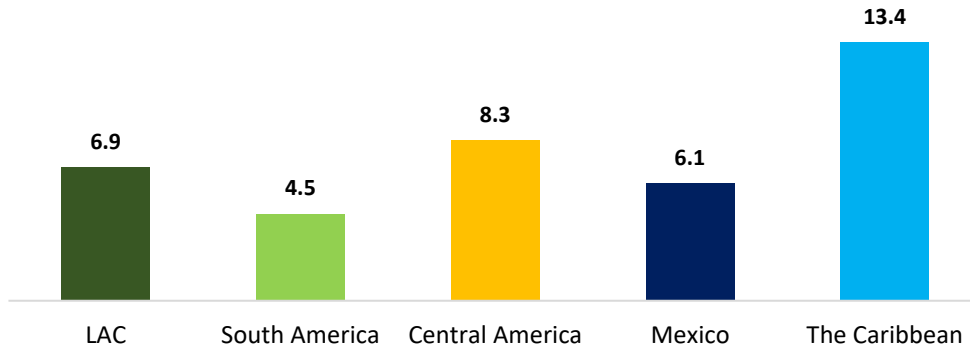
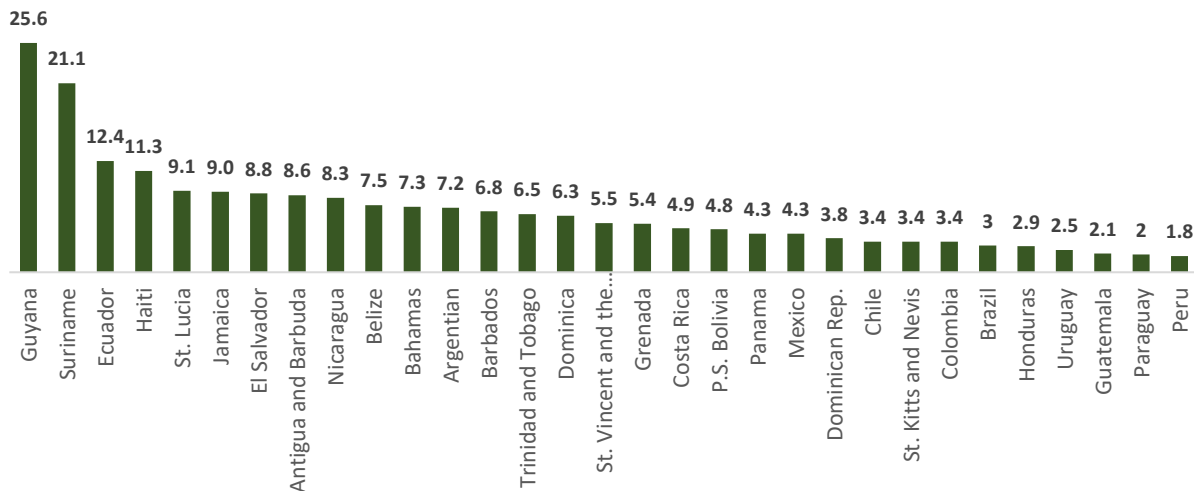


Figure 12: SDR Allocations across Latin America and the Caribbean



Source: On the basis of IMF (2021) and ECLAC (2021)

Notwithstanding the small allocation of SDRs to developing countries and to Latin America, many small countries benefited. It provided a financial buffer by reducing risk and strengthening their balance-of-payments position.

Guyana and Suriname have benefited the most with total SDR holdings representing 37% and 30% of total international reserves. Other smaller economies that have benefited include El Salvador, Belize, Haiti, The Bahamas, Jamaica, Ecuador, and Saint Lucia

The Utilization rates of SDRs

For any given country the utilization rate refers to the difference between what a country receives in terms of allocation of SDR as part of its IMF quota and the holdings of SDRs that country has divided by the country's quota.

For example a country can receive an allocation of 100 SDR as part of its quota. The country decides to change 50 SDR for a reserve currency. The country has a holding of 50 SDR. Its utilization rate is thus allocation of SDR (100) less holdings of SDR (50) which is 50 divided by the country's quota.

There is higher demand for SDR use in developing economies than in developed economies. Developing countries' use of SDR intensifies in times of crises as they face increasing financing needs coupled with tighter liquidity constraints and more limited fiscal space.

This is also illustrated in the period 2007–2010, which covered the global financial crisis (2008–2009). During this period, the SDR utilization rate (the difference between SDR allocations and SDR holdings divided by SDR allocation) of developing countries remained consistently above that of developed countries. A number of recommendations with respect to SDR allocations have been suggested by ECLAC. Among these are the following:

Financial support through the recycling of SDRs needs to be expanded to all middle-income countries, including those of Latin America and the Caribbean and tailored to the diversity of their economic and social development needs.

A new trust fund to be housed at the IMF to support middle-income countries, and small island developing states (SIDS) in particular, in their response and recovery efforts (United Nations, March 2021, p. 9) should be considered.

Development banks and regional financial institutions that are prescribed holders of SDRs and can receive SDRs could also be part of a mechanism to reallocate SDRs.

Reform the multilateral debt and financial architecture

For some time now there has been the call for a reform of the multilateral debt architecture which does not see the SIDS at the decision table. There have been many proposals but these have not borne fruit. For Caribbean SIDS this is also linked more generally to the international financial architecture since these have been the victims of the loss of correspondent banking relations and blacklisting even as they have tried to restructure their economies. These discussions will be ongoing but Caribbean SIDS must collaborate with other like minded states to bring these issues to the international decision making table. In this context of SIDS/SIDS and other forms of South/South solidarity and collaboration is vital, since such matters cannot be properly resolved satisfactorily at the individual country level..

Expand the set of innovative instruments aimed at increasing debt repayment capacity and avoiding excessive indebtedness.

Caribbean countries will continue to borrow heavily before they can build enough resilience and this process will require new credit instruments which recognise the role of vulnerability among member states. Recently tentative steps have been taken by the IMF to support hurricane clauses in Grenada and Barbados but these merely suspend debt repayments for a very short time and require past interest payment due in full. While this is progress of a kind, what is required is for the IFI to support a full suite of state contingent instruments including GDP linked bonds and sovereign cocos where appropriate to help countries facing extreme shocks, beyond hurricanes. At the same time there must be built in conditions to avoid unnecessarily higher borrowing thresholds. The endorsement by the IMF outside of a fund

directed programme will go a far way to lower risk premia and reduce borrowing costs, which are quite high, at the moment.

Integrate liquidity and debt reduction measures into a development financing strategy aimed at building forward better, which means placing equality and environmental sustainability at the centre of the recovery phase.

As was pointed out before the IMF has been unwilling to link debt reduction or debt restructuring to economic development. Thus the argument is that climate resilience and debt restructuring require different approaches. While such a case can be made for other jurisdictions, the annual losses for the Caribbean and their now established vulnerability weaken such arguments. To build forward better policy space will be freed from reduced debt burden and debt servicing costs which frees fiscal space for the public sector to put skin in the game as it addresses resilience building.

Address access to concessional finance

While the international community is yet to recognize that SIDS do need access to concessional finance, the recent initiative by the SG of the UN to develop a universal MVI holds some optimism. This new index which is being developed being universal in nature address both structural vulnerability and resilience. The enormous financing gap which may increase over time as climate impacts take hold, will require a much more enlightened approach by the international community towards SIDS sustainable development.

Conclusion

Rebuilding Policy Space Post Covid 19 can have little meaning without access to finance and a concerted effort by the public and private sector to address ongoing challenges. ECLAC has proposed the initiation of the CRF with its windows to address both resilience building and debt distress. From a Caribbean perspective these two issues are inextricably linked and must be addressed simultaneously. The region is committed to addressing the SDGs despite the devastating impact of Covid-19 and is doing its part but requires some assistance also from the development partners in this undertaking. Past debt is an issue but more important are guarantees that allow for new borrowing, when necessary, with reduced sovereign risks.

Bibliography

Alleyne, Dillon. Reimagining Caribbean Education post COVID-19. What is to be done ? The 15th annual Caribbean Child Research Conference hosted by the Sir Arthur Lewis Institute of Social and Economic Studies, Cave Hill in partnership with UNICEF, Eastern Caribbean Office. November 25-26, 2020

Alleyne, Dillon (2018). Structural Constraints and Macroeconomic Policies to Promote Sustainable Growth in the Caribbean. *Social and Economic Studies* 67: 2 & 3 (2018): 5—41

McLean, Sheldon. UN ECLAC presentation on the ECLAC Caribbean Resilience Fund: alleviating debt while increasing access to climate finance. Regional forums on Climate Initiatives to Finance Climate Action and the SDGs Economic Commission for Latin America and the Caribbean Roundtable on Climate Finance – The Energy Transition in Latin America and the Caribbean. 1-2 Sept 2022, Santiago Chile.

Marcos Chamon, Erik Klok, Vimal Thakoor, and Jeromin Zettelmeyer (2022) Debt-for-Climate Swaps: Analysis, Design, and Implementation. IMF Working Paper. Strategy, Policy and Review Department.

McLean, Sheldon, and Ranjit Singh. 2017. “Monitoring trade agreements: improving export performance and promoting industrialization in the goods-producing economies of the Caribbean.” *Studies and Perspectives* 65. ECLAC, Sub-regional Headquarters for the Caribbean.

Maclean, Sheldon and Justin Ram. ECLAC Caribbean Resilience Fund. A segregated Portfolio trust Fund. ECLAC Subregional Headquarters for the Caribbean, 2021.

Mohan, Preeya, S (2022) .Implementing nationally determined contribution under the Paris agreement: an assessment of climate finance in Caribbean small island developing states, *Climate Policy*, DOI: 10.1080/14693062.2022.2101978. To link to this article: <https://doi.org/10.1080/14693062.2022.2101978>

Vanus James and Rosalie Hamilton(2022). Strategic Factors In Economic Development Revisited. Tapia House Movement Maracas, St Joseph, Trinidad Managing Editor, Lloyd Taylor.