United Nations Development Programme

FINANCING FOR DEVELOPMENT CHALLENGES IN CARIBBEAN SIDS

A CASE FOR REVIEW OF ELIGIBILITY CRITERIA FOR ACCESS TO CONCESSIONAL FINANCING

Empowered lives.
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Report Prepared for the United Nations Development Programme
by
Professor Compton Bourne
assisted by
Megan Alexander, Daren Conrad and Julia Jhinkoo

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Table of Contents

Acronyms and Abbreviations

CARICOM – Caribbean Community

CDB – Caribbean Development Bank

CVI – Composite Vulnerability Index

EVI – Economic Vulnerability Index

EVIAR – Economic Vulnerability Index Adjusted for Economic Resilience

ECCU – Eastern Caribbean Currency Union

EU – European Union

FSO – Fund for Special Operations

GDP – Gross Domestic Product

GNI – Gross National Income

HIMIC – Highly Indebted Middle Income Countries

HIPC – Highly Indebted Poor Countries

IBRD – International Bank for Reconstruction and Development

IDA – International Development Agency

IDB – InterAmerican Development Bank

LAC – Latin America and the Caribbean

MDG – Millinium Development Goals

MFI – Multilateral Financial Institution

OCR – Ordinary Capital Resources

ODA – Official Development Assistance

OECS – Organisation of Eastern Caribbean States

SDF – Special Development Fund

SDG – Sustainable Development Goals

SIDS – Small Island Developing States

UNDP – United Nations Development Programme

UNECLAC – United Nations Economic Commission for Latin America and the Caribbean

Executive Summary

(i) This report deals with the financing for development challenges in Caribbean countries which are in the World Bank Caribbean Small States Programme. They include not only island countries but also the mainland countries of Belize, Guyana and Suriname.

(ii) Caribbean SIDS have higher levels of per capita income and rank more highly on the human development index than most other SIDS. They nonetheless share many development challenges with other countries due characteristics such as small size, small populations, limited resources, remoteness from international markets, diseconomies of scale, foreign trade dependence, vulnerability to external economic shocks and natural hazards.

(iii) Caribbean SIDS have many serious development challenges: slow and volatile economic growth; high and rising levels of unemployment; significant incidence of poverty; inequality of income and wealth; under achievement of the MDGs in relation to health, access to basic services, gender equality and environmental sustainability; acute vulnerability to natural hazards; substantial risks ensuing from climate change and rising sea levels.

(iv) There is a shortage of investible resources in Caribbean SIDS despite maintenance of reasonable domestic savings rates. Fiscal capacity and flexibility to meet investment requirements is limited. Most Caribbean countries have high ratios of government debt to GDP, at unsustainable levels in some instances. Domestic debt has also grown as access to foreign debt weakened or became too costly. Exposure to government domestic debt has elevated financial risks for domestic financial institutions and social security funds in some countries. Debt service absorbs significant proportions of fiscal revenues compounding difficulties of financing long term development and the delivery of social services such as public health and security. Caribbean SIDS presently allocate less than 4% of fiscal expenditures to capital investment, which is below trend and at variance with expanded investment requirements for economic transformation, climate change adaptation and mitigation, and expansion of economic and social infrastructure, among others.

(v) Debt service obligations have been beyond the fiscal capacity of some Caribbean SIDS resulting in debt renegotiations and restructuring to reduce the level of debt and interest payments.

(vi) Foreign direct investment is an important source of development finance but has been decreasing in many Caribbean SIDS since 2009.

(vii) Globally, flows of concessional development finance to developing countries from bilateral and multilateral sources have expanded greatly since the 1990s but Caribbean SIDS have been less successful in accessing those funds, especially since the onset of the global economic crisis. Caribbean SIDS currently receive official development assistance (ODA) within a range of 0.13% and 5% of their GDP. ODA from the Caribbean traditional bilateral donors, namely UK, US, Canada and Japan, has decreased over time as aid preferences shifted towards low income countries and countries in post-conflict situations. Aid flows have become concentrated on a few Caribbean SIDS, and fluctuate considerably.

(viii) New bilateral donors which are less restrictive in macroeconomic and political conditionality have become important. Among them is the People's Republic of China, Taiwan and Venezuela. China also makes substantial foreign direct investment in the Caribbean. Financial assistance from Venezuela comes mainly through PetroCaribe which is a scheme for discounting pricing and deferred payments on Venezuelan oil exports to those countries that have joined the scheme. The amounts of cumulative deferred credits are large, especially in the Dominican Republic and Jamaica. There are reasonable doubts about Venezuela's ability to sustain the same level of financial assistance given its own economic difficulties and oil export commitments to China.

(ix) Multilateral ODA from EU institutions were large in 2007-2010 but decreased substantially as per capita income became a major influence in aid policy. Substantially over the next three years. An agreement signed on 11 June 2015 commits the EU to a new regional funding programme valued at $390mn (€346mn) for the period ending 2020. This would double the size of the previous programme.

(x) Caribbean SIDS also have reduced access to International Development Agency (IDA) resources allocated by the World Bank because only a few of them satisfy the per capita income criteria for treatment as IDA-only countries, IDA-Gap countries or IDA-Blend countries. World Bank non-concessional resources are accessible by Caribbean SIDS whose per capita income does not exceed $12,746. Antigua and Barbuda, the Bahamas and Barbados are therefore excluded. Except for the Dominican Republic and Jamaica, IBRD allocations to the Caribbean are not large and have been decreasing.

(xi) The InterAmerican Development Bank (IDB) is a significant source of development finance to Caribbean SIDS. It provides highly concessional resources from its Fund for Special Operations for which only Guyana and Haiti are eligible. Like the World Bank, the IDB employs an allocation formula which uses GNI per capita and population size as indicators of development needs but gives greater weight to policies for social inclusion and equity and public sector management. Other countries are eligible for loans from Ordinary Capital Resources. IDB lending to Caribbean SIDS has been responsive to the impact of the global economic recession.

(xii) The Caribbean Development Bank (CDB) is a major source of development finance for its Caribbean member countries. It provides highly concessional loans and grants from its Special Development Fund (SDF) which is financed by grants from its members. All of its Caribbean members are eligible for SDF but access is tiered according to per capita income status and whether the country is classified as a Caricom LDC. The fact that most Caribbean SIDS received substantial concessional funds reflects the less exclusionary and more sensitive application of development needs and country performance criteria. The CDB also provides non-concessional loans utilising funds borrowed from the international capital market. Using both SDF and OCR, the CDB made much larger allocations to its Caribbean SIDS after 2007 than between 2001 and 2006.

(xiii) Caribbean Community governments in 2008 established a CARICOM Development Fund (CDF) financed by contributions from themselves but expecting the initiative to encourage contributions from the donor community. The capital base is US $100 million of which $94.7 million has been contributed. Cumulative loans and grants approved at end of 2013 are $41.9 million. The recipient countries are Belize, Guyana and OECS members.

(xiv) Caribbean SIDS experience a twin resource mobilization problem: limited capacity to mobilize domestic resources and limited capacity to mobilize external resources.

(xv) Per capita national income is not an adequate indicator of development needs. Its use by bilateral donors and MFIs excludes middle income countries with significant poverty, economic vulnerability and other serious development challenges. Various computations of economic vulnerability indices reveal that Caribbean SIDS have acute vulnerability to external economic shocks and natural hazard events. The per capita income criterion should at least be supplemented with economic vulnerability as an additional criterion. Using various measures of vulnerability, three categories of eligible Caribbean SIDS are identified in this Report. Interest rate, grace periods and term to maturity are different for each category.

(xvi) Per capita income and economic vulnerability criteria should be treated as only two elements in basket of development needs indicators. Other pertinent indicators, some of which are identified in the UNDP multi-dimensional poverty indicators and the UNECLAC "Stuctural gaps" approach include poverty and indigence, access to secondary and tertiary education, health status and access to medical and sanitary services, and gender inequality.

(xvii) There is merit in establishing Special Funds which focus on particular areas of activity to complement provisions in existing funds or schemes or to initate entirely new provisions. In these respects, special funds could address the need for population resettlement, investments in renewable energy and statistical data capacity, e.g. the Global Infrastructure Facility.

(xviii) Official donors should expand the flow of their own resources to multilateral institutions, especially those engaged in development banking because the latter have broader development policies and their strategic frameworks are more consistent with the SDGs. Strengthening the role of regional and sub-regional development banks through contributions to share capital and special funds would also be valuable.

(xix) Funds from the Caribbean diaspora whether in the form of remittances or investments in diaspora bonds can be a substantial source of development finance. These could be facilitated by improvements in arrangements and systems for cross-border financial transactions, improvements in domestic settlements systems, better economic management in Caribbean SIDS and instilling greater confidence in political governance and social stability in the countries of issue.

(xx) Caribbean SIDS should endeavour to return to private international capital markets from which they have been largely absent in recent years because of deterioration in the credit rating of their debt and increases in risk premiums. International support for fiscal reforms, debt relief and restructuring, public sector management, investments in critical infrastructure, bond guarantees and indemnities and indexing of bond interest rates to economic growth rates should be helpful in improving market perceptions of risk and the prospects for successful re-entry to international capital markets.

(xxi) Very high and often unsustainable levels of government debt severely compromise the fiscal capacity of most Caribbean SIDS to make further progress with the MDGs and to successfully implement the forthcoming SDGs. Debt relief for these highly indebted middle income countries seems an imperative understood by bondholders involved in recent debt renegotiations. Debt to MFIs should be included in new approaches to debt relief which should be supported by the international community. Interest payments and/or amortization on MFI debt could be central elements in debt relief packages for Caribbean SIDS, as in the Commonwealth Secretariat proposal. Special provisions could also be made for debt relief as a remedial response to economic losses caused by natural hazard events.

(xxii) The agenda for financing development requires a contribution from developing countries in addition to resources provided by the international community. In this regard, a greater effort must be made by Caribbean SIDS to utilise domestic resources within private financial institutions for investment purposes. This might be facilitated by institutional developments such as establishment of local risk assessment and credit rating institutions and by efficiency reforms in judicial administration to improve contract compliance and loan loss recovery.

Introduction

1

Small states in the Caribbean, despite their past achievements in reaching the status of middle-income countries and medium to high ranking in the United Nations Human Development Index, currently experience a range of fundamental economic and social difficulties which threatens to reverse gains already made and impede future progress. It is necessary that they undertake major investment expenditures to resuscitate and sustain economic growth, address societal challenges such as crime and citizen insecurity and attend to the challenges presented by climate change, the environment and natural hazards.

Limitations on the domestic resource mobilization capacity of Caribbean SIDS make access of development finance from the international community a matter of central importance to them. This Report deals with the financing for development challenges experienced by Caribbean SIDS at this point in time.

It begins in Section II with an analysis of the development challenges with a focus on recent trends and the current situation. Attention is paid not only to macro-economic indicators but also to social indicators which show that despite their status as middle income countries, Caribbean SIDS still have serious development challenges which extend beyond sustainability of aggregate economic growth. Section III then examines the financing challenges. It presents statistical data on key trends in relation to domestic savings and investment capacity, fiscal capacity, government domestic and foreign debt, and analyses how these trends and patterns are affecting efforts to invest in sustainable development in the Caribbean. Trends and patterns in official development assistance to the Caribbean are discussed in detail in Section IV. The analysis of financing challenges and difficulties and evolving trends in access to official development assistance lead to consideration in Section V of how access to development finance might be improved. Specific recommendations are then made in Section VI of the Report.

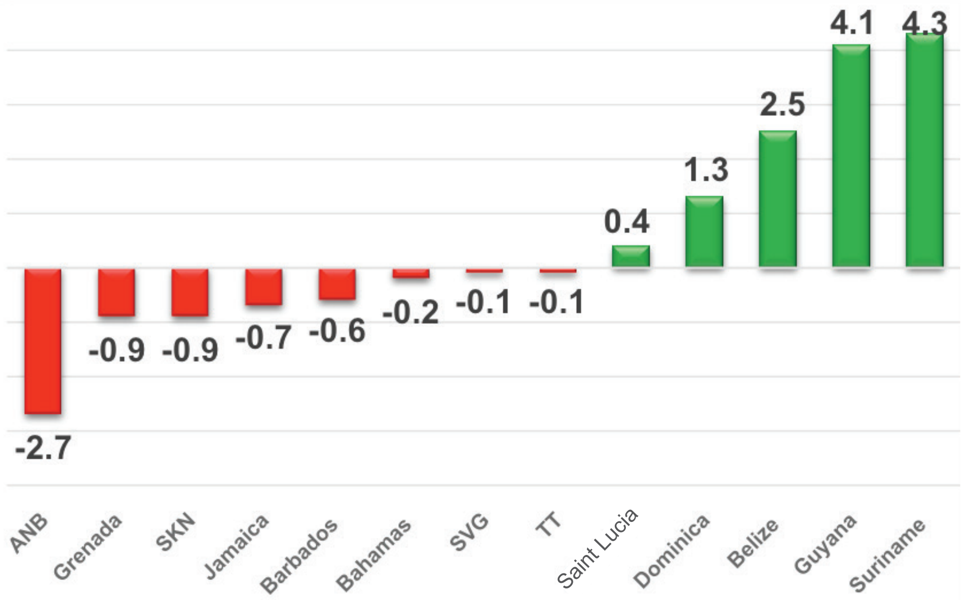
2 Development Challenges of Small Caribbean States

Caribbean Small States (referred to as Caribbean SIDS in the rest of this Report) face many challenges in their quest to achieve economic recovery and sustainable development. These challenges include low economic growth rates, low exports, weak public finances, several social and structural challenges such as poverty, inadequate access to essential services such as safe water, sanitation, health and citizen security, widening income gaps, continuous emigration of highly educated and trained personnel, poor physical and administrative infrastructure for cost-efficient conduct of business and attraction of foreign direct investment, transportation logistics, concessionary financing and finally, climate change and the impact of natural disasters.

Slow and Volatile Economic Growth

Foremost, on the agenda for some countries is the record of slow and volatile economic growth. Average annual growth rates of real gross domestic product in the 2008- 2013 period shown in **Figure 1** were negative for 8 of 13 CARICOM members. Five countries had positive average annual economic growth rates but in only 3 instances, namely Belize, Guyana and Suriname did they exceed 2%. As shall be shown in a later section of this report, growth was also volatile, responding to adverse external economic shocks and to natural hazard events.

Figure 1
Average Growth Rate (%): 2008 – 2013



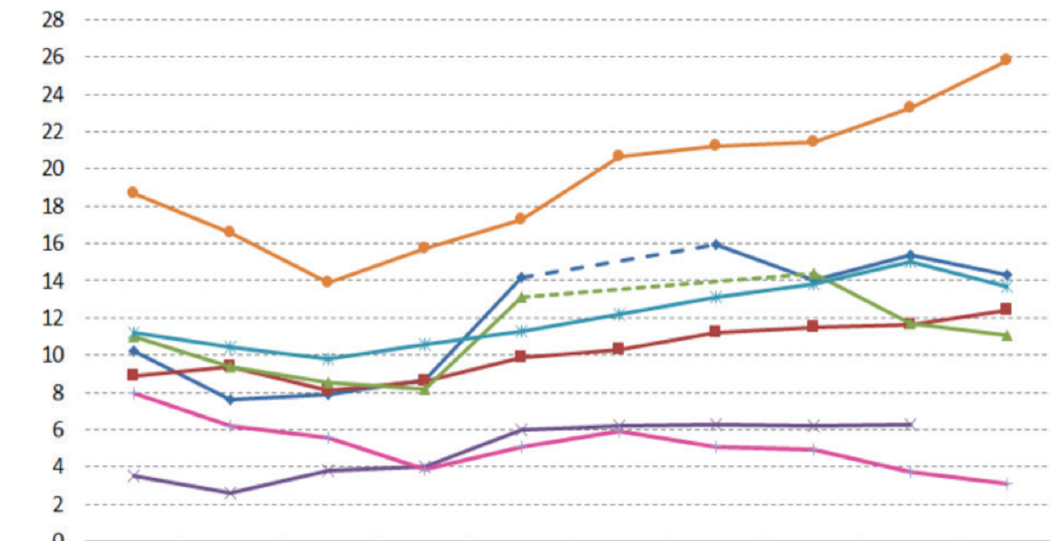
Source: Authors' Computations from official data

High Unemployment

The persistence of slow economic growth contributes to problematically high levels of unemployment. Statistical data on the labour force are patchy but for those countries for which unemployment estimates are available, it is evident from **Figure 2** that with the exception of Trinidad and Tobago, unemployment rates were not only high in 2005 but increased after 2008 as the global economic recession spilled over into the Caribbean. Furthermore, based on those countries for which data are available, unemployment is much higher among women and youths than in other segments of the labour force.

Figure 2

Annual Average / Mid-year Unemployment Rates, 2005-14



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
BAH	10.2	7.6	7.9	8.7	14.2		15.9	14.0	15.4	14.3
BAR	8.9	9.4	8.1	8.6	9.9	10.3	11.2	11.5	11.6	12.4
BZE	11.0	9.4	8.5	8.2	13.1			14.4	11.7	11.1
CAY	3.5	2.6	3.8	4.0	6.0	6.2	6.3	6.2	6.3	-
JAM	11.2	10.4	9.8	10.6	11.3	12.2	13.1	13.8	15.0	13.7
SLU	18.7	16.6	13.9	15.7	17.3	20.6	21.2	21.4	23.3	25.8
TT	8.0	6.2	5.6	3.9	5.1	5.9	5.1	4.9	3.7	3.1

Source: Caribbean Development Bank (2015)

Notes: Rates for The Bahamas, Belize, Cayman Islands and Saint Lucia are as at mid-year. Rates for Barbados, Jamaica and Trinidad and Tobago are annual averages. 2014 rate for Trinidad and Tobago is as at March.

Poverty and Inequality

With regard to social progress, Caribbean SIDS despite doing much better than many other SIDS in the world on per capita GNI and some other indicators of human development, still experience substantial deficits in terms of levels of living and quality of life. The MDGs for 2015 have not been achieved in relation to poverty, inequality of income and wealth, education, health, access to basic services, gender equality and empowerment of women, and environmental sustainability.

Table 1 shows the substantial incidence of poverty and indigence and the persistence of these challenges in several Caribbean SIDS and also show that there is much income inequality measured by Gini coefficients.

Table 1

MAJOR POVERTY AND INEQUALITY INDICATORS

Country	Year	% Poor	%Indigent	GINI
Haiti	1997	65.0	n.a	n.a.
	2001	78.0	54.0.	n.a.
Suriname	2000	63.1	20.0	n.a.
Belize	2002	33.5	10.8	0.40
	2009	41.3	15.8	0.42
Grenada	1999	32.1	12.9	0.45
	2008	37.7	2.4	0.37
Guyana	1993	43.0 35.0	29.0 19.0	n.a.
	1999	36.1	18.6	n.a.
	2006			0.35
Montserrat	2009	36.0	3.0	0.39
St. Vincent and the Grenadines	1996	37.5	25.7	0.56
	2008	30.2	2.9	0.40
Saint Lucia	1996	25.1	7.1	0.50
	2006	29.0	1.6	0.42
Dominica	2002	39.0	10.0	0.35
	2009	28.8	3.1	0.44
Turks and Caicos Islands	1999	26.0	3.2	0.37
British Virgin Islands	2002	22.0	0.5	0.23
St. Kitts and Nevis	2008	21.8	1.0	0.40
St. Kitts	2000	30.5	11.0	0.39
	2008	23.7	1.4	0.38
Nevis	2000	32.0	17.0 0.0.	0.37
	2008	15.9		0.38
Barbados	1997	13.9	n.a.	0.39
	2010	19.3	9.1	0.47
Antigua and Barbuda	2006	18.0	3.7	0.48
Trinidad and Tobago	1997	24.0	8.3	0.39
	2007	17.0	n.a.	n.a.
Jamaica	2002	19.7 16.3	n.a.	0.40
	2009	17.6	n.a.	0.59
	2010		n.a.	n.a.
Bahamas, The	2001	9.3	n.a.	n.a.
Anguilla	2002	23.0	2.0	0.31
	2009	5.8	0.0	0.39
Cayman Islands	2008	1.9	0.0	0.40

Source: Caribbean Development Bank (2013)

The development status of countries is affected by inequality of income and wealth. Excluding inequality from computation of the HDI results in an over estimate of a country's development status. Account must therefore be taken of the degree of inequality in Caribbean SIDS. The inequality adjusted human development indices for Suriname, the Dominican Republic and Guyana are 23%, 27.3% and 19.1% lower than the unadjusted HDI in 2012. The reductions from 0.684 to 0.526 for Suriname, from 0.702 to 0.510 for the Dominican Republic and from 0.636 to 0.514 for Guyana are illustrative of the problem in other Caribbean SIDS and emphasize the importance of inequality reduction as a Sustainable Development Goal.

Health and Education

The Caribbean SIDS are severely challenged with respect to the health status of their populations. Infant mortality rates in 2010 were between 17%-27% in 6 countries but somewhat lower, i.e. between 7%-14% in the other 6 countries. Mortality rates for children under 5 years of age were between 16% and 31% in 8 countries and between 8% and 12% in 4 countries. It should also be noted that Caribbean SIDS have high rates of adult mortality – female mortality rates between 103 and 224 per 1000 adults in 9 countries and male mortality rates between 115 and 286 per 1000 adults in 12 countries. Maternal mortality is also a serious problem with rates in excess of 100 per 100,000 persons being reported in Jamaica, Guyana, Suriname and the Dominican Republic, and around 46-53 per 100,000 persons in Trinidad and Tobago, Barbados, Belize, St. Vincent and the Grenadines and the Bahamas. The deficiencies in health status reflect inadequacies with respect to (i) human nutrition; (ii) disease prevention, treatment and cure; (iii) health systems capacity; (iv) fiscal constraints on public sector health expenditures.

There are substantial deficits in the education sector where in several Caribbean SIDS less than 50% of the population aged 25 years or older has received at least secondary education, with a high proportion of females aged 15-19 years old hampered by adolescent fertility. Access to tertiary education is even more limited. The percentage of persons aged 25 years or older with at least a bachelor's degree was less than 5% in some countries and not more than 11% in the three best performers in the 2000 – 2013 period.

UNDP's upcoming Caribbean Human Development Report on *Multidimensional Progress* also provides new metrics that track development beyond income in the region. Besides the conventional indicators on education and health, these include detailed information on living standards, proxies of household capabilities and proxies of household assets. The new metrics can be used as a micro counterpart to the more macro human development indices – which show changes in education, health and income over time. The key challenge for the new multidimensional indicators is to show microtrends that are relevant to individual and household well-being, but mostly invisible to the aggregate HDI indicators. The multidimensional progress indicators are also critical to implement the comprehensive and holistic SDG agenda – which moves "beyond income" for an array of goals.

Natural Hazard Vulnerability

It is well known that the Caribbean has a high exposure and vulnerability to natural hazards and that these have imposed tremendous costs in terms of loss of human lives, productive assets, physical infrastructure, output supply and product demand especially in agriculture and tourism. These costs cannot be understated as is evident from **Table 2** which covers the 1988-2012 period. The development challenges posed by natural hazards are compounded by climate change which has increased the frequency and force of hurricanes, caused sea level rise which threatens coastal infrastructure, beaches which are integral to Caribbean tourism, housing settlements and fresh water supplies, and marine life and coastal fisheries.

Table 2
NATURAL HAZARDS IMPACTING BMCs, 1988-2012

Hazard	Year	Magnitude	Estimated Cost	Countries Affected
Hurricane Gilbert	1988	Category 5	US$ 1.1 bn, 65% of GDP	Jamaica
Hurricane Hugo	1989	Category 5	US$ $3.6 bn, 200% of GDP for Montserrat	Antigua and Barbuda, St. Kitts and Nevis, Montserrat, British Virgin Islands
Tropical Storm Debby	1994	n.a.	US$ 79 mn, 18% of GDP	Saint Lucia
Hurricanes Iris/ Marilyn/Luis	1995	Iris (cat. 3/4) Marilyn (cat. 1) Luis (cat. 3)	US$ 700 mn	Anguilla, Antigua and Barbuda, Dominica, Montserrat, St. Kitts and Nevis
Hurricane Georges	1998	Category 3	US$ 450 mn (not including Dominica)	Antigua and Barbuda, Dominica, St. Kitts and Nevis
Hurricane Floyd	1999	Category 4	n.a.	The Bahamas
Hurricane Lenny	1999	Category 4/5	US$ 274 mn	Anguilla, Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines
Tropical Storm Lili	2002	n.a.	US$ 7.8 mn/XCD 21 mn US$ 9.6 mnXCD 26 mn	Grenada St. Vincent and the Grenadines
Tropical Storm Earl	2004	n.a.	n.a.	St. Vincent and the Grenadines, Grenada
Hurricanes Charley/ Frances/ Ivan/ Jeanne	2004	Charley/ Frances (cat. 4) Ivan (cat. 5) Jeanne (cat. 4)	US$ 150 mn	The Bahamas, Cayman Islands, Grenada, Jamaica, Saint Lucia, St. Vincent and the Grenadines, Trinidad and Tobago
Hurricane Emily	2005	Category 5	US$ 75.5 mn	Grenada
Hurricane Dean	2007	Category 5	US$ 90 mn (infrastructure for Dominica and Belize)	Belize, Dominica, Grenada, Jamaica, Saint Lucia, St. Vincent and the Grenadines
Tropical Storm Alma/ Arthur	2008	n.a.	US$ 26.12 mn	Belize

Hazard	Year	Magnitude	Estimated Cost	Countries Affected
Tropical Storm Fay, Tropical Storm/Hurricane Gustav, Tropical Storm/ Hurricane Hanna, Hurricane Ike	2008	Gustav (cat.1) Hanna (cat. 1) Ike (cat. 4)	US$ 211 mn (estimate for Jamaica only)	The Bahamas, Cayman Islands, Haiti, Jamaica, Turks and Caicos Islands
Hurricane Otto	2010	Category 1	US$ 25.5mn (52% for road/ transport sector)	British Virgin Islands
Hurricane Tomas	2010	Category 2	US$ 336 mn , 43% of GDP US$ 49.2, 10.5% of GDP; or 119.8% of Agricultural GDP	Saint Lucia St. Vincent and the Grenadines
Hurricane Irene	2011	Category 3	US$ 40mn	The Bahamas
Hurricane Ophelia	2011	Category 1	XCD 39 mn (public infrastructure damage)	Dominica
Tropical Storm Helene	2012	n.a.	US$17mn	Trinidad and Tobago
Tropical Storm/ Hurricane Isaac	2012	Category 1	n.a. – Jamaica, Dominica US$250mn (Haiti)	Trinidad and Tobago (impacted by feeder bands), Dominica, Haiti
Hurricane Sandy[1]	2012	Category1/2	US$55mn (Jamaica) >US$100mn (Haiti) US$300mn (Bahamas)	Jamaica, Haiti, The Bahamas
OTHER EVENTS				
Volcano	1995 to present	-	negative growth -7.61%, negative growth -20.15%	Montserrat
Landslides	2002	-	US$ 116 mn	Jamaica
Floods	2005	-	US$ 2.6 bn	Guyana
Drought	1997	-	US$ 29 mn	Guyana
Drought	2010	-	US$ 14.7 mn	Guyana
Earthquake	2010	7.3 (Richter scale)	US$ 8 bn	Haiti

Sources: Caribbean Development Bank (2007)

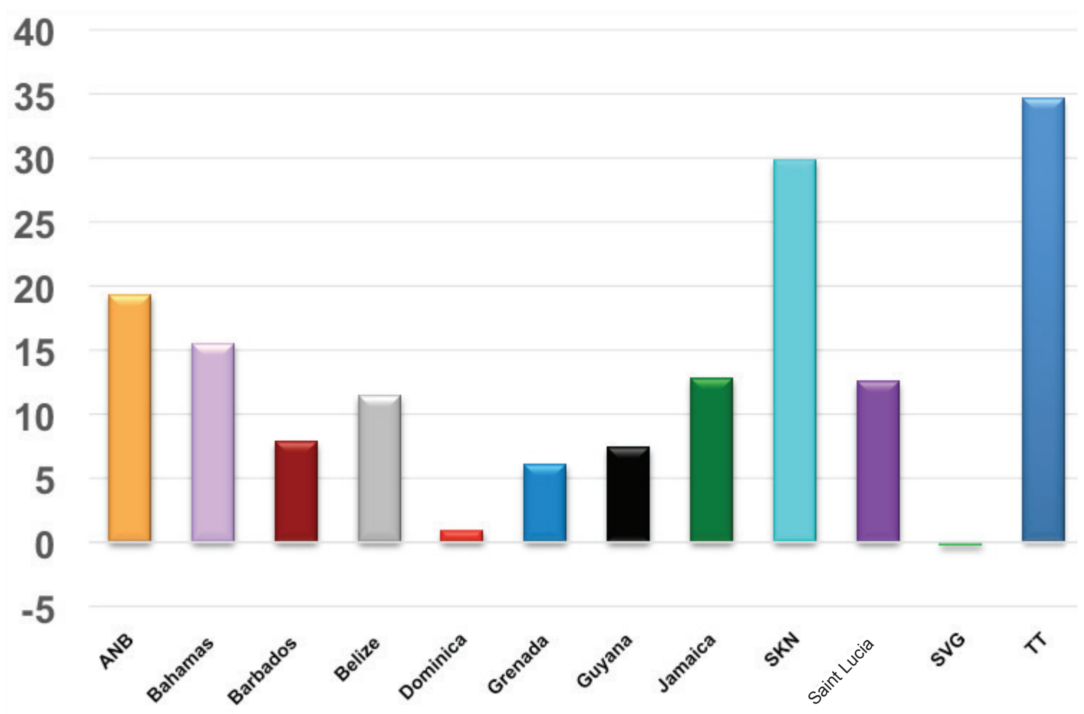
Resilience to external economic shocks, natural hazard exposure and climate change depends on success in effecting the investments in infrastructure and economic structure which would reduce vulnerability. Population resettlement, relocation of critical infrastructure, economic diversification among other structural and social adjustment investments are all very costly and would make major demands on the financial capacity of Caribbean SIDS. Add to these the backlog of investment requirements for the economic and social infrastructure required for meeting the kinds of development objectives associated with the MDGs.

3 Financing Challenges of Caribbean SIDS

Savings and Fiscal Balance

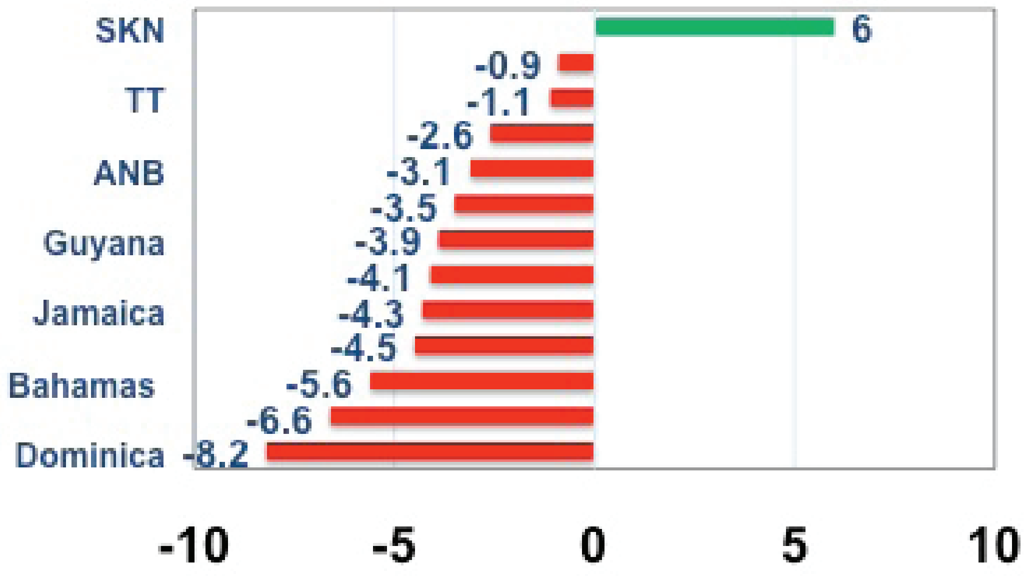
Many Caribbean SIDS have maintained reasonable domestic savings rates since 2008 (**Figure 3**), even though the rates are much lower than those achieved over the 2003-2008 period. Nonetheless, there is a shortage of investible resources, i.e. a savings-investment gap. Especially after the global economic crisis, the countries lack the fiscal flexibility to meet the investment requirements through allocation of fiscal revenues. Average fiscal balance as a percentage of GDP remained in deficit (0.9%-8.2%) in CARICOM countries between 2004 and 2013. (See **Figure 4**). In most countries, government current revenues have not been able to keep pace with government current expenditures (**Figures 5 and 6**).

Figure 3
Average Domestic Savings Rate (%)



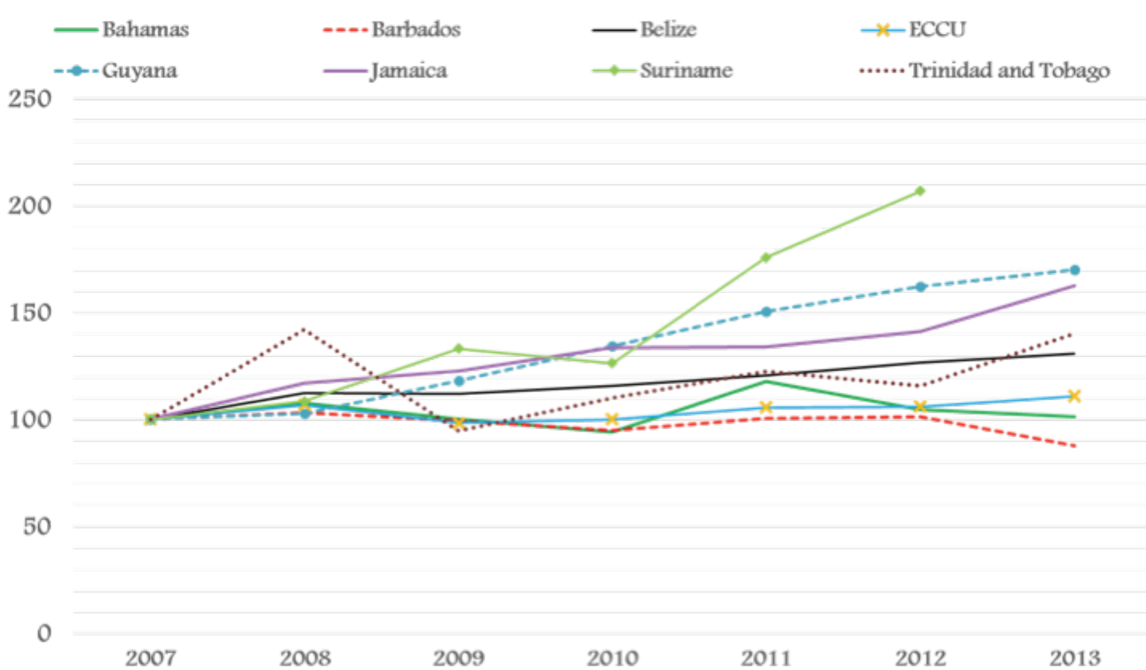
Source: Authors' Computations from official data.

Figure 4
Fiscal Balance (% GDP): 2004 – 2013



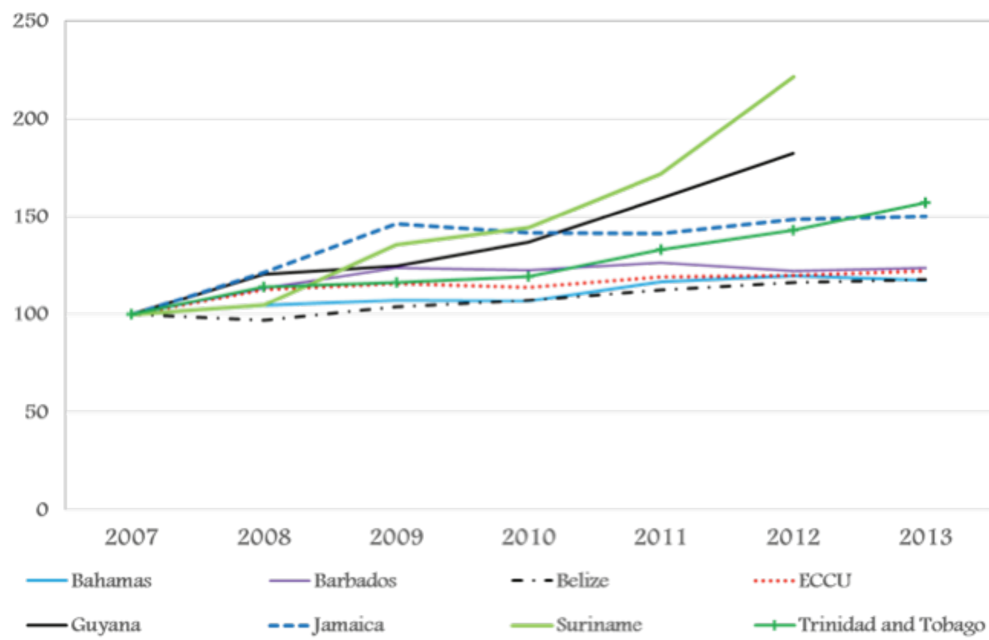
Source: Authors' Computations from official data.

Figure 5
Government Current Revenue Index



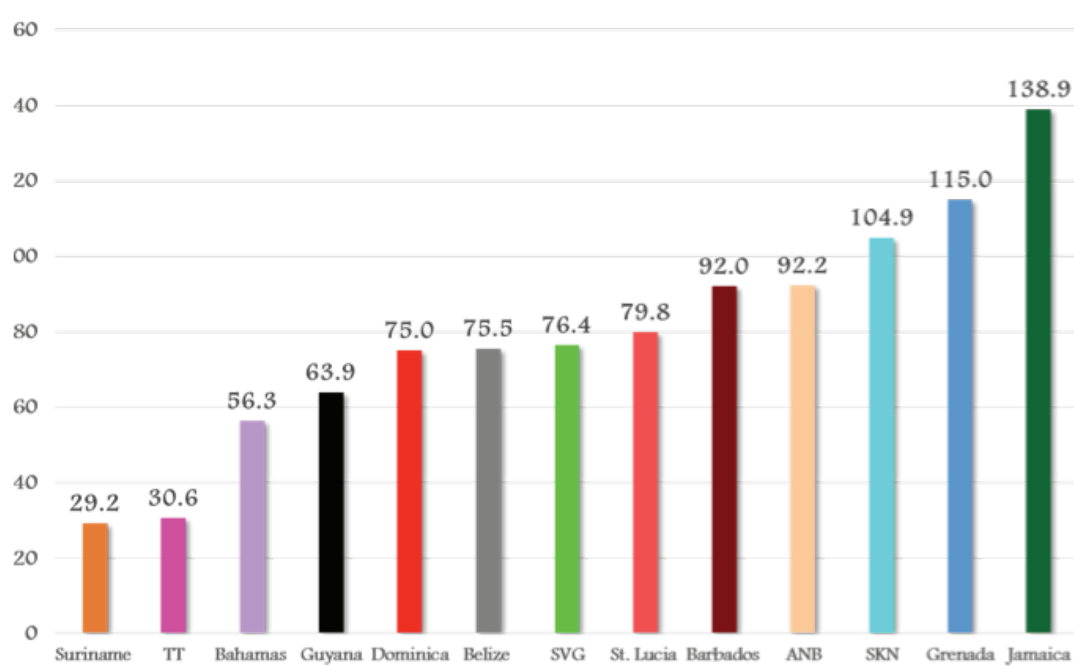
Source: Authors' Computations from official data.

Figure 6
Government Expenditures Index



Source: Authors' Computations from official data.

Figure 7
Public Sector Gross Debt (% GDP) 2013



Source: Authors' Computations from official data.

Government Debt

Caribbean SIDS are in the main heavily indebted countries. **Figure 7** profiles public sector gross debt in relation to GDP in 2013. It can be seen that most countries have debt-GDP ratios in excess of 60% with some in excess of 100%.

Domestic debt has assumed large proportions in many countries as they experience greater difficulty in accessing international debt capital. Ratios of domestic debt to total debt in 2012/2013 are shown in **Table 3**. Public debt to individuals, enterprises and institutions within the domestic economy comprised as much as 54%-73% of total public debt in the Bahamas, Barbados, Jamaica and St. Kitts and Nevis. In Antigua and Barbuda, Dominica, Saint Lucia and Trinidad and Tobago, the proportions were between 35% and 45%. Only in Belize, Guyana, St. Vincent and the Grenadines, and Suriname did domestic debt comprise less than 20% of total public debt. Much of domestic debt is with commercial banks at the short end of maturities and with non-bank financial institutions and national insurance (or social security) schemes at the long end. In some instances, creditor institutions have been over-exposed to domestic sovereign debt with elevated portfolio risks ensuing from excessive asset concentration and accumulated payment arrears.

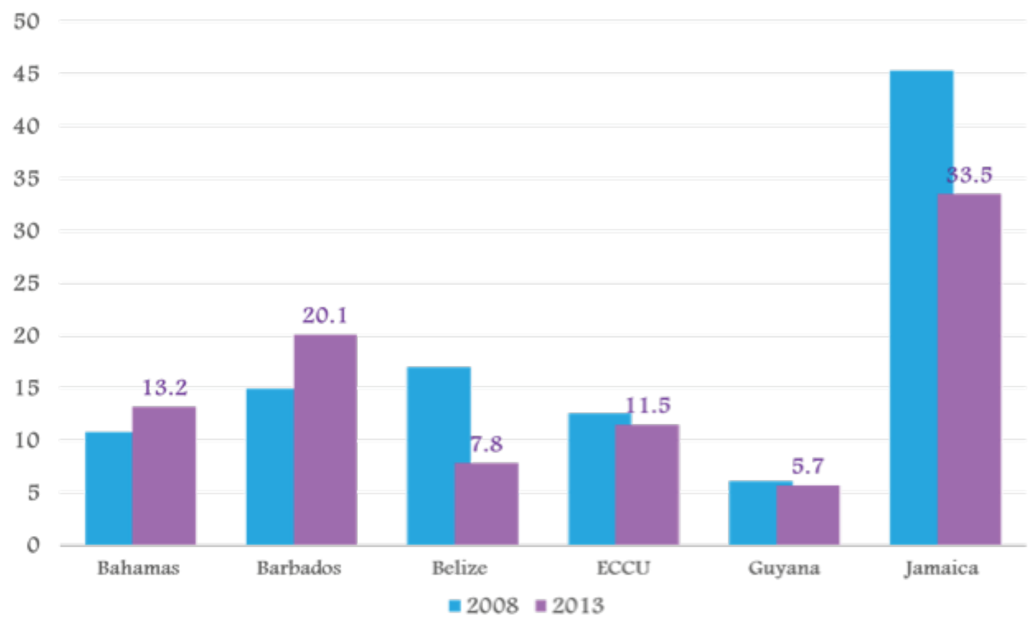
Table 3
Domestic Debt Percentage of Total Debt 2012/2013

COUNTRY	DOMESTIC DEBT %
Antigua and Barbuda	43
Bahamas	54
Barbados	62
Belize	12
Dominica	45
Grenada	25
Guyana	16
Jamaica	73
St Kittis-Nevis	73
Saint Lucia	40
St. Vincent and the Grenadines	18
Suriname	17
Trinidad and Tobago	35

Source: Caribbean Centre for Money and Finance

High levels of government debt have further intensified the challenge of financing long term development by committing significant proportions of government current expenditures to interest payments on debt as **Figure 8** illustrates. **Table 4** from UNECLAC's Economic Survey of the Caribbean 2014 provides data for the 2010-2013 period in respect of the proportion of export revenues and government revenues absorbed by debt service payments. Antigua and Barbuda, the Bahamas, Barbados, Grenada, Jamaica, Saint Lucia, and St. Vincent and the Grenadines allocate more than 25% of government revenues to debt service.

Figure 8
Interest Debt Payments (% Government Current Expenditure)



Source: UNECLAC (2014)

Table 4
Debt Service Payment Ratios for the Caribbean

	External Debt Service Payments (US$M)				External Debt Service Payments (percentage of Exports of Goods and Services)				Total Debt Service Payments (percentage of Government Revenue)			
	2010	2011	2012	2013	2010	2011	2012	2013	2010	2011	2012	2013
Anguilla	8.6	2.8	2.6	2.6	6.7	2.0	1.9	0.9	113.7	5.0	7.8	8.3
Antigua and Barbuda	33.5	34.2	22.8	27.3	6.4	6.4	4.2	5.2	31.8	31.8	34.8	38.8
Bahamas	129.9	63.8	124.2	117.1	4.0	1.9	3.4	3.4	36.4	43.2	38.4	46.8
Barbados	320.5	135.1	144.3	149.0	17.0	6.5	7.4	0.0	65.9	40.1	45.8	57.7
Belize	76.6	81.4	79.0	62.0	9.4	8.6	7.7	5.9	25.1	22.5	20.3	16.3
Dominica	8.5	11.3	10.9	11.3	4.9	5.9	6.8	3.8	8.5	12.9	14.6	12.1
Grenada	26.7	23.5	38.3	40.7	14.5	12.0	18.6	10.9	19.5	25.8	34.8	33.6
Guyana	28.6	39.9	42.4	45.9	2.5	2.8	2.5	3.0	10.0	9.8	8.6	8.9
Jamaica	723.3	696.9	1019.1	696.8	18.1	16.3	23.1	16.6	73.3	64.9	62.5	54.1
Montserrat	0.0	0.1	0.1	0.1	0.4	0.4	0.4	0.2	0..2	0.1	0.1	0.1
St. Kitts and Nevis	38.3	49.1	48.2	16.6	18.5	20.4	18.9	5.7	38.0	44.9	27.7	15.8
Saint Lucia	63.2	42.1	44.2	69.0	10.5	7.4	7.4	11.3	34.2	22.6	26.7	36.4
St. Vincent and the Grenadines	28.4	27.6	26.9	25.2	15.6	15.2	14.4	13.1	33.4	22.8	23.3	26.1
Suriname	23.9	29.3	58.2	33.5	1.0	1.1	2.0	1.3	6.9	8.0	8.6	9.8
Trinidad and Tobago	367.1	157.5	171.2	161.6	3.0	0.8	0.9	1.1	12.2	7.8	7.3	7.9
Caribbean	**125.1**	**93.0**	**122.2**	**97.3**	**8.8**	**7.2**	**8.0**	**5.5**	**34.0**	**24.1**	**24.1**	**24.8**
Goods Producers	**124.0**	**77.0**	**87.7**	**75.8**	**4.0**	**3.3**	**3.3**	**2.8**	**13.6**	**12.0**	**11.2**	**10.7**
Service Producers	**125.5**	**98.8**	**134.7**	**105.1**	**10.6**	**8.6**	**9.7**	**6.5**	**41.4**	**28.6**	**28.8**	**30.0**

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

Government Investment

As a consequence of the fiscal constraint, Caribbean SIDS typically in the 2010-2013 period allocate less than 4% of fiscal expenditures to capital investment. Capital expenditures between 2010 and 2012 are below the trend values in several countries, namely Antigua and Barbuda, Bahamas, Barbados, Grenada, and St. Vincent and the Grenadines. **(See Figures A1-A10 in Annex 1).** The period of capital expenditure decrease coincides with widely recognised expanded investment requirements to address climate change adaptation, economic restructuring especially in adjustment to the structural downturn in the sugar and banana industries, economic and social infrastructure and widening and deepening of human capital through education and training. As a consequence, public financing gaps have widened.

Recent Debt Restructuring

In recent times, debt service obligations have been beyond the fiscal capacity of some Caribbean SIDS. Belize temporarily suspended debt service payments in 2007. Grenada had external debt payment arrears totaling $86.8mn (10.7% GDP) and domestic arrears of $37.5mn (4.6% GDP) at 31 December 2013. Several countries found it necessary to restructure public debt. Box 1 provides some information on the restructurings by Belize, Jamaica, St. Kitts and Nevis, and Grenada in the

2007- March 2015 period. In all such cases, the expected effects of negotiated restructuring included reductions in amortization and interest payments, extension of payment maturities, reductions in debt-GDP ratios and smaller claims of debt service payments on fiscal revenues. These more recent debt restructurings follow upon previous ones such as Antigua and Barbuda in 2009, Dominica in 2004, Grenada in 2005 and Belize in 2006 analysed by Durant (2012).

BOX 1

Recent Debt Restructuring in Caribbean SIDS

COUNTRY	YEAR	CREDITORS	AMOUNT US $mn	PARTICIPATION RATE %	FEATURES
Belize	2007	External Commercial	$546.7	99	Maturity extended to 2029. 12-Year Grace. Interest rates reduced from 11% to 8.5% Support from IMF, IDB, CDB
	2013	External Commercial	$547.5	86	6-Year Grace. Phased interest rate increases: 5% for 4.5 years; 6.788% for remaining years. 10% haircut on principal. 65% expected reduction in annual debt service payment; 43.3% savings in NPV of coupon value.
Jamaica	2010	Domestic Creditors	$2,040	99	Debt exchange: new for old bonds. Interest rate of 12.5% vs 19.0% on old bonds. Aim was fiscal savings of 8.5% GDP.
	2013	Domestic and External Bond Holders	$9,100	100	Average rate on domestic bonds reduced to 8.4%; 5% for USD bonds vs 7% previously.
St. Kitts and Nevis	2012/ 2014	Domestic and International Creditors	$565	100 Domestic 100 Private International	Land for debt swaps to clear $333mn to domestic banks and social security fund Paris Club agreement for rescheduling $5.7mn international commercial debt and consolidation of arrears. 20 years maturity. 7 years grace Debt swap expected to reduce domestic debt – GDP ratio from 114.4% GDP in 2010 to 62.4% in 2013. External debt rescheduling expected to reduce debt service from 6.5% in 2011 to 4.8% GDP in 2013. Negotiation continuing with non-traditional bilateral creditors to obtain comparable terms to Paris Club.
Grenada	2014/ 2015	Bilateral Official, Private Commercial Excludes MFIs and RGSM	$638.5	Not known yet	Holders of bonds issued in the 2005 restructuring and expected to mature in 2025 agree to 50% haircut and issue of new bonds maturing in 2030 with coupon rate of 7%. $262mn restructured. Relief equivalent to 19% GDP.

Foreign Direct Investment

Foreign direct investment is an important source of development financing. Net inflows have been sizeable between 2004 and 2008. (See **Table 5**). Only in Suriname have average annual net flows in that period been negative. However, the annual average of net inflows decreased in many countries in the 2009-2014 period. Foreign direct investment is concentrated in the mineral export industries and in the tourism sector. There is little in other economic sectors apart from electronic communications. The source of direct foreign investment is relatively diverse with traditional investor countries such as the US and Canada joined by newer ones such as Mexico, Norway, Spain and China.

Table 5
Average Net Direct Foreign Investment (US $ mn)

	2004 - 2008	2009 - 2014
Antigua and Barbuda	231	110
Bahamas	630	674
Barbados	156	273
Belize	130	122
Dominica	34	29
Dominican Republic	2531	2301
Grenada	103	67
Guyana	99	229
Haiti	60	132
Jamaica	806	459
St. Kitts and Nevis	114	123
Saint Lucia	164	104
St. Vincent and the Grenadines	99	118
Suriname	-130	-1
Trinidad and Tobago	1003	1120

Source: UNECLAC Foreign Direct Investment in Latin America and the Caribbean Briefing Paper, 2012 and 2015

4 Official Development Assistance to Caribbean SIDS

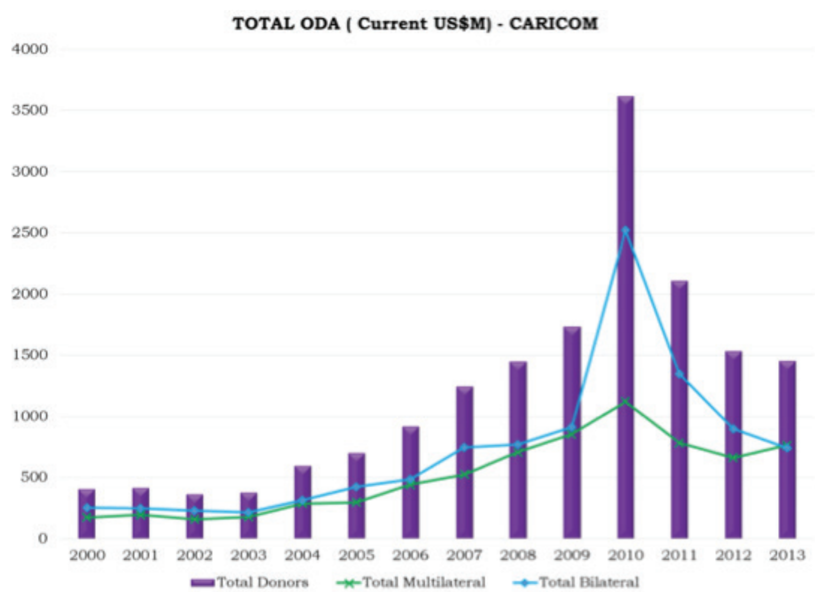
Trends in Total ODA to Caribbean SIDS

While concessional flows have increased globally, including after the global economic crisis, Caribbean SIDS have become increasingly less successful in accessing international development assistance. In effect, they have been excluded from augmented flows which the international community approved as an urgent and warranted response to the effects of the crisis on developing countries.

With the exception of Barbados and Trinidad and Tobago which receive no official development assistance, Caribbean SIDS currently receive ODA ranging between 0.13% and 5% of their GNI. Haiti is at the upper end with 4.9%, followed by Dominica and St Kitts-Nevis with approximately 4%, and Guyana and Belize with 3.3% and 3.2% respectively. At the low end are Antigua and Barbuda (0.1%), Suriname (0.6%) and St. Vincent and the Grenadines (1%). In the middle are Grenada (1.2%) and Saint Lucia (1.9%). **Figure 9** shows a rising trend in total ODA to CARICOM member countries until 2010 and then quite substantial decreases after. Bilateral flows also increased until 2010, generally less strongly but with a spike in 2010, and then dropped off steeply. Multilateral flows had approximately the same trend as bilateral flows but with a flatter peak in 2010 and a small upward movement in 2013.

The country charts (**Figures A11-A22**) show that in most cases, ODA receipts decreased after 2010, sometimes sharply, after spiking around 2008-2010. The decline is all the more notable because it corresponds to the period in which the countries are still grappling, with the adverse consequences of the global economic recession. ODA started to dry up when it was most needed. A further observation is that ODA flows fluctuate substantially on a yearly basis. Only in Haiti and Suriname do bilateral flows persistently exceed multilateral flows. In several countries, multilateral flows became predominant after 2004/2006.

Figure 9



Source: Authors' charts with data from OECD International Development Statistics online databases.

Bilateral Donors

Caribbean SIDS interact with many bilateral donors from Europe, North America, Asia, the Far East, the Middle East, and Latin America. The main traditional donors are the UK, the US, Canada and Japan. New bilateral donors include Australia, China, Israel, Korea, Kuwait, Taiwan, United Arab Emirates, and Venezuela. **Table 6** shows ODA flows from the main traditional bilateral donors to a selected group of Caribbean SIDS. Cumulatively over 2000-2013, the largest bilateral donor is the UK, followed by the US and Canada, with Japan a distant fourth. Bilateral flows have been on the decline as aid preferences shifted towards low income countries and countries in post-conflict situations. The flows to the Caribbean are highly concentrated or skewed towards a few countries. UK bilateral resources were concentrated on Guyana 2000-2005 and on Jamaica 2004-2006 and 2009-2013. The US provided hardly any resources to any of the countries except Guyana and Belize, and was a net recipient of resource transfers from countries such as Antigua and Barbuda, Jamaica, St. Kitts and Nevis, and St. Vincent and the Grenadines. Guyana and Jamaica have been the main recipients of Canadian bilateral ODA. Japan within a seemingly unstable and sharply declining time pattern of aid flows has favoured Belize, Saint Lucia and Guyana in most years.

Table 6
ODA from Traditional Bilateral Donors to a set of Caribbean SIDS: 2000 – 2013 ($ mn)

YEAR	UK	USA	CANADA	JAPAN
2000	47.11	-17.74	9.8	13.63
2001	33.43	1.66	25.95	13.32
2002	33.84	-4.54	13.32	31.16
2003	20.35	10.96	19.00	3.62
2004	2.93	33.7	19.27	22.1
2005	40.87	37.8	28.29	-[3.69
2006	21.39	36.60	10.96	1.71
2007	9.25	0.36	35.71	7.37
2008	11.23	25.63	11.90	23.36
2009	10.96	26.78	28.18	16.92
2010	6.04	20.86	9.56	26.74
2011	11.88	23.10	10.97	-4.05
2012	19.47	20.69	7.84	-8.44
2013	23.05	23.21	5.64	-13.15
PERIOD TOTAL	**257.96**	**215.97**	**210.47**	**130.71**

Source: Constructed with data from OECD International Development Statistics Online Database. Recipient Caribbean SIDS are Antigua and Barbuda, Barbados, Belize, Dominica, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines and Trinidad and Tobago.

The downward trends in official development assistance to Caribbean SIDS from traditional bilateral donors reflect shifts in donor preferences as well as in criteria employed for allocating aid. In terms of eligibility, low per capita income is the dominant criterion. Special considerations such as political and social fragility in potential beneficiary countries also influence allocation of foreign aid as do the geo-political interests of donors. Many donors have a formal performance-based and allocation (PBA) system in which the criteria and special considerations are embedded. The PBA system may be considered to have a number of deficiencies: the fact that social and economic development needs are not adequately captured by per capita GNI; country performance assessments have a high degree of subjectivity, reflecting often the donor's philosophical and social preferences rather than an objective assessment of conditions and capacity for effective utilization of foreign aid; bilateral aid is not sufficiently harmonized to produce a consistent framework in which both donors and recipients might work.

Precise information on ODA flows from the newer non-traditional bilateral donors widely regarded as being major players in the Caribbean is difficult to obtain. China has emerged as a major source of development finance globally. Although committing only 0.07 of its GNI to foreign aid, its allocation in dollar terms makes it the 10^{th} largest donar in the world. (It is worth nothing that many of the traditional donars are also below the UN aid allocation target of 0.7% of GNI). China in its Foreign Aid White Paper (2014) reports that 8.4% of allocations in 2010-2012 were to Latin America and the Caribbean, which given the countries' status as middle income countries is consistent with the declared distribution of 21.2% to lower middle income countries and 12.3% to upper middle income countries. It is also known that through its State-owned corporations China has made substantial foreign direct investment in Caribbean SIDS rising from \$88.30 million in 2003 to \$468.89 million in 2011. (Bernal 2013, Table 1). Aid competition between Taiwan and China has ensured that Taiwan has also made significant allocations to those countries which have granted Taiwan diplomatic recognition.

Venezuelan foreign aid to Caribbean SIDS has been mainly within the Petro-Caribe scheme whereby Venezuela sells petroleum to Antigua and Barbuda, Bahamas, Belize, Cuba, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, and St. Vincent and the Grenadines and Suriname on very concessionary terms. Dhukaran (2013) provides a useful succinct analysis of the scheme as it operated in 2012. The Petro-Caribe agreement is structured with two payment components: an upfront partial payment within 90 days of product delivery and a deferred payment for the remainder with 2-25 years maturity. The deferred payment proportion is 40% when the price of oil is less than US \$50 per barrel (pb), 50% when it exceeds US \$50 pb and 60% when it exceeds US \$100 pb. Interest charged on the deferred component is very low: 2% if the oil price is less than US \$40 and 1% if it is greater than US \$40. Dukharan (2013) estimates that cumulative deferred payments for 2015 – 2012 were very large, exceeding 20% of GDP for most members. See **Table 7** for dollar amounts of credits to some individual countries.

Table 7
Petro-Caribe Cumulative Deferred Payments, 2005-2012: (US $mn)

DEBTOR	US $mn
Antigua and Barbuda	473
Bahamas	3008
Belize	638
Dominica	91
Dominican Republic	11,121
Grenada	200
Guyana	911
Jamaica	6,837
St. Kitts and Nevis	182
Suriname	230

Source: Dukharan (2013)

Dukharan (2013) estimates that Petro-Caribe costs Venezuela $6.7 billion annually. This is a major development finance contribution especially when one considers that payments for oil imports comprise 7-12% of GDP in the Caribbean and as much as 20% in Guyana.

Venezuela has publicly reaffirmed its commitment to Petro-Caribe but it is evident that the country's current economic difficulties have forced a cutback in aid through Petro-Caribe. Deliveries in 2014 were 24% less than in 2013 and deliveries in 2013 were 50% less than in 2012 according to media reports. It is possible that there will be further reductions as Venezuela increases its shipments of oil to the Peoples Republic of China to service its $42.5 billion debt to that country.

Nontraditional donors differ significantly from traditional donors in the absence of macroeconomic and political conditionality other than support for the international diplomacy of the donors. However, like traditional donors, they seek advantages in foreign trade and access to natural resources.

In considering the trends in bilateral ODA, one should recall that many donors make allocations to multilateral institutions and to regional and sub-regional development banks. Their total aid contributions will in such cases be greater than the bilateral contributions.

EU Institutions

Focusing first on the multilateral component of ODA, the data in **Table 8** show that EU institutions have been a major source of development financing to Caribbean SIDS, providing cumulatively $1.721 billion between 2000 and 2013. However the data also show that having increased from $55.86 million in 2000 to a peak of $257.59 million in 2009, flows from EU institutions have decreased substantially during 2011-2013. A new regional programme signed in Brussels on 11 June 2015 will double the commitments made in the preceding programme from US$186 million (€165mn) to US$390 million (€346mn). The priorities will be (a) regional economic cooperation; (b) climate change, environment, disaster management and sustainable energy; (c) crime and security. The EU also has a Caribbean Investment Facility with an indicative allocation of US$152million (Euro 135mn) in the new cycle. These new commitments constitute a major increase in EU development finance to Caribbean SIDS.

World Bank/IDA

Cumulative World Bank (IBRD) lending to 13 Caribbean SIDS amounted to $5.076 billion for the 1945-2012 period, and its IDA lending amounted to $1.879 billion. However, from 2012 onwards, Caribbean SIDS had very limited access to either IBRD or IDA resources.

Table 8

ODA to Selected Caribbean SIDS from EU Institutions 2000 – 2013 ($ mn)

YEAR	$ mn
2000	55.86
2001	81.59
2002	40.22
2003	42.41
2004	108.57
2005	42.20
2006	69.29
2007	132.67
2008	234.96
2009	257.59
2010	251.26
2011	129.62
2012	118.22
2013	156.54
TOTAL	1,721.00

Source: UNECLAC Foreign Direct Investment in Latin America and the Caribbean Briefing Paper, 2012 and 2015

Eligibility for IDA resources is determined essentially by per capita national income. There are three categories of IDA-eligible countries: (i) IDA-only countries, low income countries with a cut-off per capita GNI of $1,045 and no access to IBRD funding; (ii) IDA-gap lower middle income countries with per capita GNI $1,046 – 4,125, undertaking major reforms and not yet creditworthy for IBRD loans; (iii) "Blend" countries whose per capita GNI exceed the cutoff but have sufficient creditworthiness for IBRD loans. Allocation of IDA funds is guided by use of an allocation formula which takes account of GNI, population size, country performance and portfolio performance.

Only 7 Caribbean SIDS were in receipt of IDA funds between 1990 and 2013. Guyana and Haiti are IDA-only countries. Dominica, the Dominican Republic, Grenada, Saint Lucia and St. Vincent and the Grenadines are IDA-blend countries. **Table 9** shows IDA allocations to each country. Allocations decreased after 2009 in the Dominican Republic, Guyana and Haiti. Generally the allocations are small, except in Haiti and fluctuated considerably.

Table 9
IDA Allocations to Caribbean SIDS, 1990 – 2013 (US $mn)

COUNTRY	1990 - 2004	1995 –– 2009	2000 - 2004	2005 - 2009	2010 - 2013
Dominica	0.15	0.44	0.86	2.06	2.51
Dominican Republic	2.44	3.31	3.31	3.31	2.65
Grenada	0	0.37	0.34	1.56	2.13
Guyana	2.03	3.00	3.97	2.22	0.59
Haiti	2.34	28.67	47.41	59.77	35.94
Saint Lucia	0	0	0.61	1.95	3.17
St. Vincent and the Grenadines	0.32	0.35	0.55	1.51	1.66

Source: World Bank Annual Reports

IBRD non-concessional loans are accessible by Caribbean SIDS whose per capita GNI does not exceed $12,746. On this basis, Antigua and Barbuda, the Bahamas, Barbados, St Kitts, and Trinidad and Tobago are ineligible, having been "graduated" from the World Bank's borrower category. Belize, Dominica, the Dominican Republic, Grenada, Jamaica, Saint Lucia, and St. Vincent and the Grenadines and Suriname as upper middle income countries (GNI $4,126 – 12,745) are currently eligible for IBRD non-concessional loans. Guyana as a lower middle income country (GNI $1,046 - $4,125) was eligible for IBRD loans until 2005 when it became IDA-only eligible as a HIPIC country. IBRD non-concessional allocations to Caribbean SIDS are not large except for the Dominican Republic and Jamaica. In 2010 – 2013, the former country received $231million and the latter received $150 million. Allocations to any of the other countries in 2010 – 2013 did not exceed $10 million. In some instances (Belize, Dominica, Jamaica, St. Vincent and the Grenadines), allocations were smaller in 2010 – 2013 than in 2005 – 2009. It is also evident that allocations to Jamaica have been decreasing since 1995 – 1999.

Table 10
IBRD Allocations to Caribbean SIDS 1990 – 2013 (US $mn)

COUNTRY	1990 - 2004	1995 –– 2009	2000 - 2004	2005 - 2009	2010 - 2013
Belize	7.01	13.04	20.49	23.47	11.20
Dominica	0	0	0.65	3.13	1.06
Dominican Republic	135.35	149.20	137.38	207.16	231.29
Grenada	0	0	0.35	5.76	5.94
Guyana	55.12	23.93	11.73	0	0
Jamaica	351.17	383.09	249.43	226.02	149.91
Saint Lucia	0	0.91	4.45	8.95	10.31
St. Vincent and the Grenadines	0	0.47	0.31	0.91	2.75

Source: World Bank Annual Reports

Inter-American Development Bank

The IDB concessionary resources are from its Fund for Special Operations (FSO) and its Intermediate Financing Facility (IFF). On the basis of their participation in HIPIC and the Multilateral Debt Relief Imitative (MDRI), Guyana and Haiti are automatically eligible. Some other Caribbean SIDS are defined as "Blend" countries i.e. countries which can obtain a blend of ordinary capital loans and concessional FSO funds. The Bahamas, Barbados, Jamaica, Suriname and Trinidad and Tobago whose per capita incomes in 2014 were within a range of $4,945 – $22, 034 are not eligible for Group C "blend" resources , nor are Belize and the Dominican Republic whose per capita incomes fall within a range of $3,231 - $5,484 eligible for Group D blended resources. These latter seven countries are above the per capita income threshold set at $2,579 in 2009 prices.

The IDB employs an allocation formula which contains a "needs" factor based on per capita GNI and population size, country performance and portfolio performance. In measuring country performance, the IDB gives greater weight to policies for social inclusion and equity, public sector management and institutions than does the World Bank. IDB loan approvals were responsive to the impact of the global economic recession on Caribbean SIDS. **Table 11** shows IDB loan approvals to Caribbean SIDS for the 2000 – 2013 period. Amounts approved increased in the three sub-periods except for Belize and Guyana. The Dominica Republic and Jamaica are the largest recipients with cumulative approvals of $4.2 billion and $2.1 billion respectively, followed by Haiti with $1.0 billion and Trinidad and Tobago with $981 million. Guyana, a FSO-eligible country, as Haiti is, received $594 million. It is worth noting that Barbados, which is ineligible for IBRD loans, was in receipt of increasing allocations from the IDB totaling $370 million. Most of this amount was in the post-2008 period. The Bahamas had a similar experience receiving cumulatively $441.6 million, 84% of which was after 2007.

Table 11
IDB Loan Approvals to Caribbean SIDS 2000 – 2013 (US $mn)

COUNTRY	2000 –– 2004	2005 - 2009	2010 - 2013
Bahamas	68.5	153.1	220
Barbados	25.8	91.2	253
Belize	47.8	76.9	20
Dominican Republic	1007.1	1353.6	1817.8
Guyana	239.3	219.2	135.8
Haiti	201.9	318.3	681.5
Jamaica	442.6	611.0	1019.8
Suriname	51.7	95.4	355.7
Trinidad and Tobago	42.0	103.5	836.0

Source: IDB Annual Reports

Caribbean Development Bank

The Caribbean Development Bank is a major source of development finance for those Caribbean SIDS which are among its borrowing member countries. Donor countries are significant contributors to development financing of Caribbean SIDS through the CDB. The Bank's non-regional members (Canada, UK, Germany, Italy and China) contribute 34.4% of subscribed capital and regional non-borrowing members (Colombia, Mexico and Venezuela) contribute 7.7%. Contributions to the Special Development Fund are much larger. For the Eight Cycle valued at $248 million, the non-regional contribution is 56.4%.

The Caribbean Development Bank concessionary window is its Special Development Fund (SDF). All its borrowing members countries are eligible but access is tiered according to per capita income status and to countries classification as CARICOM LDCs. There is an allocation formula which takes account of population size and per capita income as indicators of "needs" and also includes country performance and portfolio performance criteria. In assessing country performance, the CDB assigns equal weights to macroeconomic management, structural policies, socially inclusive development and public sector management and governance. **Table 12** adapted from the CDB's Review of The Unified Special Development Fund Resource Allocation System provides useful comparative summaries of the essential features of the performance criteria used by the CDB itself, IDB, World Bank-IDA. It is evident from the information in **Table 12** that the three institutions all place much weight on structural policies (25% each). Economic management is given greater weight by Caribbean Development Bank (25%) and the World Bank (15% - 25%) than by the IDB (15%). Social inclusion ranks higher in the IDB (35%) than in the World Bank (25% - 30%) and the CDB (25%). Governance and public sector management has a lower weight in the CDB (25%) than in the IDB (30%) and the World Bank (25% - 30%).

Table 12
Policy and Institutional Performance Criteria and Cluster Weights

Caribbean Development Bank (SDF)	Inter American Development Bank (FSO/IFF)	World Bank, IDA	RANGE
Macroeconomic management 25% Fiscal policy Monetary policy External financing policies	Economic Management 15% Macroeconomic imbalances (fiscal and monetary policies) Management of external debt	Economic Management 25% Monetary and exchange rate policies Fiscal policy Debt management	15% to 25%
Structural Policies 15% (25% with environment) Trade policy Financial sector efficiency and soundness Factor and product markets and prices Enabling environment for private sector development Environment (10%) (A) environmental laws, regulations and institutions (B) environmentally damaging subsidies and other damaging practices	Structural policies 20% Trade and commercial policy Banking and financial sector stability Policies and institutions for environmental stability.	Structural Policies 25% External trade Financial sector Business environment	20% to 25%
Socially-inclusive development 25% Framework for poverty reduction policy Enhancing economic capital of poor Enhancing human capital of poor Equity and social safety nets Gender, empowerment and participation	Policies for social inclusion and equity 35% Gender equality, indigenous and other minorities inclusion Building human resources and social protection Monitoring/analysis of poverty	Social Inclusion Policies 25% Gender Equity of public expenditures Building human resources Social protection and labour Policies and institutions for environmental sustainability	25% to 30%
Governance and public sector management 25% Rule of law Anti-corruption and accountability institutions Civil service Revenue mobilization and budgetary management Management and efficiency of public expenditures	Public sector management and institutions 30% Property rights, governance and private sector development Transparency and accountability in the public sector	Public Sector Management and Institutions 25% Property rights and rulebased governance Quality of budgetary and financial management Efficiency and equity of revenue mobilization Quality of public administration Transparency, accountability & corruption in the public sector	25% to 30%

Source: Caribbean Development Bank (2007)

The Caribbean Development Bank allocated much larger amounts of funds to Caribbean SIDS after 2007 than between 2001 and 2006, utilizing both its Ordinary Capital Resources and its Special Development Fund. The data in **Table 13** show that OCR approvals increased in the 2005 – 2009 sub-period except in Guyana, St Kitts-Nevis and St. Vincent and the Grenadines. An upward momentum was sustained into the 2010 – 2013 period for Barbados and St. Vincent and the Grenadines. Altogether, the main recipients of OCR funds are Barbados and Jamaica. The Special Development Fund became a substantial financing mechanism for most of the Caribbean SIDS as the data in **Table 14** show. Guyana was a major beneficiary through the 2001 – 2013 period as was Jamaica. Belize, Dominica, Saint Lucia and St. Vincent and the Grenadines obtained relatively large amounts in the 2005 – 2009 and 2010 – 2013 sub-periods. The fact that most Caribbean SIDS which are members of the CDB managed to receive substantial concessional funds from this source reflects the less exclusionary and more sensitive application of country development needs and country performance criteria by the CDB.

Table 13

Caribbean Development Bank OCR Approvals to Caribbean SIDS 2001 - 2013 (US $mn)

COUNTRY	2001 - 2004	2005 - 2009	2010 - 2013
Antigua and Barbuda	6.3	46.4	34.7
Bahamas	0	0	10.1
Barbados	30.5	49.5	139.3
Dominica	-0.4	11.5	11.0
Grenada	19.9	15.1	2.9
Guyana	31.5	3.6	16.1
Jamaica	90.8	194.1	14.3
St. Kitts and Nevis	38.4	30.9	6.5
Saint Lucia	20.7	60.6	20.4
St. Vincent and the Grenadines	45.1	30.3	48.6
Trinidad and Tobago	17.3	23.7	0

Source: Caribbean Development Bank Annual Reports

Table 14

Caribbean Development Bank SDF Approvals to Caribbean SIDS 2001 - 2013 (US $mn)

COUNTRY	2001 - 2004	2005 - 2009	2010 - 2013
Antigua and Barbuda	1.1	1.1	-0.7
Bahamas	-0.7	0	1.0
Barbados	0	0.1	0.2
Belize	6.2	20.9	26.3
Dominica	5.9	20.0	22.3
Grenada	19.6	43.8	15.0
Guyana	29.4	23.5	66.2
Jamaica	24.8	66.1	31.4
St. Kitts and Nevis	8.9	9.4	22.0
Saint Lucia	12.2	22.4	37.9
St. Vincent and Grenadines	6.7	13.8	26.5
Trinidad and Tobago	1.0	0.2	0

Source: Caribbean Development Bank Annual Reports

CARICOM Development Fund

The CARICOM Development Fund started operations in 2008 with financial contributions from CARICOM member countries, excluding the Bahamas and Haiti. The amounts pledged were $100 million of which $94.3 million had been paid up in 2013. Contributions have also been received from donors, the largest being $2 million from Turkey in 2013. At the end of 2013, total loans and grants approved by the CDF were $41.9 million distributed as follows: Belize $3.5 million; Dominica $6.4 million; Grenada $3.8 million; Guyana $7.3 million; St. Kitts and Nevis $4.0 million; Saint Lucia $6.1 million; St. Vincent and the Grenadines $7.5 million. Grants approximate 25% of funds approved.

The Twin Resource Mobilization Challenge

The development finance challenge of Caribbean SIDS has an unusual feature observed by Sagasti (2013), namely that many of the countries have both limited capacity to mobilize domestic resources and to mobilize external resources. Sagasti (2013) shows that Caribbean SIDS are clustered in the 0.0 – 0.30 range of an index of external resource mobilization and in the 0.0 – 0.50 range of an index of domestic resource mobilization. He stresses that "average income per capita is a poor indicator of the capacity to mobilize domestic or external resources."

(a) Economic Vulnerability:

The exclusion of most Caribbean SIDS from concessionary financial resources on the basis of their status as middle and high income countries has focused much attention on the appropriateness of per capita GNI as a criterion for determining eligibility for access. The vulnerability of these economies to external economic shocks and natural hazards can result in income volatility which makes a single point estimate of per capita GNI an unreliable basis for graduation from international financial assistance. Vulnerability therefore has merit as an additional criterion or a discount factor applied to the calculation of per capita GNI. Several efforts have been made to construct vulnerability indexes which can be used by donors and multilateral institutions (Atkins and Mazzi 1999, Brigulio 1997, Briguglio and Galea 2003, Crowards 1999, Wells 1997, Guillaumont 2007). The United Nations Secretary-General reported in February 1998 on some of the work of an Expert Group under the UN auspices.

The various vulnerability indices identify as key determinants of economic vulnerability population size, exposure to external economic shocks, frequency and magnitude or natural hazard events, and country resilience. Indicators of exposure to external economic shocks include foreign trade dependence, export dependence and export concentration. Natural hazard vulnerability is indicated by population density, geographical size of country and frequency of natural hazard events. Results of two efforts at computing vulnerability indices for Caribbean SIDS are presented in **Table 15**. They indicate high levels of economic vulnerability among Caribbean SIDS. Patkins and Mazzi (1999) conclude that "small states are more vulnerable to external economic forces and environmental hazards than large states" and that "the degree of vulnerability is independent of income."

Table 15
Vulnerability Indices for Caribbean SIDS

Country	Patkins & Mazzi	Briguglio & Galea	
	CVI	EVI	EVIAR
Antigua and Barbuda	11.246	NA	NA
Bahamas	10.433	NA	NA
Belize	6.652	0.588	0.762
Dominica	8.122	0.588	0.754
Dominican Republic	4.858	NA	NA
Grenada	7.848	0.645	0.777
Guyana	7.953	0.605	0.793
Haiti	4.474	NA	NA
Jamaica	7.484	0.706	0.820
St. Kitts and Nevis	6.362	0.685	0.756
Saint Lucia	7.449	0.765	0.833
St. Vincent and the Grenadines	6.563	0.647	0.790
Suriname	4.921	0.724	0.844
Trinidad and Tobago	5.264	0.408	0.651

Notes: The higher are the index scores in Briguglio and Galea and the Patkins and Mazzi Composite Vulnerability Index (CVI), the greater is the country's vulnerability. EVI is economic vulnerability index standardised and EVIAR is the EVI adjusted for economic resilience. Briguglio and Galea EVI for the USA and Mexico are 0.221 and 0.887, while the EVIAR are 0.134 and 0.461.

The exposure of Caribbean SIDS to external economic shocks and natural shocks is well established. Recent external economic shocks are encapsulated in the global economic recession which depressed service exports from the Caribbean, slowed inflows of private capital and weakened fiscal capacity. There is an underlying structural dimension to the external economic risks which can be represented by substantial variability in the terms of trade and purchasing power of exports. In several Caribbean SIDS over the period 2000-2013, the coefficients of variation of the terms of trade are as large as 13%-17% of the mean values. The coefficients of variation of the purchasing power of exports are as large as 24%-37% and do not fall below 13%. (**Table 16**). The recent impact of natural hazards in Caribbean SIDS was shown previously in Table 8. Whatever the reasons, per capita income levels and growth are volatile. For 2000-2013, the coefficients of variation of per capita GNI ranged between 12% and 25% in the majority of countries, being less only in the Bahamas and Belize. These coefficients imply that in bad years, per capita income could fall quite substantially. Economic growth rates have been even more volatile as the data in **Table 16** show. Fiscal revenue performance is also affected by external shocks. The data in Table 8 show a high level of fiscal revenue volatility. This volatility emanates from a dependence on taxes, fees and royalty payments on externally traded goods and services and the role of exports in generating income for domestic households and business and thereby determining their taxable capacity.

Table 16
Some Salient Volatility Measures for Caribbean SIDS: 2000 – 2013

	COEFFICIENT OF VARIATION				
	GNI per Capita	GDP per Capita Growth	Term of Trade	Purchasing Power of Exports	Fiscal Revenues
Bahamas	.05	2.90	0.06	0.13	0.45
Barbados	.12	5.23	.09	0.17	1.49
Belize	.08	1.90	.07	0.17	0.50
Guyana	.20	2.23	.13	0.16	
Haiti	.07	7.90	.17	0.14	
Jamaica	.12	6.35	.08	0.23	1.01
Suriname	.25	0.63	.15	0.37	0.82
Trinidad and Tobago	.24	1.24	.16	0.28	
Antigua and Barbuda	.17	8.43	.13	0.34	0.49
Dominica	.21	2.05	.06	0.34	0.45
Grenada	.17	3.84	.05	0.37	0.50
St. Kitts and Nevis	.15	5.40	.14	0.17	0.48
Saint Lucia	.13	8.91	.09	0.31	0.48
St. Vincent and the Grenadines	.19	5.40	.07	0.24	

Source: Authors' Computations with Official Data

The computation of vulnerability indices can be complex and demanding in terms of statistical data requirements. Only the CDB uses a vulnerability index for its allocation of concessional resources to countries. For operational purposes, a workable approach would be to categorize countries as economically vulnerable on the basis of the exposure indicators and risk indicators and to include vulnerable countries in the list of eligible countries for concessional funds notwithstanding their per capita income status.

b) "Development Needs" Approach:

"Development needs" are not unidimensional and are not entirely captured by per capita GNI. Many other factors are germane. Among them is the incidence of poverty measured by national yardsticks and not by a quasi-universal standard (in recognition that poverty lines are not globally unique).

The concept of "needs" can also be broadened to include sustainable livelihoods and equitable access to essential services and opportunities for personal advancement. The Millennium Development Goals reflected this broader view of development. The United Nations Conference on Sustainable Development went further and committed the international community "to undertake a major effort to promote sustainable development globally and in every nation and free humanity from poverty and hunger." (Report of the Intergovernmental Committee of Experts on Sustainable Development Financing, UN General Assembly, August 2014).

For example, the UN's Intergovernmental Committee on Sustainable Development Financing stated that: "financing needs for poverty eradication and sustainable development remain significant. They include addressing (a) basic needs relating to eradicating poverty and hunger, improving health and education, providing access to affordable energy and promoting gender equality; (b) national sustainable development investment financing needs, such as infrastructure, rural development, adaptation and climate resilient development, and energy; and (c) global public goods, including the protection of the global environment and combatting climate change and its impact, as well as other areas." UNDP Administrator Helen Clark in a speech in November 2014 emphasizes this perspective and notes the continued importance and value of development aid, the need for private finance both domestically and international, and the "extremely differentiated capacities to mobilize domestic and external resources for development." As she concludes, both concessional and non-concessional resources would be valuable.

UNECLAC has expressed the requirements in terms of "structural gaps" which middle income countries in Latin America and the Caribbean experience. Its publication "Time for Equality"(2010) stated the structural gaps as follows: 1. Per capita income Gap between LAC and the developed countries; 2. Equality Gap within LAC countries; 3. Poverty Gap within LAC; 4. Investment and Savings Gap; 5. Productivity and Innovation Gap; 6. Infrastructure Gap; 7.Education Gap; 8. Health Gap; 9. Fiscal Gap; 10. Gender Gap; 11. Environmental Gap. According to UNECLAC, the ranking of countries on the basis of income gaps does not coincide with rankings based on other gaps and there is no clear pre-established ranking of countries which would show which countries have the narrowest or widest gaps.

Caribbean SIDS viewed from both the perspectives of the Sustainable Development Goals and the Structural Gaps Approach need both concessional and non-concessional funds. The problem is not exclusively one of access to concessional ODA; it is one of access to all forms of official financial flows, especially bearing in mind that all development finance from multilateral financial institutions, regional development banks, and sub-regional development banks is concessional in varying degrees given their capacity to charge lower interest and fees, and extend longer maturities and moratoria than private lenders do. From this perspective, consideration could be given to unrestricted eligibility of Caribbean SIDS for official development assistance, with terms to be determined on an individual country basis.

Sagasti (2013) had concluded that "income per capita categories do not reflect country capacity to mobilize either domestic or external resources" and further noted that "most of the world's poor now live in middle income countries." He therefore recommends that "graduation from development finance instruments as countries cross income per capita thresholds should be replaced with gradual shifts from one mix of financial instruments to another, tailoring the mix according to the capacity of each country to mobilize external and domestic resources." A move from "graduation to gradation."

(c) Fostering and Maintaining Social Stability:

Official development assistance, especially from Europe and the USA, gives preferential treatment in the form of set asides to fragile states, which are countries in conflict and post-conflict situations. Caribbean SIDS are neither in conflict or post-conflict situations but their social fabric is afflicted by high and rising incidence of violent crime stemming from narcotics trafficking, loss of opportunities for personal material and social progress and widening inequality of income and wealth. Democratic governance is stressed by crime and citizen insecurity and may even be replaced by governance by gangs in particular districts.

Official development assistance could usefully cater for public expenditures which are critical for fostering and maintaining social stability in Caribbean SIDS. In this regard, investments in institutional strengthening of community governance, community amenities, employment, social and economic mobility, crime prevention and law enforcement, and judicial administration would be valuable targets for official development assistance.

(d) Special Funds:

The creation of special funds are a useful way of focusing resources on particular aspects of the SDGs. At the Spring Meetings of the IMF and World Bank in April 2015, the Development Committee welcomed the creation of a Global Infrastructure Facility combining private and public long term finance, a Power of Nutrition Fund with a target of $1 billion and a forthcoming Every Woman Every Child global financing facility. These new facilities which are seen as innovative approaches to financing the SDGs follow upon several such facilities already in existence such as the Global Environment Fund and the Climate Investment Fund. The difficulties faced by Caribbean SIDS mirror to some extent the global experience with climate financing: the considerable costs incurred in seeking funds and the advantageous access of East Asia and the Pacific and Western Europe (UNECLAC 2015).

Caribbean SIDS might be encouraged by their successes thus far. Climate Funds Update 2014 (www.climatefundsupdate.org) provides data showing that the Caricom members and the Dominican Republic have obtained approvals cumulatively amounting to $280.7 million. Guyana tops the list with $87.8 million, followed by Jamaica with $50.2 million, Saint Lucia $28.3 million, Grenada $25.3 million, the Dominican Republic with $23.0 million and Belize $17.8 million. Approvals for the other countries were between $1.0 million and $12.7 million.

However, as noted by the President of the Caribbean Development Bank in announcing a partnership with German Government and the Green Climate Fund on climate change readiness, funds accessed by Caribbean SIDS from the Global Envirnmental Facility are a small proportion of total allocations.

Between 1991 – 2013, 694 national projects were approved but only 33 were from the Caribbean with a dollar share of less than 1% of the $2.5 billion grant funds available for climate change. The CDB sees the need for countries to strengthen their policy and management capacities, to develop climate action projects, to gain accreditation for direct access to the Green Climate Fund, and to strengthen the role of the private sector.

(e) Channel More Resources through Development Banks:

Official development donors might be encouraged to expand the flow of their own resources to multilateral institutions. Multilateral institutions, especially those engaged in development banking, have broader development policies and strategic frameworks more consistent with the SDGs. There are also better placed and equipped to handle special funds. Within the multilateral framework, regional development banks and sub-regional development banks are more flexible and tend to be more attuned to realities in client countries. Regional and sub-regional development banks also intermediate private international capital on the basis of their shareholder equity, portfolio performance and risk profile. Strengthening this financial intermediary role of the development banks through contributions of share capital and targeted grants or loans is another valuable way by which the international community can potentially expand the flow of financial resources to Caribbean.

(f) Diaspora Funds:

Caribbean SIDS have very large diaspora communities in North America and Europe. It is likely that a significant proportion of them derive income from professional and business activities which places them in the middle income categories of their host countries. The presence of large diaspora communities, especially in the US and Canada, has generated quite substantial annual flows of remittances. The IDB Multilateral Investment Fund estimated that in 2012 remittances were $3.158 billion to the Dominican Republic, $2.038 billion to Jamaica, $1.988 billion to Haiti, $405 million to Guyana, $129 million to Trinidad and Tobago, $113 million to Suriname and $112 million to Belize. These amounts varied between 3% and 25% of GDP in the main recipient countries. Remittances make a contribution to development by supplementing household incomes, particularly of poor households, and help to finance residential construction and acquisition of consumer durables which raise living standards. Remittances were higher prior to the global economic recession, clearly responding to employment cycles and wage rates changes in the host countries. However, the net flow and the impact of remittances are also affected by transaction costs in sending countries and receiving countries. Improvements in the availability of financial services and reductions in transactions costs would enhance the contribution of this source of private development finance.

Remittances are not the only possible means by which diaspora communities can contribute to the flow of development finance. Investment in bonds issued by Caribbean SIDS and targeted towards the diaspora community have been occasionally proposed by Caribbean Heads of Government and development specialists. Diaspora bonds could be an attractive financial instrument for the countries issuing them. Their coupon rates of interest might be lower than those on sovereign bonds for several reasons. The benchmark for the diaspora community would be the savings rate in the host country; risk assessment by diaspora investors might be more favorable than that of institutional investors; and goodwill towards the home country might result in a "patriotic discount'.

Proposals for so-called diaspora bonds have not been enthusiastically received by the diaspora communities and their host regulatory bodies because of perceived investment risks largely focused on the ease of cross-border repatriation to the source country and the efficiency of financial settlement systems in the recipient countries. However, prospects can be improved by several actions. The issuing country can enhance the attractiveness of diaspora bonds by improving national economic management, political governance, the regulatory framework governing financial transactions, the efficiency of market settlement systems and judicial administration. They could also link bond issues to particular projects capable of attractive potential bondholders. The marketing of diaspora bonds need not be confined to diaspora communities. Bearing in mind, as Terrazas (2010) observes, that the pensions and retirement funds of many members of diaspora communities are managed by institutional investors, these kinds of institutions could be a focus of marketing efforts. Other matters which have to be resolved include the credit rating that is likely to be attached to such bonds and to their country of issue, the ability of countries to have economically sized placements or to join with other countries to increase the size of placements and the satisfaction of regulatory and licensing requirements for issuing bonds in host countries.

(g) International Sovereign Bond Issues:

Caribbean SIDS have retreated from the private international capital market since 2009. Commercial bank loans have dried up except for very few countries and there has been few bond issues. Bahamas issued bonds for $100 million in 2008 and $300 million in 2009 but nothing between 2010 and 2013. Barbados issued $450 million in 2009 and $300 million in 2010. Trinidad and Tobago raised $850 million in 2009, $175 million in 2011and $550 million in 2013. Jamaica entered the market more frequently. It raised funds in 2008 and in each subsequent year to 2014 inclusive. The size of placements varied, larger amounts being raised in 2010, 2012, and 2014 ($1075mn, $1500mn, $1800mn and 1000mn respectively) than in 2008, 2009 and 2011 ($250mn, $750mn and $694mn respectively).

The obstacles to expanded access to the private international capital market are located primarily in public economic management: a large debt overhang; challenges in achieving fiscal consolidation; weak or ineffective budgetary planning and control; and lack of success in developing resilient economies. These difficulties have contributed to the deterioration in international capital market ratings by influential credit rating agencies and the resultant rise in risk premiums, sometimes to unacceptable levels. International support for fiscal reforms, debt restructuring and debt management, public sector management and public sector investments in critical economic infrastructure has a role to play in the mobilization of private international financial capital by Caribbean SIDS.

Additionally, the international community can structure a bond indemnity or guarantee scheme to improve the creditworthiness of Caribbean sovereign bonds. Issued by those countries whose reputations have been damaged by recent delinquency or default. This can be a temporary rather than long term facility. The guarantees would be contingent liabilities on the part of the contributors and would not necessarily mean additional financial outlays.

Other proposals have been advanced to address the credit worthiness problem of developing countries and their economic growth underperformance in response to external shocks. UNDP revived in 2005 proposals for GDP-indexed bonds first made in the 1980s and repeated in the 1990s. Griffith-Jones (2005) proposed a GDP-index bond which would link the coupon interest rate to the bond issuer economic growth rate. The coupon interest rate would be reduced when the economic growth rate is below trend and be increased when it is above trend. It is argued that the correlation of debt service and economic growth would ease fiscal pressures in the down swing and also reduce the likelihood of debt service crises.

The Commonwealth Secretariat in 2014 proposed contra-cyclical loans, which while not being bonds, would also address the fiscal difficulties of honoring debt service obligations in cyclical downturns. The interest rate on contra-cyclical loans would automatically decrease in response to external shocks referenced by external trade indicators.

(h) Debt Relief:

Proposals for relief for heavily indebted Caribbean countries was first made in the context of the Commonwealth Finance Ministers Meeting in Guyana in 2007 and were also raised at actively in vogue at subsequent meetings of the IMF and World Bank. The fundamental proposition is that given the extremely high levels of government debt and associated claims on fiscal revenues and foreign exchange earnings and despite their middle income status, Caribbean SIDS will not have the fiscal space to substantially address the SDGs unless the debt overhang is greatly reduced. A few countries have made progress on their own in negotiating with creditors reductions in outstanding principal (so-called haircuts). However, much more progress could be made and would be without market opprobrium if there was a structured effort in which the international community are major participants in much the same way they effectively participated in the HIPC debt relief initiative to get heavily indebted low income countries on track to economic and social progress. The call is therefore for a Highly Indebted Middle Income Country (HIMIC) Debt Relief Initiative.

A new structured approach to debt relief for Caribbean SIDS is likely to be informed by several considerations. Foremost is the fact that the debt profile is not uniform within the region. For most countries, debt to multilateral financial institutions is a large proportion of the total. In a few of them, namely Bahamas, Barbados and Jamaica, bond issued on private capital markets also comprise a large share of total external debt. For some countries, such as Bahamas, Barbados and Jamaica, bilateral debt is a small proportion while in others, such as Guyana, it is a sizeable proportion. This diversity of debt profiles implies that debt relief needs to take into account the variety of situations if it is to be effective.

The current policies of multilateral financial institutions seem not to favor write-off of principal, with the write-offs under HIPC treated as exceptional. Barring a change in those policies, debt relief in the context of multilateral debt could be usefully focused on interest payment obligations which in many instances are about half of total debt service and comprise substantial proportions of government expenditures. In the case of capital market sovereign bonds, relief on both interest payments and amortization might be feasible; likewise, in the case of bilateral debt. In all three circumstances, debt service obligations could be waived or exchanged for agreed capital budget expenditures, e.g. on climate change adaptation, environment protection, flood control, sea defence, beach conservation, by the Caribbean debtor or could be treated as part of a program of general budgetary support. The effect would be to convert an otherwise outgoing foreign payment into budgetary resources available for other uses.

Eligibility criteria for heavily indebted middle income countries (HIMICs) is likely to be structured around threshold levels of debt-GDP ratios, debt service to fiscal revenue ratios, debt service to government current expenditures, and debt service to goods and services export earnings which are all indicators of debt unsustainability. The examples of debt restructuring by Caribbean SIDS provided in Section 3 are illustrative of the conditions under which debt burdens become so onerous that either default or economic crisis in the debtor country are the prospects facing creditors and debtors, unless there is agreement on debt restructuring which provides relief through reductions in the coupon value and/or the coupon rate on existing debt.

Debt relief could be linked also to global public goods such as the environment and climate change as in the Commonwealth Secretariat's (2014) proposal that foreign debt could be written off partially or in full exchange for a local currency commitment by the debtor country to investment in climate change adaptation and mitigation. A particularly attractive feature of the Commonwealth Secretariat's proposal is that it targets debt to multilateral financial institutions which, as discussed previously, has been exempt from haircuts. The proposal envisages a gradual write-down of 100% of the debt stock at the MFIs and the allocation by debtors of the local currency equivalent into a trust fund dedicated to climate change adaptation and mitigation. The proposal also envisages that donor countries could help to finance the MFI debt write-off by making financial transfers to the MFI. This would be done to protect the MFI balance sheet. The Commonwealth Secretariat estimates that Commonwealth middle income countries could benefit by cancellations of $803 million on 2008 debt stock and $849 million on 2010 debt stock, which would be very substantial debt relief.

(i) Making More Developmental Use of Domestic Savings

Caribbean SIDS can augment their own pool of development finance by activating liquid or "idle" resources in their commercial banking industry. At present, commercial banks in Caribbean SIDS have extremely high levels of liquid funds. These high levels of excess liquidity imply under-supply of credit, especially for production and long term investment. Part of the required adjustment is for banks to become more venturesome and for them to upgrade their credit appraisal and risk management systems and policies. Governments can also facilitate the adjustment by actions which reduce credit risks. Two particularly cost effective measures would be to support the establishment and work of local credit rating agencies and through efficiency reforms in the justice administration system, improve the framework for contract enforcement and loan loss recovery.

6 Recommendations

1. **Per capita national income should be abandoned as an eligibility criterion for access to concessional and non-concessional development finance assistance**. As an indicator, it does not adequately reflect the Caribbean SIDS deficiencies in achieving the MDGs and the SDGs likely to be adopted by the international community later in 2015. Caribbean SIDS despite their high income or middle income status have major structural gaps with respect to poverty, income inequality, health, education, citizen security and gender inequality to name some of them. They are also highly vulnerable to external economic shocks, natural hazard events and climate change.

2. **Economic Vulnerability should be included as an eligibility criterion**. It can be a supplement to the per capita income criterion if the latter is retained by the international donor community and multilateral financial institutions. Its use can be operationalised by selecting cut-off values from vulnerability indices already in existence, e.g. Briguglio and Galea and Atkins and Mazzi. A minimum index value of 3 from Atkins and Mazzi or a minimum value of 0.7 from the Briguglio and Galea economic resilience augmented vulnerability index would make most Caribbean SIDS eligible. It is also possible to use easily calculated economic volatility indicators to determine the eligibility of Caribbean SIDS. These could include the coefficients of variation of GNI per capita, real GDP growth, purchasing power of exports of goods and services and fiscal revenues. A threshold of 0.15 for the coefficient of variation for GNI per capita, for instance, would make Antigua and Barbuda, Grenada, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines, Guyana, Dominica, Suriname and Trinidad and Tobago eligible for concessionary finance. A coefficient of variation of 3 or greater for real GDP growth would qualify the Bahamas, Antigua and Barbuda, Grenada, St. Kitts and Nevis, Saint Lucia and St. Vincent and the Grenadines. A threshold coefficient of variation of .20 would qualify Jamaica, Suriname, Trinidad and Tobago, Antigua and Barbuda, Dominica, Grenada, Saint Lucia and St. Vincent and the Grenadines.

3. **It is recommended that the MFIs, Regional Development Bank and Bilateral Donors introduce eligibility categories based on vulnerability measures which would reflect the principle of gradual transition in access to development financial assistance rather than abrupt ineligibility or graduation**. The vulnerability eligible categories would be differentiated by interest rate, grace period and maturity on accessible funds. Each parameter affects the grant element of the finance made available.

4. Illustrations of the above approach are provided in this paragraph and the next one.

EXAMPLE 1

CATEGORY	CVI	COUNTRIES
Category A	9.0 – 12.0	Antigua and Barbuda, Bahamas
Category B	6.0 – 8.9	Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines
Category C	4.0 – 5.9	Suriname, Trinidad and Tobago, Haiti

- Category A Terms: 3.13% interest, 6 years grace, 30 years maturity
- Category B Terms: 3.30% interest, 6 years grace, 20 years maturity
- Category C Terms: 5.0% interest, 5 years grace, 20 years maturity

The categorization could be based on some other measure of economic vulnerability such as Briguglio and Galea's economic resistance adjusted vulnerability index.

The example is modelled using current terms on IDA resources. It essentially modifies the terms applicable to "blend" countries, but it is intended to be applicable to other official sources of ODA.

5. Eligible categories could also be determined on the basis of volatility of GNI per capita or GDP growth. To illustrate application using GDP growth, categories D, E, F are constructed on the basis of the coefficient of variation of GDP growth.

EXAMPLE 2

CATEGORY	COV GDP	COUNTRIES
Category D	5.0 – 9.0	Antigua and Barbuda, Haiti, Jamaica, St. Kitts and Nevis, Saint Lucia, St. Vincent and the Grenadines
Category E	2.0 – 4.0	Dominica, Grenada, Guyana
Category F	0.0 – 2.0	Belize, Suriname, Trinidad and Tobago, Haiti

The recommendation is for the same terms as for categories A, B, C in paragraph 4.

6. The recommendations to incorporate vulnerability indicators in criteria for access to concessional and non-concessional financial resources impact the various Caribbean SIDS differently. While all countries become eligible, some might be shifted to a less concessionary status than they currently enjoy eg. Haiti, Guyana, and others might be shifted to the most concessionary status when currently they are totally ineligible eg. Antigua and Barbuda, Bahamas. In light of delightly differential impacts, Caribbean SIDS might need to arrive at an concensus on the particular scheme to be advocated and (if agreed) implemented.

7. Because the Caribbean SIDS are small economies, expansion of their access to concessional and non-concessional resources should not add much to existing demands on the financial resources of MFIs and the regional development bank and therefore should not present any funding challenages to them.

8. For the same reasons, expanding access to bilateral resources can be accommodated within the United Nations already agreed target of 0.7% GNI targets. The constraints are more likely to be fiscal capacity and willingness to achieve the aid targets and political willingness to effect the required restructuring of aid preferences.

9. **Development needs should have greater weight in determination of access to international development finance. The Sustainable Developments Goals should be used as a guide to those needs in Caribbean SIDS**. The progress of countries in national income terms and with reference to the SDGs should be signals for a gradual change in the package of development finance available to them rather than the abrupt discontinuity of graduation from international resources.

10. **Caribbean SIDS have urgent and pressing needs in relation to national stability, social cohesion and citizen security**. Those needs are no less worthy of attention by the international community as are the challenges of fragile states in other parts of the world. Support for sustainable job creation, community infrastructure and governance, poverty reduction, expanded opportunities for upward mobility, crime prevention and efficient and fair justice administration are among desirable international contributions.

11. **Consideration could be given to establishing special funds to address structural gaps in middle income Caribbean SIDS not unlike the Global Infrastructure Facility recently launched**. **The basic objective of the special funds would be to finance investments which could reduce vulnerability to external economic shocks and natural hazards.**

12. **In addition to the currently existing special funds, consideration should be given to establishing others which reinforce or complement climate change and environmental protection funds**. These could include special funds for resettlement of communities away from vulnerabile and/or environmentally degraded areas and special funds for investments in production and use of alternative energy at both national and household levels.

13. Economic vulnerability can be reduced by economic diversification, trade diversification, research and development, technology and innovation, and human resource capacity, all of which contribute to economic resilience. It is evident that a critical weakness in national and corporate planning for progess in these and other areas is the absence of essential

statistical data on many aspects on the economies and societies, including demographic, social and labour force data. The capacity of the national statistical systems is woefully inadequate in most Caribbean SIDS. **A special Caribbean Statistical Data Capacity Fund for strengthening national statistical data capacity would be benefical to Caribbean SIDS and to the international community**. A similar need might well exist in other developing country regions, in which case there could be a Developing Country Statistical Data Capacity Fund. Either of these two special funds might attract official, corporate and private fundations.

14. **The international community, including the multilateral financial institutions, should channel more resources to the regional and sub-regional development banks whose eligibility criteria are more inclusive and who are closer to the issues in Caribbean SIDS**.

15. **Debt relief should also be a consideration when countries have suffered major loss of physical and economic infrastructure through natural hazard events**.

16. **Caribbean SIDS are so heavily indebted that the SDGS are likely to be unachievable within their current domestic and external financing realities and prospects. Debt relief should be treated as a necessity for these middle and upper income countries**. Some of them have had to initiate restructuring and renegotiation with little or no support from the international community but their experience makes it evident that their creditors among bilateral donors and private bond holders appreciate the need for debt relief. Multilateral creditors present a special challenge. If as is now the case, the capital value of debt to them is treated as sacrosanct, then a pertinent recommendation would be for relief on interest payments.

17. **Greater efforts should be made to tap into the financial resources of diaspora communities who participate in a wide variety of financial savings instruments and investments in their host countries and who currently are a source of major flows of remittances to their home countries**. Remittances might be greater facilitated by institutional innovations in the Caribbean which reduce transactions costs and inconvenience. Efforts should also be made to develop and market diaspora bonds. For this kind of financial asset, there has to be the assumption that investors are more risk savvy and that the appeal of diaspora bonds would be improved by a better track record of national economic management, confidence in the political governance and social stability in the issuing country, and the quality of the institutional framework for capital market transactions both within the issuing country and cross-border.

18. **Caribbean SIDS must return to the international capital markets from which they have been largely absent in recent years**. Their challenges have been one of diminished creditworthiness as reflected in downgrades by credit rating agencies and higher risk premiums for their sovereign bonds and loans. International support for fiscal reforms, debt relief and restructuring, public sector management, critical infrastructure investments, bond guarantees and indemnities, and indexing of bond interest rates to economic growth should be helpful in improving market perception of risk and the prospects of Caribbean SIDS successfully re-entering international capital markets.

19. Caribbean SIDS must also commit more of their own financial savings to development finance. Given the predominance of commercial banks and nonbank financial institutions in savings mobilisation, it is necessary that larger proportions of their funds be allocated to investment. This might be facilitated by institutional developments such as establishment of local risk assessment and credit rating agencies and efficiency reforms in judicial administration to improve contract enforcement and loan loss recovery.

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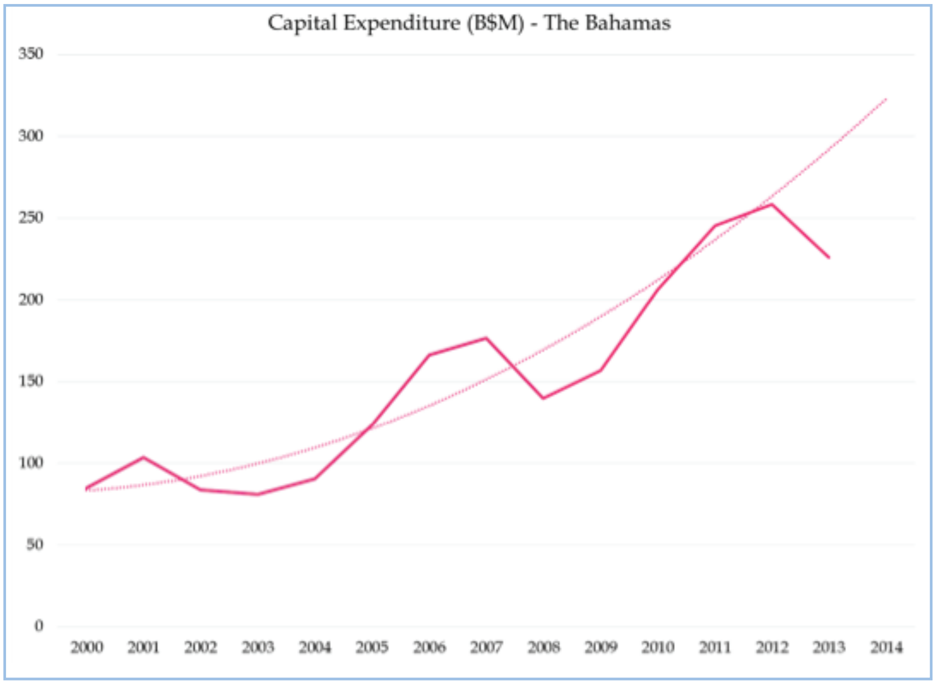
Figure A1



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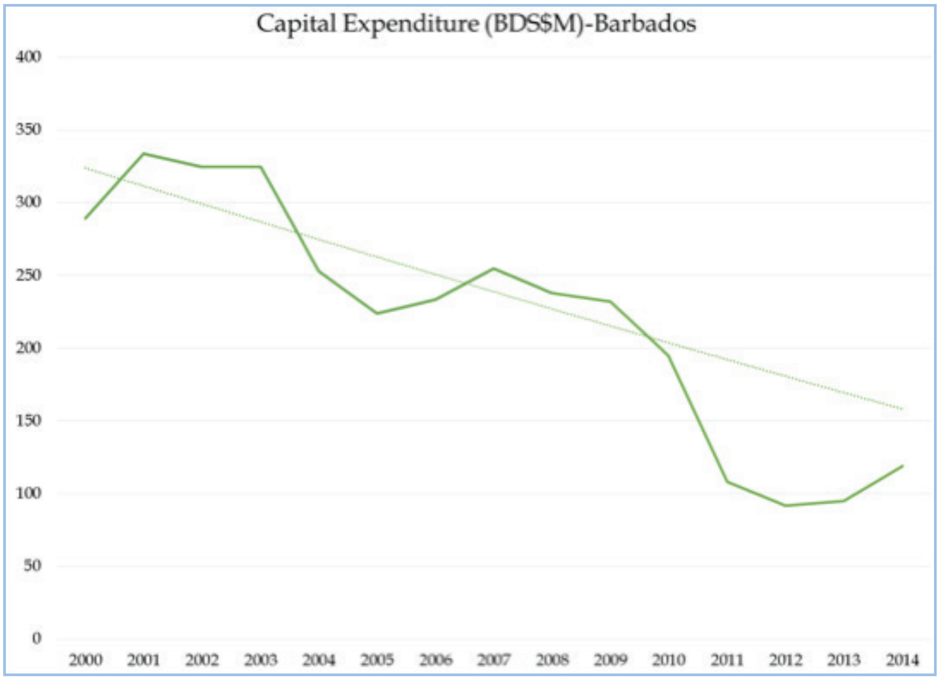

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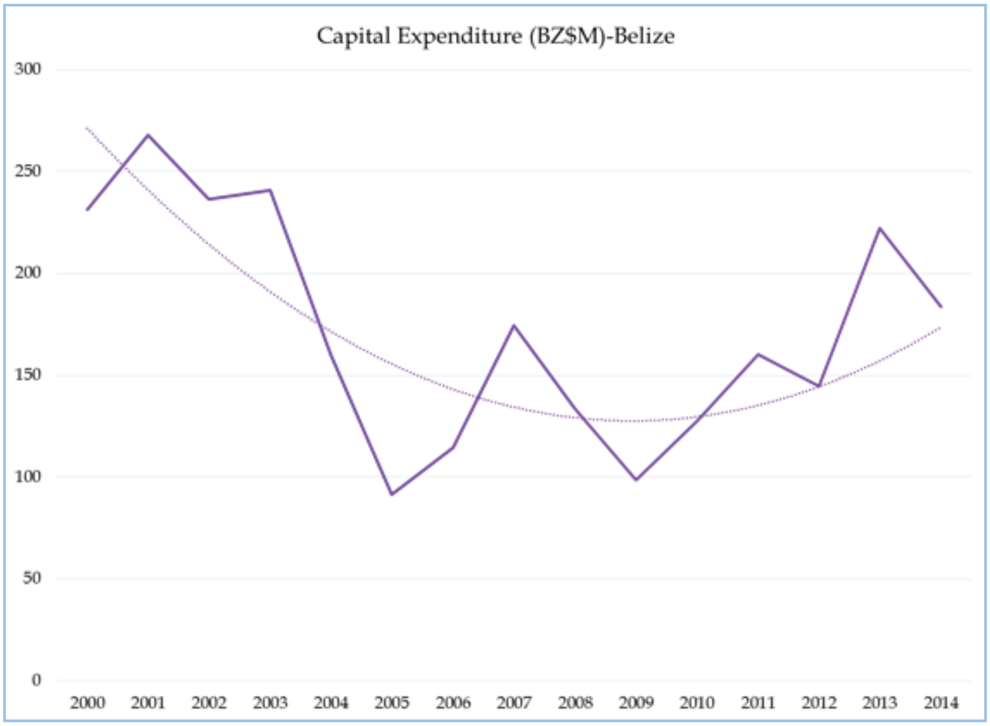

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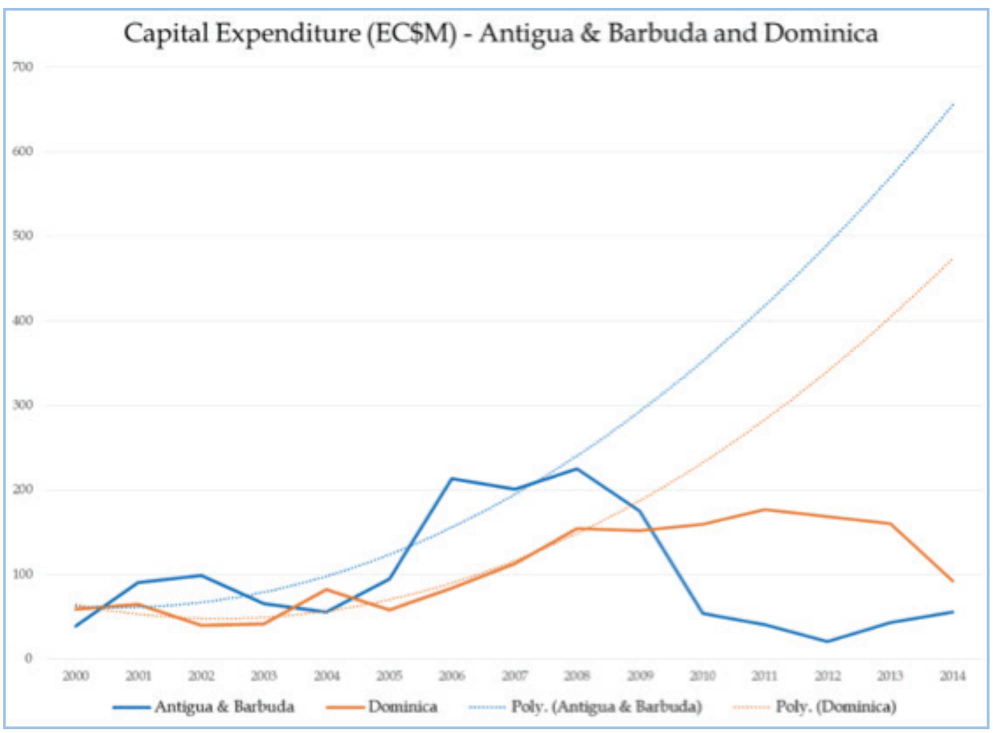

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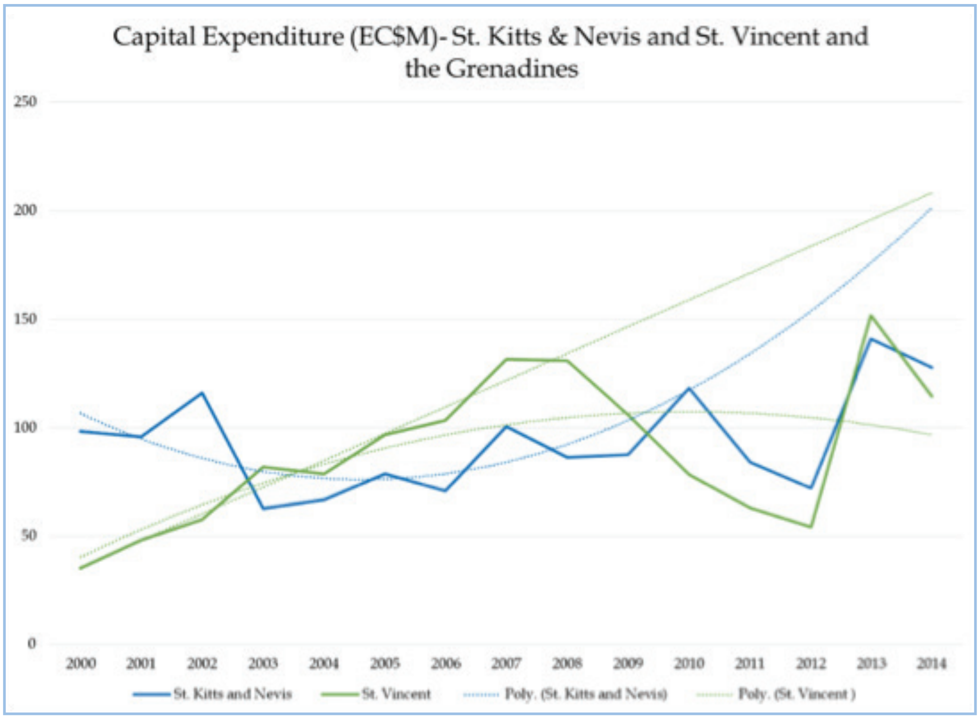

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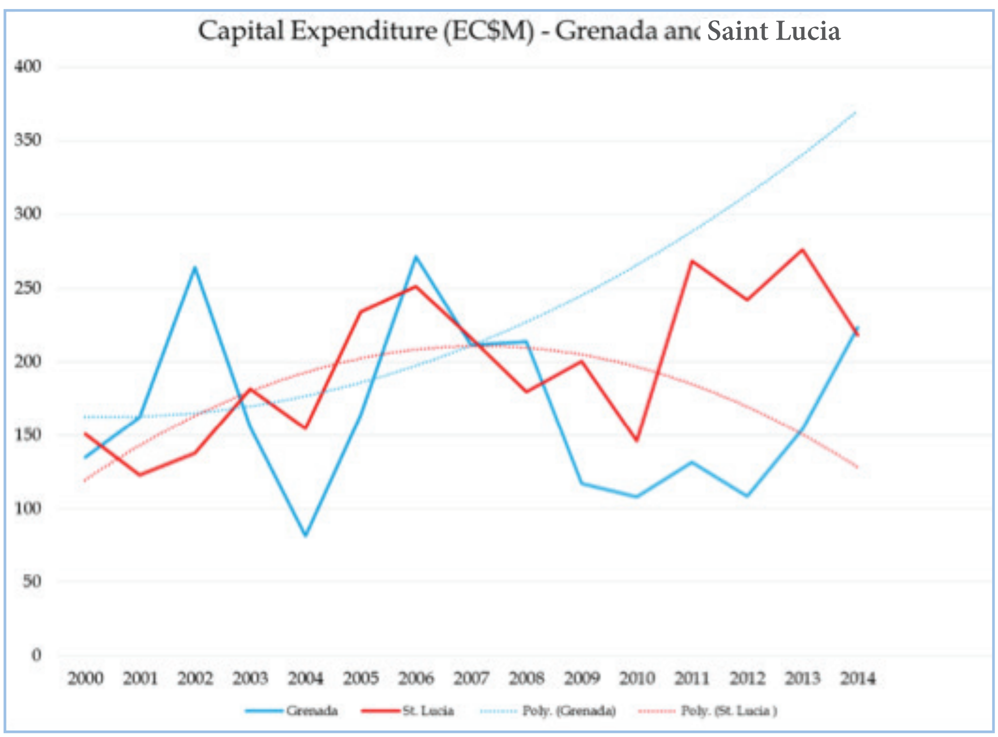

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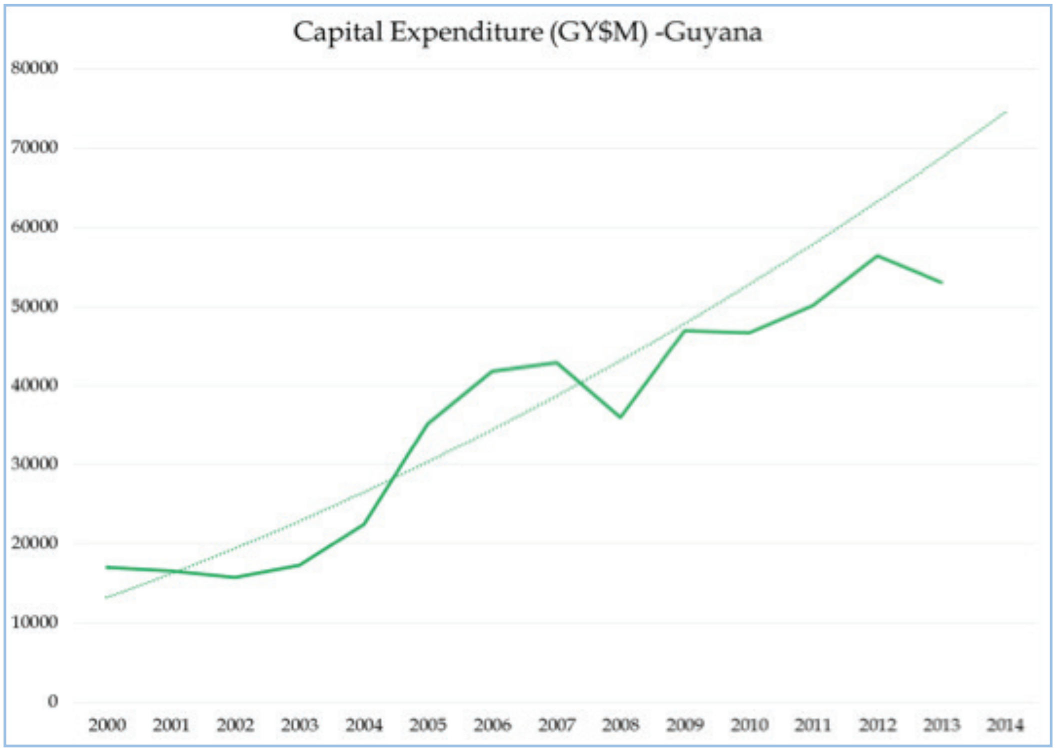

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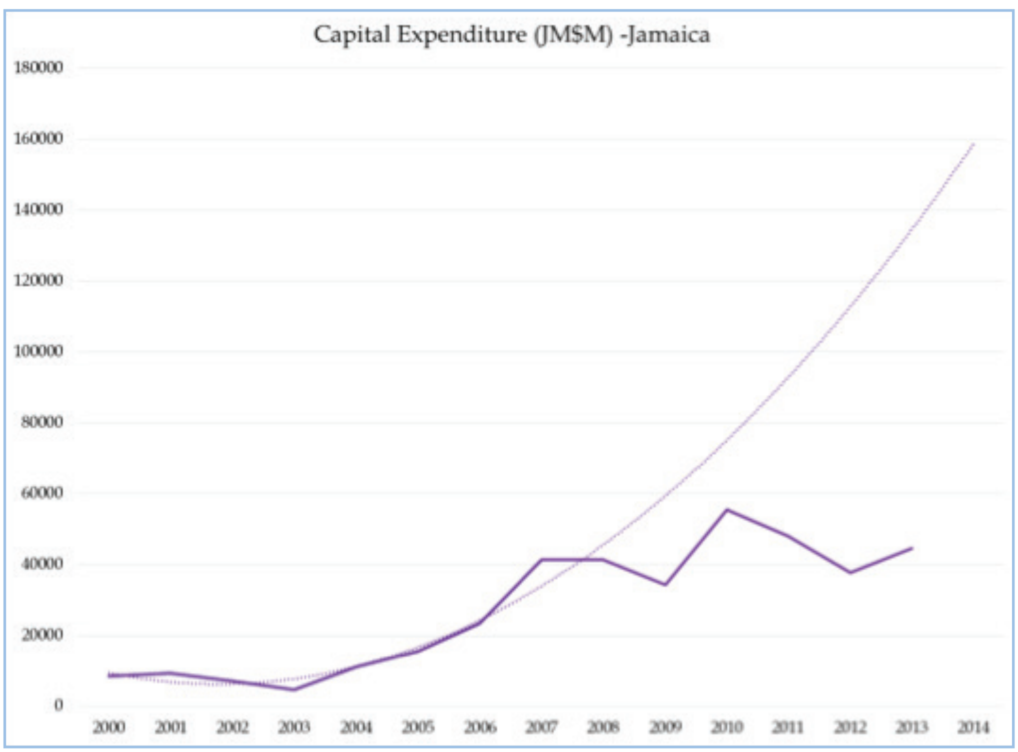

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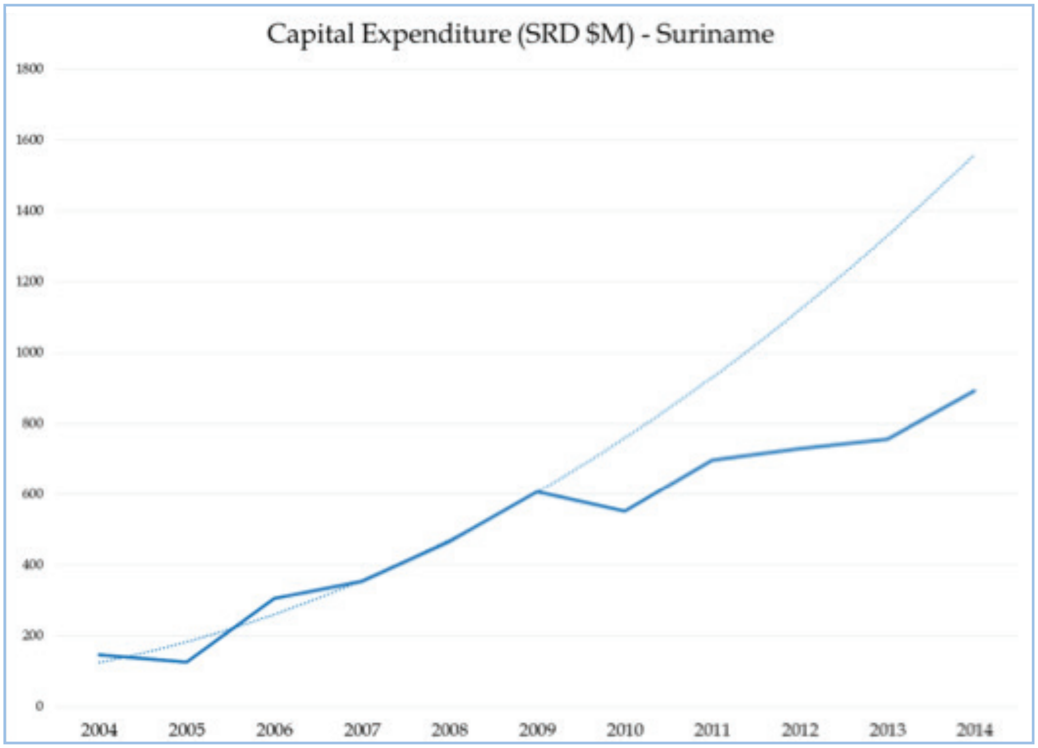

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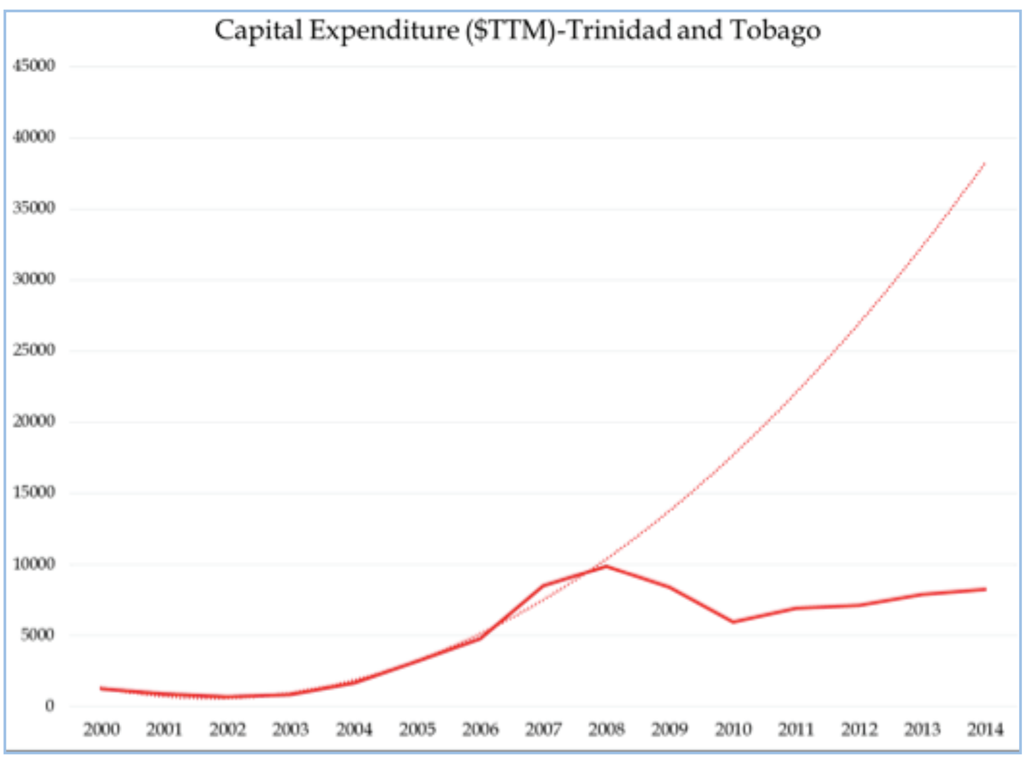

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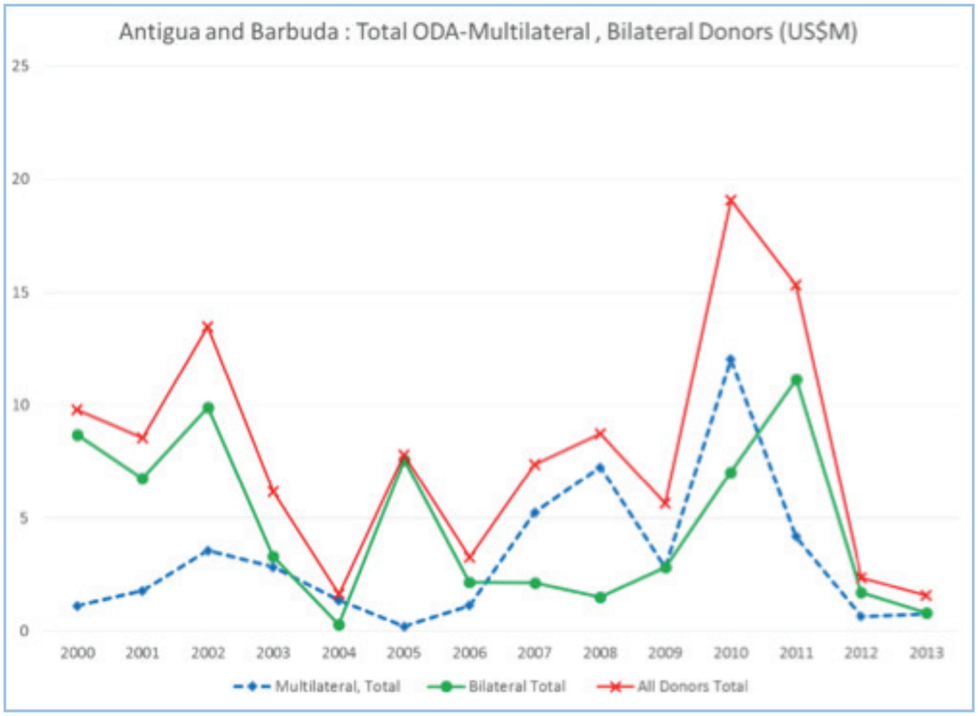
Figure A11
ODA Disbursements to Antigua and Barbuda



Source: Authors' charts with data from OECD International Development Statistics online databases.

Figure A12
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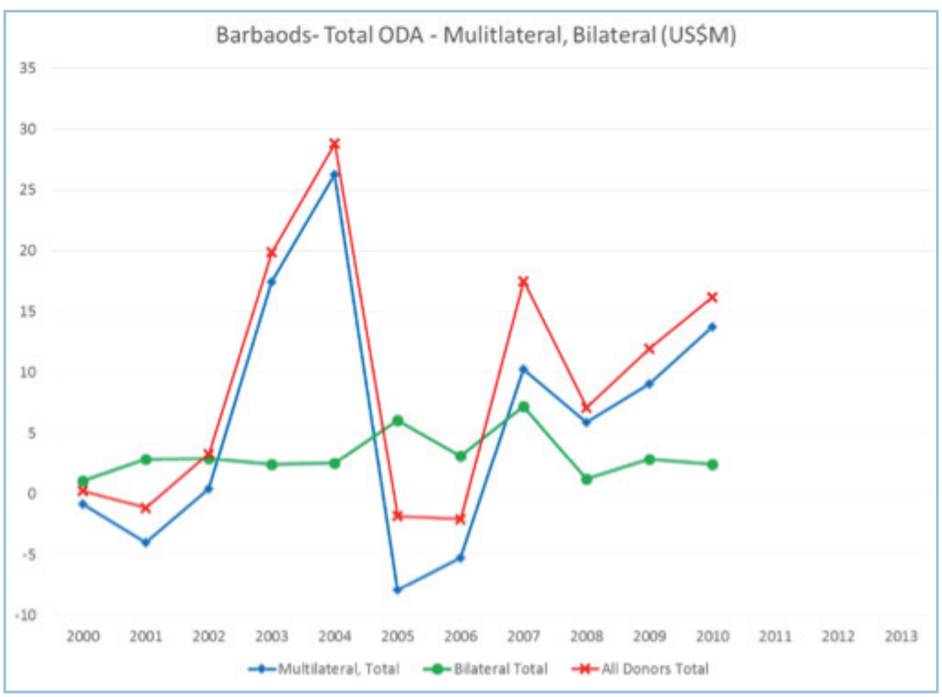

Source: Authors' charts with data from OECD International Development Statistics online databases.

Figure A13
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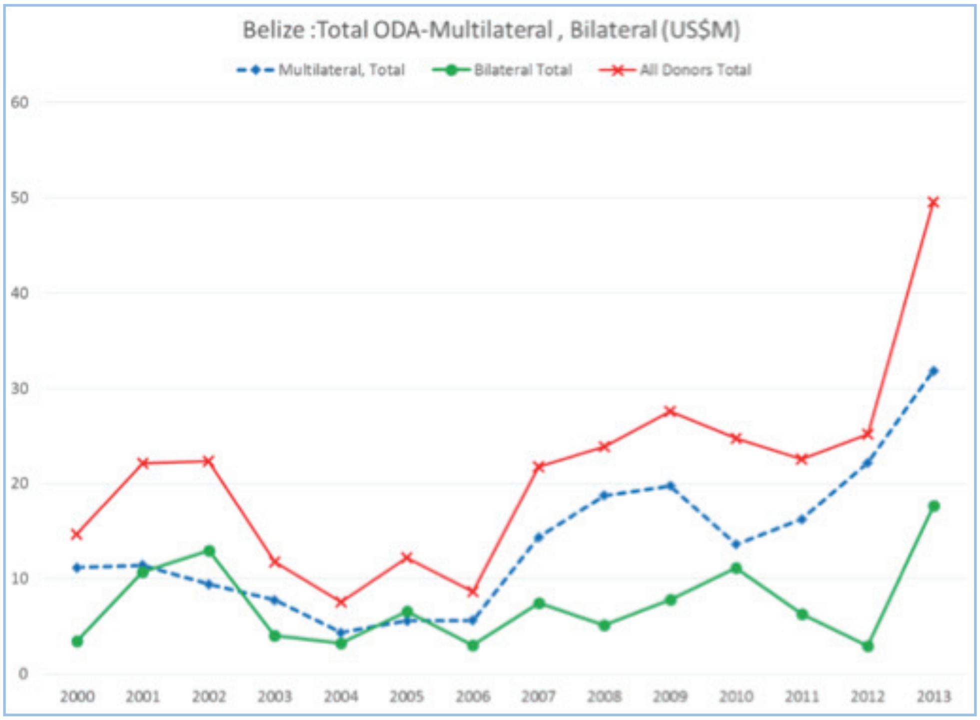

Source: Authors' charts with data from OECD International Development Statistics online databases.

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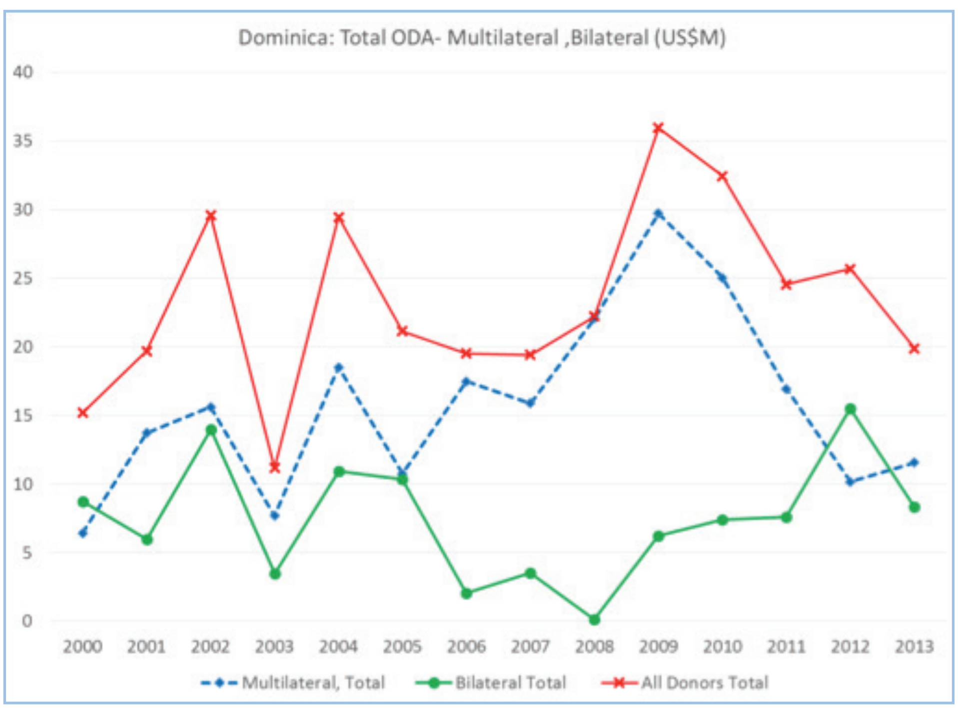

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Figure A15
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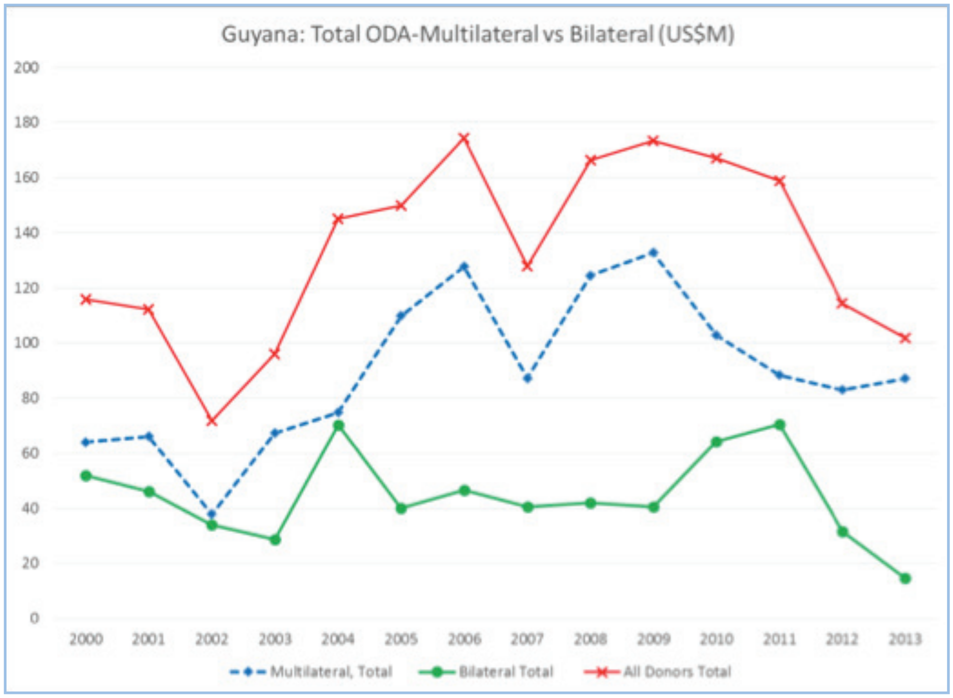

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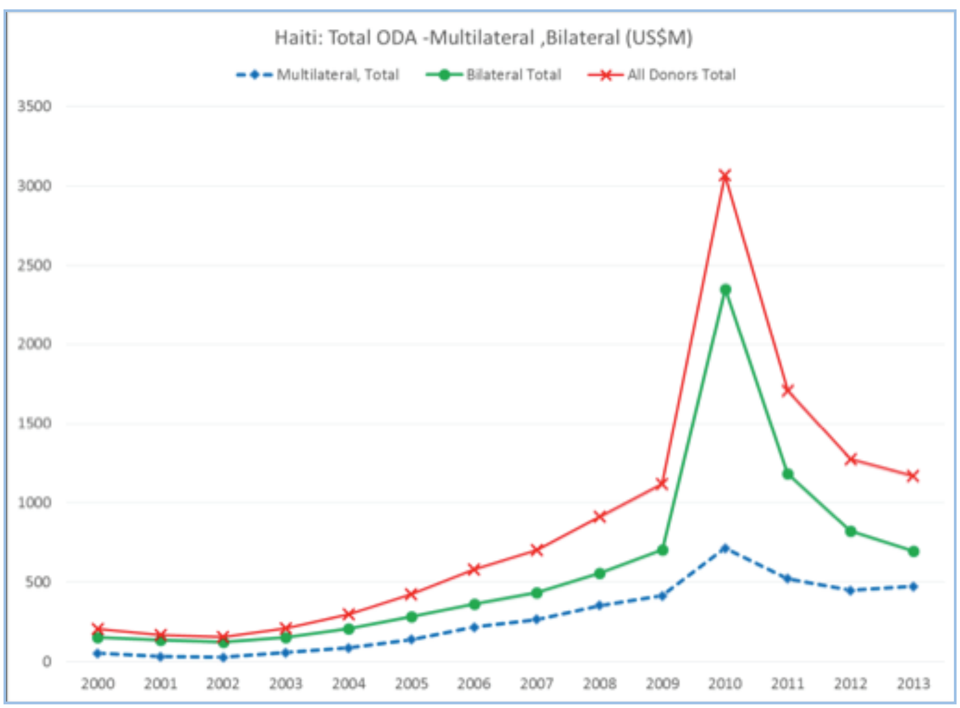

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Figure A17
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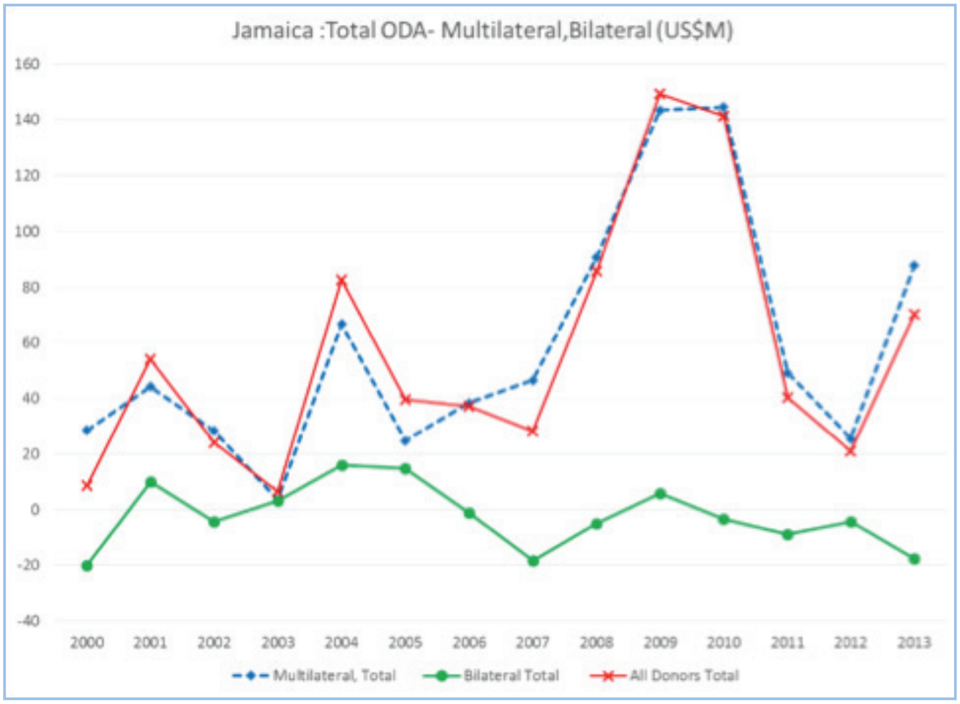

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Figure A18
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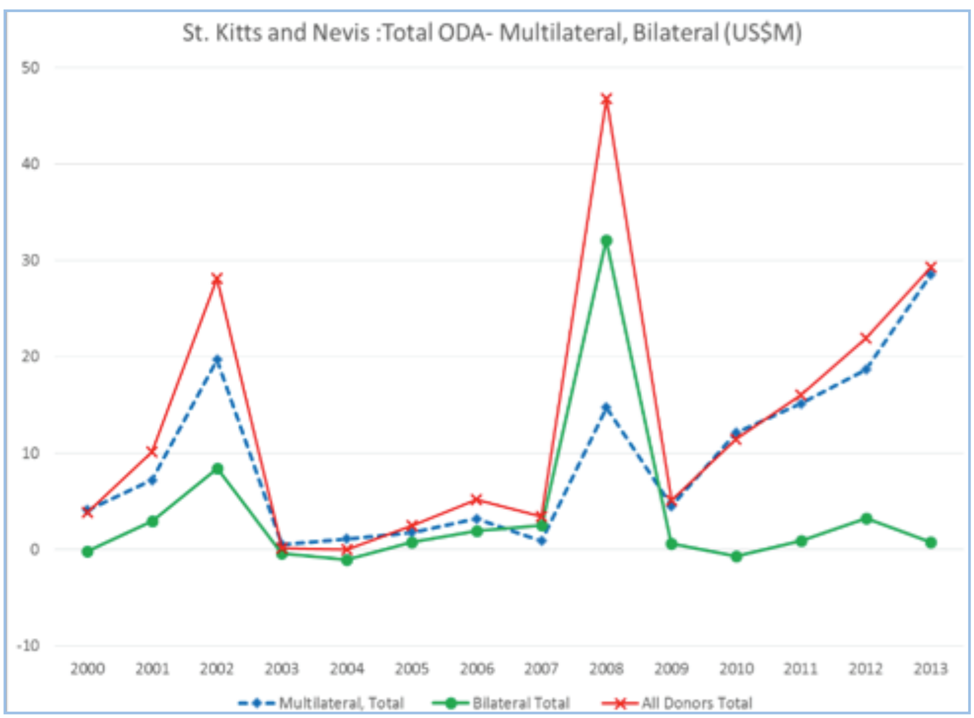

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Figure A19
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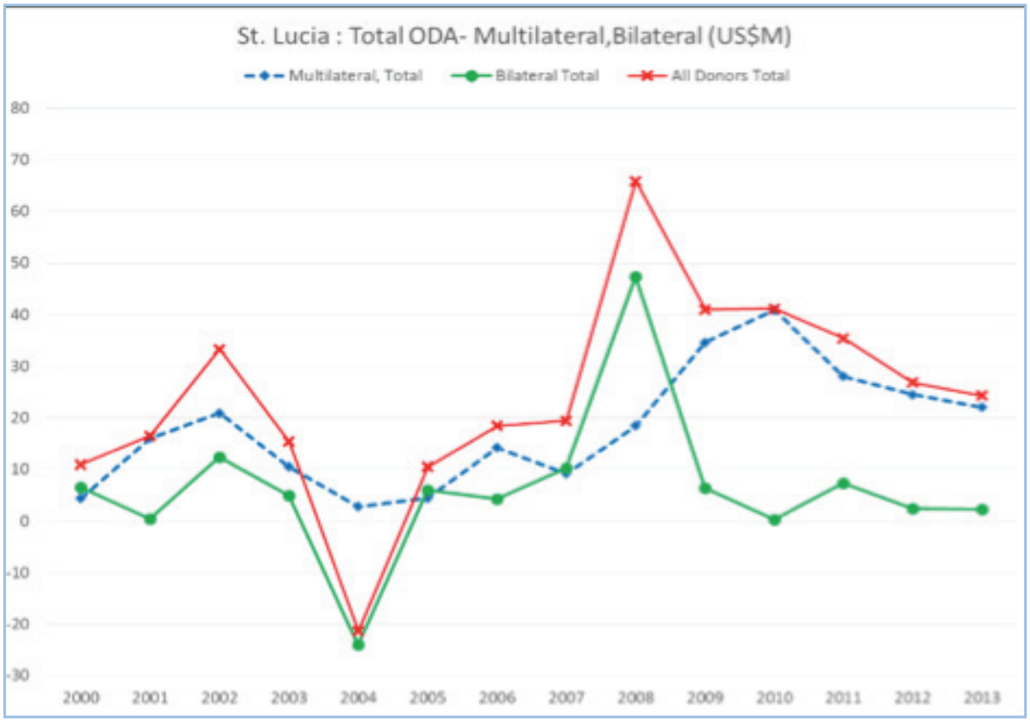

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Figure A20
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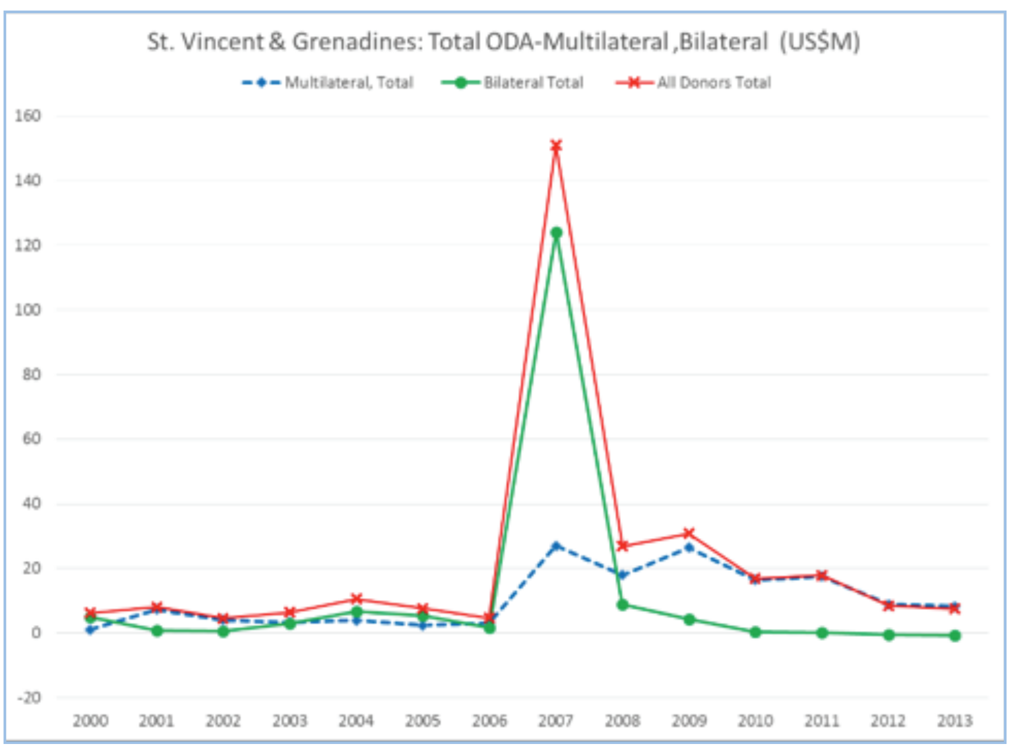

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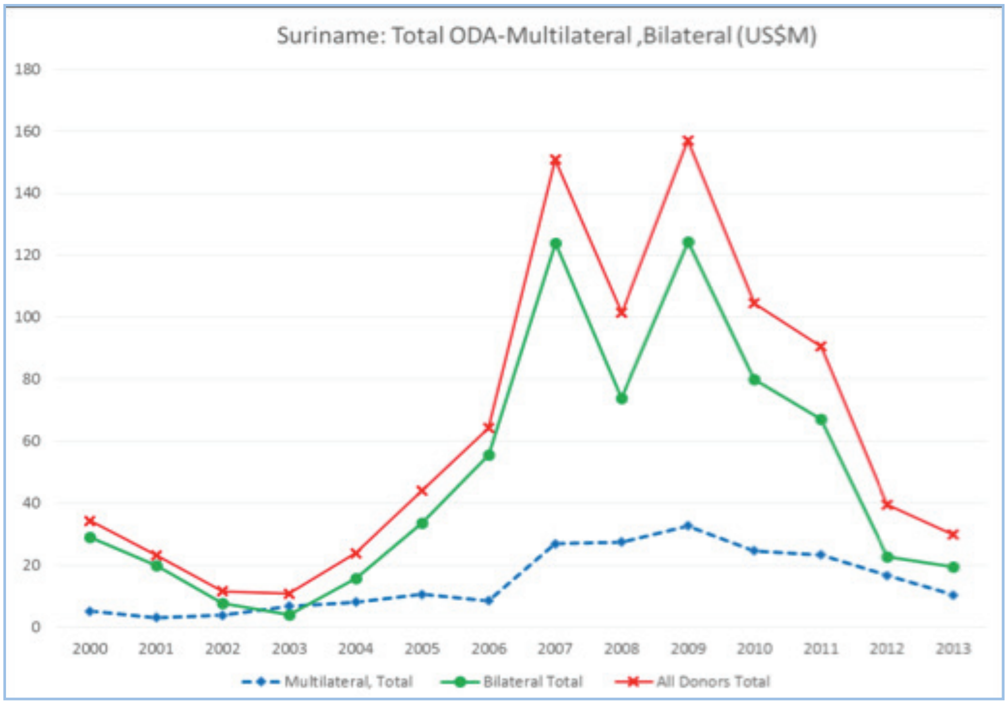

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Figure A22
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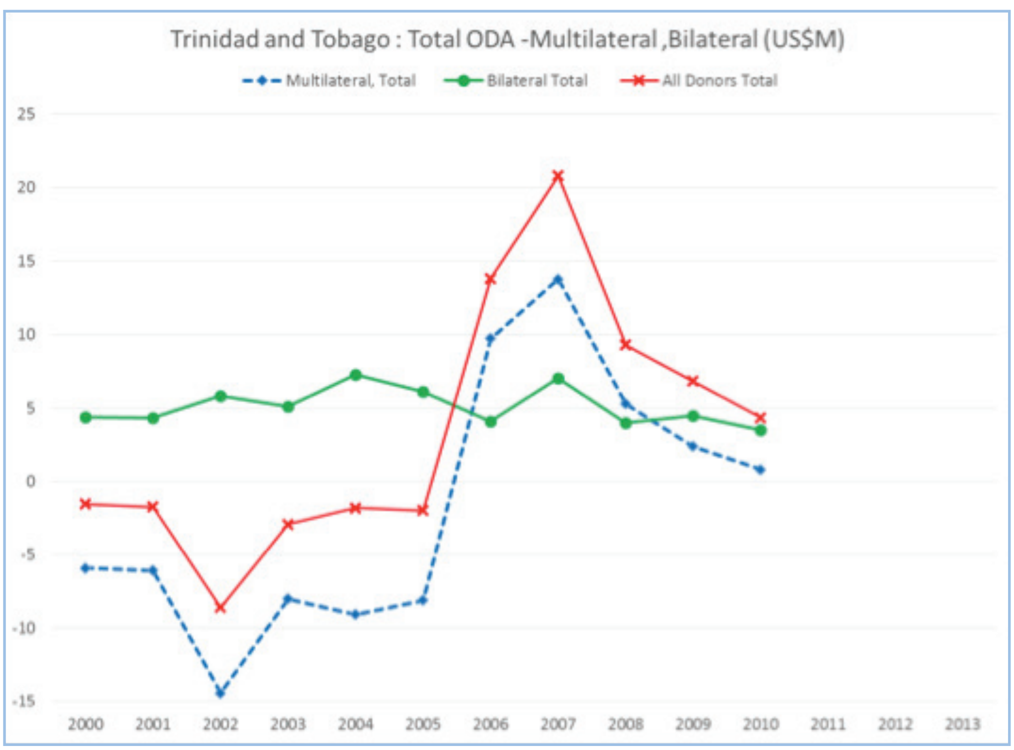

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