Seventeenth meeting of the Monitoring Committee of the Caribbean Development and Cooperation Committee

Port of Spain, 26 June 2015

DRAFT SUMMARY REPORT:

A FRAMEWORK FOR CARIBBEAN MEDIUM TERM DEVELOPMENT AND CONSIDERATIONS TO GUIDE THE REGIONAL STRATEGY IN DISCUSSIONS AT THE CONFERENCE ON FINANCING FOR DEVELOPMENT IN ADDIS ABABA

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EXECUTIVE SUMMARY

This research, coordinated and supported by ECLAC, aims to develop a Medium Term Growth and Development Framework for the Caribbean and, within that framework, locate the needs and priorities of the region¹. It is hoped that this approach can provide a basis for clearly defining the region’s position in the discussion at the forthcoming Financing for Development Conference in Addis Ababa. Specifically, this project focused on:

- Defining a suitable framework for the sustainable development of Caribbean Small Island Developing States (SIDS) over the next five years;
- Identifying a limited number of key interrelated priorities and needs implied by the framework
- Estimating the resource gaps arising from the identified priorities and needs;
- Suggesting approaches to filling these gaps domestically, regionally and internationally, having regard to the Zero Draft that is being tabled for the Financing for Development Conference in Addis Ababa in July 2015;

The framework had to be contextualized to incorporate the perspective of the region as SIDS whose special characteristics had been officially recognized by the international community through a series of conferences. This began with the UN Conference on Environment and Development (UNCED) – the Earth Summit – held in Rio de Janeiro, Brazil in 1992, followed by the Barbados Plan of Action (BPOA) in 1994. The BPOA identified fourteen priority areas including, climate change and sea-level rise; natural and environmental disasters; transport and communication; science and technology and human resource development.²

In September 2002, the World Summit on Sustainable Development, held in Johannesburg, South Africa, mandated a ten year comprehensive review of the BPOA. This ten year review meeting was held in Mauritius in 2005 and adopted the Mauritius Strategy for the Further Implementation of the BPOA. The Mauritius meeting also added several priority areas. The new areas were graduation from least developed country status; trade; sustainable production and consumption; health; knowledge management and culture.

At the Third International Conference on Small Island Developing states held in Apia, Samoa in September 2014, member states adopted the SIDS Accelerated Modalities of Action Pathway (Samoa Pathway) which sets out the most comprehensive set of priorities of the three SIDS conferences and called for the strengthening of the longstanding cooperation and support provided by the international community to small island developing states.

These conferences must be viewed as interrelated and represent a blueprint for discussing SIDS needs and priorities. The emergence of a post-2015 sustainable development dialogue, which builds on the MDGs, provides yet another framework and also addresses structural and other weaknesses among SIDS.

The forthcoming Financing for Development Conference in Addis Ababa in July 2015 for which the Zero Draft of the conference outcome document has been prepared, provides an opportunity for SIDS in general and for Caribbean SIDS in particular, to identify financing strategies for pursuing…

¹ This approach is in line with the CARICOM Strategic Vision
² The BPOA also identified a number of cross-sectoral areas including capacity building, institutional development at the national, regional and international levels, cooperation in the transfer of environmentally sound technologies, trade and economic diversification, and finance.
sustainable development. An important component of such strategies, it should be noted, is the Sustainable Development Goals (SDGs).

The primary goal of the Medium-Term framework being proposed is to achieve sustainable development through the development of an industrial strategy that restructures key export sectors and develops new export capabilities. It involves a diversification thrust for the regional economies, with renewed effort at integration that is deeper and wider than what currently exists. The strategy is also designed to diversify export markets of Caribbean SIDS, since historic trade relations can no longer be relied upon as drivers for these export propelled economies. All of the countries must ready themselves to engage in global competition, whether reliant on the export of services – tourism, financial services and ICTs, or reliant on the export of goods from niche agriculture and agro-processing, and other manufacturing, or from downstream processing of minerals or natural resources.

The Medium Term framework for Caribbean SIDS also seeks to build resilience to mitigate the vulnerabilities that they face. This framework requires concerted action on the part of these countries, supported by partnerships with the international community. Thus the Financing for Development Conference provides an unrivaled opportunity to ensure that the international community fully understands the needs and priorities that form the backbone of the sustainable development thrust of these countries as they undertake the required economic reforms and adjustment to address the challenges of global competition.

The fundamental strategy involves an economic development thrust starting with existing strengths of the individual member states, but also embarking on areas where, through value chains and based on forward and backward linkages, countries of the region might participate in international production in those activities in which they can be competitive. Equally significant is the importance of linking regional space through value chains, a point highlighted by Barcena et al (2014)\(^3\). A major objective of this strategy is to generate robust growth with equity while reducing unemployment.

The building of a robust tradable sector will not only contribute to export competitiveness, but also to the strengthening of sectors to withstand competition from imports. Efficiency in the non-tradable sectors ensures that the supporting infrastructure – institutional and physical – supports competitiveness of the export industries.

The strategy requires:

- An upgrade in the human capital of the region\(^4\),
- The mobilisation of domestic finance to support expansion of the private sector, through entrepreneurial development, and the promotion of SMEs,
- Upgrade of the physical infrastructure to withstand the impact of climate change and environmental risks that are characteristic of Caribbean SIDS,
- The development of the institutional infrastructure to facilitate industrial transformation and export promotion.\(^5\)
- Both the upgrade and development of regional inter-connectivity there by providing the information technology backbone and the transport system (sea and air), and logistics, to facilitate production integration.
- Creation of linkages among natural resource extraction manufacturing/industrial and services activities thereby reducing the dependence on earning foreign exchange from commodity exports.


\(^4\)This must be complemented with the upgrade of production technology through R&D and a focus on innovation.

\(^5\)Institutional infrastructure refers to all the institutions which are required to maintain the economic, health, and cultural and social standards of a country, such as the financial system, the education system, the health care system, the system of government, and law enforcement, as well as emergency services.
There are major threats and barriers to sustainable development and transformation of these economies, namely:

- Excessive debt;
- The ever present risk of environmental catastrophe;
- Penetration of international narco-trafficking and crime into their economies and societies, which require resources far beyond their existing capacities;
- Exposure to negative external shocks and
- Low and volatile growth

These countries require the assistance of the international community on two counts; strengthening the enablers of economic development and export competitiveness, and with regard to the removing of barriers and threats to sustainable development. The pursuit of sustained growth and the reduction of poverty and inequality by diversifying the region’s production and export structure will require significant investments in educating and training the region’s people. This must be complemented by the increasing use of appropriate technology and the promotion of innovation through research and development. In addition, this investment is made with synergies in mind so that addressing some issues will impact positively on others. Such an effort is very complex, as presaged in the Zero Draft (para 9), and takes time with very high attendant cost. It cannot be realized in the short to medium term by the Caribbean on its own.

High Priority Needs

**Human Capital Upgrade**

Competitiveness⁶ and productivity growth depend vitally on the quality of education and training of the labour force. While the countries of the region have invested heavily in formal education and have all attained universal enrolment at the secondary level education, there is still a substantial section of the labour force which has no academic qualification and so remain ill-equipped for participation in sectors where the application of technology and the use of high level knowledge are important in the production system⁷.

Indeed, a high percentage of the work-force between the ages of 30 and 55 can be described in this way. There is need therefore, to undertake a radical overhaul of systems of education and training and the institutionalizing of worker upgrading with cooperation between Governments and the private sector. The human capital thrust can be supported with programs aimed at encouraging nationals, including those of other Caribbean countries resident in the developed world, to return to the Caribbean with skills and technical capabilities acquired abroad. The facilitation of freer movement of skilled and professional labour within the region will also contribute to the enhancement of the human capital base of these countries in the development of knowledge driven systems of production. The Zero Draft commits the international community to ‘a new compact for investing in people’ (para 10), which is highly relevant to the region.

**Mobilization of Domestic Finance**

An IMF (2013) study⁸ revealed that the financial sector in each of the individual Caribbean islands is heavily dominated by commercial banks which are, in the main, foreign owned. The banking system

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⁶ *Competitiveness* refers to the ability and performance of a firm, sub-sector or country to sell and supply goods and services in a given market, in relation to the ability and performance of other firms, sub-sectors or countries in the same market.

⁷ In addition, greater emphasis should be placed on increasing the number of students undertaking science, technology, engineering and mathematics (STEM) programmes at the university level.

tends to be very conservative in its lending policies which limit the availability of credit to the private sector. When credit is available from the banking system, it tends to be costly and limited to short maturities. There does exist differential access to capital among the groups in some of these countries; traditional structures and relationships determine access and, therefore, new entrepreneurs find themselves excluded. Resources for start-ups and for new entrepreneurs are limited and in some cases, non-existent.

There is need to put in place institutional arrangements such as technical support, business development support, marketing assistance, financial support and other institutional infrastructure that can open access to new entrepreneurs and firms that might eventually lead to new products and services. Some of these may also form the exports of these countries. The development of mechanisms, regulatory guidance, and government support for reallocation of finance from areas where excess liquidity exists to those areas where opportunities exist, must be part of the new initiatives to mobilize domestic finance. Resources mobilized by the Credit Union movement are a good example of stranded credit that can be exploited.

While substantial savings are available, they remain unavailable for the promotion of SMEs and/or are utilized largely in such sectors as distribution and personal loans, which end up encouraging imports rather than contributing to the outward push in the production frontier of these countries. Moreover, the countries have not yet succeeded in creating the institutional mechanisms to support inflows of capital from the vast Caribbean Diaspora, especially in the North Atlantic.

The Zero Draft pledges initiatives to ensure adequate financing for SMEs and financial inclusion, as explicitly identified in paras 13 and 63. In addition the capitalization of regional and national development banks, are an imperative to mobilizing finance for the sustainable development effort (para 50). The Zero Draft notes the role the potential development impact of well-managed migration, remittances and thus, of Diaspora capital (paras 64 and 102) as well as the possibilities offered by blended finance and PPPs (para 71), in which regard, the Caribbean Development Bank might be able to play a role for Caribbean SIDS.

**Infrastructure**

With respect to infrastructure, a range of physical and institutional gaps must be addressed. First, with the advent of global warming and the increased intensity of storms, hurricanes and other environmental threats, there is need for massive investments in sea defences in some countries. Much of the physical infrastructure has to be retrofitted to adhere to more exacting standards. This includes public buildings and housing, as well as the range of public utilities. The Zero Draft urges that developed countries honour pledges to the Green Climate Fund, which might be used to build climate and disaster resilience (paras 40 and 41). This is highly relevant for the Caribbean SIDS dealing with climate change mitigation. Moreover, the Zero Draft recognises the large gap in financing resilient infrastructure, and the need to overcome the impediment of the lack of well-prepared investable projects (para 69).

There is also the need to upgrade communications and transport infrastructure – air and sea transport for the moving of people and cargo. At the institutional level, there is the facilitative infrastructure in the form of regulatory systems – customs administration, trade facilitation, and support for export development that must be addressed, along with the upgrading of public administration with the introduction of performance management systems.

**Alternative Energy**

Energy imports have constituted as much as 30 percent of imports for countries of the region, and while fuel prices have recently fallen, one can expect escalation in prices of fossil fuels as the global economy returns to a growth path in the medium term. For Caribbean SIDS in particular, the experience has been to face skyrocketing foreign exchange usage on this account. It is imperative that renewable energy options be pursued in the medium term, including solar and wind. In this regard,
there are immense possibilities in the region. The build-out of such new infrastructure is an imperative, especially as the costs thereof might be falling. The Zero Draft pledges efforts to upgrade technology for modern and sustainable energy services, including the Sustainable Energy 4 All Initiative of the Secretary-General of the United Nations (para 110), and this will be most welcome among Caribbean SIDS.

On the other side of the divide are the major obstacles to the achievement of sustainable development in the medium term, which dwarf the resource capacity of these countries at the present time. These challenges constitute “public bads”, requiring action on the part of the international community, given that the costs cannot be shouldered by Caribbean SIDS with their current resources. These are addressed below.

**Debt Relief**

The region has become one of the most severely indebted in the world, with ratios of debt to GDP of over 100 percent in some countries, with all the implications for debt service from revenues and the whittling of the fiscal space in treating with developmental and other issues. The criteria applied in the provision of debt relief normally exclude Caribbean SIDS; per capita income or GDP put them above the threshold for debt relief. However, without debt relief in their present circumstances of limited or no fiscal space, there is little likelihood that the Caribbean SIDS will be able to restore their economies to a growth trajectory based on their current resources. While the Zero Draft recognizes the special circumstances of SIDS and their exclusion in access to ODA, the proposals of debt sustainability (paras 82-91) seem to fall short of what is required for Caribbean SIDS in the medium term. There remains a gap not fully addressed in the Zero Draft.

**Liquidity Support and Catastrophe Insurance/Fund**

Liquidity support in the face of volatility in earnings or the collapse of important sectors as a result of natural and other disasters over the decades, has often posed a serious challenge to macroeconomic management in the Caribbean. A simple act as a travel advisory can devastate the tourism sector in a Caribbean economy, and can lead to the plummeting of revenues, employment and foreign exchange earnings.

While Catastrophe Insurance has been introduced, the sums available are rarely adequate to compensate for the destruction and devastation caused, nor are distributions timely in the throes of disaster. Some of the more recent disasters can be attributed to the onset of climate change while volcanic eruptions and earthquakes are “acts of God” over which there is little control.

Provisioning for all of this has to be placed under the rubric of international public goods and therefore, deserving of support from the international community. A Stabilisation Fund and a Catastrophe Fund will provide respectively, budgetary support in the face of collapse in earnings from main export sector, and funding for replacement of infrastructure damaged in environmental events. The Zero Draft has not adequately addressed the vulnerability of Caribbean SIDS in this regard.

**Combating Narco-trafficking**

Caribbean SIDS have had some of highest rates of homicides per 100,000 in the world, and this is associated in part with the impact of narco-trafficking, the proliferation of firearms and gang violence. Geographic location and expanse of coast-line have made these countries easy locations for the organization of transshipment of cocaine and marijuana to the major consuming markets in the North Atlantic. Although over ten percent of national budgets is spent on national security in most countries, they lack the resources to large sections of their societies from being incorporated into the industry. A high debt burden of most Caribbean SIDS compromises their ability to invest in the level of security to combat the traffickers.

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9 The CARICOM Strategic Plan proposes that by 2017 the share of renewables should increase by 20%. 
The Zero Draft recognizes the relevance of the United Nations Convention of Transnational Crime (102), and Illicit Financial Flows (para 23) but shows no recognition of, and fails to address the costs of combating the international narco-trafficking industry in Caribbean SIDS, and its negative impact on sustainable development.

**Summarising the Medium Term Framework**

The high priority needs and areas for intervention, including the restructuring of the economy and rebuilding export capacity, are captured in the Medium Term Framework in Figure 1. The typical Caribbean economy has to be restructured with a platform of diversified industry capable of generating substantial foreign exchange earnings. This is an imperative for countries like the Caribbean which cannot avoid being export-propelled because of their small size. The export sector is at the centre stage, therefore, as is represented in the Figure.

On the left and on the right are some of the prime movers in the realization of export potential: they are the life-blood of the system. The human capital thrust, the promotion of private sector growth with new entrepreneurs, mobilization of finance through new institutional arrangements and the retrofitting of infrastructure in the face of climate change are high priority. The shift to renewable energy where possible will have an impact in the medium term as the relevant infrastructure is built out.

The areas of major avoidance costs requiring expenditures that fall under the rubric of international public goods are captured at the bottom of the diagram. There is the necessity of treating with the public bad of Narco-trafficking that has penetrated these economies. The catastrophe of more frequent hurricanes as a result of global climate change, as well as the ever present risk of earthquakes and volcanic eruptions in some islands, dictate provision beyond catastrophe insurance and require the build-up of a fund to treat with infrastructure replacement and thus mitigate the possibility of increase in debt from natural disasters.

The huge fiscal overhang and the debt burden cannot be overcome in the medium term. This significantly inhibits Caribbean SIDS from financing sustainable development goals without some measure of debt relief. Volatility in export earnings as a result of lack of a diversified export sector has to be taken into account in the medium term and requires a stabilization fund. These are all captured at the base of the diagram and represent necessary expenditures and provisioning for sustainable development of the Caribbean SIDS.
7

Figure 1: Medium-Term Framework for Caribbean SIDS

- SMEs/ New Enterprise
- Diaspora Capital
- Air & Sea
- ICTs
- Work-force Upgrade
- Free Movement of Labour
- Renewables
- Value Chains
- Deepening/Widening Regional Integration

- Private Sector Promotion
- Mobilisation of Finance
- Regional Transportation and Communications

- Human Capital
- Alternative Energy
- Deepening/Widening Regional Integration

- Social Development
  - Social Protection
- Institutional Infrastructure
- Physical Infrastructure
- Financial System
- Non-tradable Sectors

- Avoidance Costs/Expenditures, Risk Mitigation and Disaster Management
- Stabilisation Fund
- Combating International Narco Trafficking
- Debt Relief
- Catastrophe Insurance

Restructured Economy
Existing and Diversified Export Industries
Meanwhile, such issues as regional transportation, communications and regional integration within the Caribbean and between the Caribbean and Latin America, can enhance the possibilities for sustainable development offered by the high priority interventions. In addressing the operations of the financial system, with appropriate institutional arrangements, countries may be able to mobilise domestic finance for their development, and in addition attract inflows not only of remittances but also diaspora capital to expand the economic base. Improved efficiency of the non-tradable sectors, including of the public utilities and the public sector, contributes to competitiveness. Additionally, the social protection machinery that treats with the fall-out from unemployment when declining sectors shed labour, contributes to social development. All these factors are captured in Figure 1 (in blue).

**Funding Requirements- Resource Gap**

The provisioning of a number of the high priority needs of the Caribbean SIDS involve substantial levels of financing, most of which are beyond the capacity of these countries, and more so those that are heavily indebted. The assessment of their needs against the Zero Draft will establish that their special circumstances merit consideration beyond what might have been contemplated in the Zero Draft.

Table 1 identifies the key agencies involved in securing certain outcomes and the financing required. It also compiles agenda items which suggest the magnitude of the financing gap. The total financing needs amount to some US$20.0billion over the next five years. This is much beyond the capacity of Caribbean SIDS over the medium term, and would involve complementary financing from external sources. This constitutes the resource gap faced by these countries in the short to medium term. While many of the challenges faced by the Caribbean SIDS have been recognised in the Zero Draft, there yet remains a huge gap to be filled, and to be addressed in the Meeting in Addis Ababa.
Table 1: Financing Requirements of Caribbean SIDS (In the larger document the rationale and assumptions for these numbers must be provided)

<table>
<thead>
<tr>
<th>Outcomes</th>
<th>Agencies Responsible/Partnerships</th>
<th>Funding Requirements</th>
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<tbody>
<tr>
<td>Identification of Caribbean nationals with skills and expertise to return to the region to provide high-level professional and skill services</td>
<td>CARICOM Secretariat/ILO/UNESCO/UNIDO/UWI Alumni Association</td>
<td>Cost of search, compilation and other services to be undertaken in the US, Canada and the UK estimated at US$350,000</td>
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<tr>
<td>Upgrading of the work-force</td>
<td>Caribbean Governments, ILO and UNESCO</td>
<td>Implement training programs using up to of five % of the national budget with matching contribution from the international community. Estimated annual funding requirements to span a five year period is US$150 million</td>
</tr>
<tr>
<td>Financing to support SMEs,</td>
<td>Caribbean Governments/ITC/ILO/UNIDO/Private sector organisations</td>
<td>Create a development fund with matching contribution from the international community for financing SMEs. Direct financing through debt equity arrangement, and guarantees. Estimated financing required for the region is US$40 million</td>
</tr>
<tr>
<td>Mobilising Diaspora capital for domestic investment such as Diaspora Bonds</td>
<td>CDB, Caribbean Governments, World Bank.</td>
<td>US$672,400 to cover Preliminary Consultations, market feasibility, diaspora surveys and focus groups, in developing a Diaspora bond.</td>
</tr>
<tr>
<td>Adoption and greater reliance on renewable energy systems</td>
<td>Governments of the Region with assistance of International Community</td>
<td>Assistance is required to introduce new renewable energy systems or expand existing systems. Cost of such systems is anticipated at US$500 million</td>
</tr>
<tr>
<td>Trade adjustment costs to mitigate impact of decline and exit of firms in some industries and the birth of new firms and industries</td>
<td>Caribbean Governments and CARICOM Secretariat/UNDP/CARICOM Secretariat</td>
<td>Funding to assist persons to cope with the transition that is expected as some new industries replace or reduce market share of traditional industries thus ensuring poverty levels do not rise. Estimated funding that is required is US$50m per annum over a three year period.</td>
</tr>
<tr>
<td>Upgrade built infrastructure beyond the Caribbean Uniform Building Code (CUBIC) and building sea-defences.</td>
<td>Caribbean Governments/UNCTAD/UNESCO/UNDP/UN-Habitat</td>
<td>The Government of Guyana projected that improved sea and river defences and drainage systems costs could exceed U.S $1 10 billion. This figure includes the costs of activities ranging from building and reinforcing levees and seawalls to flood-proofing health clinics. Sea defences for the region can be estimated at a further US$2 billion</td>
</tr>
<tr>
<td>Reform the public services of member countries to improve efficiency, accountability and transparency.</td>
<td>Caribbean Governments/New Zealand Government</td>
<td>US$15 million for a regional programme to improve efficiency, accountability and transparency in the public services, including e-governance.</td>
</tr>
<tr>
<td>Establishment of a Stabilisation Fund</td>
<td>Caribbean Governments/Multilateral Agencies</td>
<td>Establishment of the fund will require US$250 million matching contribution from the international community equivalent to 1.25% of government revenue of Caribbean SIDS.</td>
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10 This figure represents 20% of the GDP of Guyana in 2010.
<table>
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<tr>
<td>Modification of the Caribbean Catastrophe Risk Insurance Facility to include a disaster fund</td>
<td>Shareholders of CCRIF/ Caribbean Governments</td>
<td>Establishment of a Caribbean disaster fund with initial capital outlay estimated at 2% of government revenue equivalent to US$400 million.</td>
</tr>
<tr>
<td>Design schemes for social protection so the poorest are protected as economies are in transformation and transition</td>
<td>Caribbean Governments/National Insurance Boards of various countries. ILO, UN Women, the CDB and UNESCO</td>
<td>Estimated cost of assistance is US$40 million for the region</td>
</tr>
<tr>
<td>Debt Reduction</td>
<td>Caribbean Governments/Multilateral Agencies</td>
<td>Debt relief that is required to bring the debt to GDP ratio of the Caribbean SIDS to 56% of GDP is US$15.5 billion. Of this amount about US$7.1 billion is owed to multilateral and bilateral creditors. The region needs to request debt relief from the multilateral and bilateral sources. A funding mechanism valued at US$8.4 billion is required to retire present bond financing at lower interest payments</td>
</tr>
<tr>
<td>Reduce international Narco-trafficking in Caribbean SIDS</td>
<td>Caribbean Governments and International development partners/Friendly governments</td>
<td>Matching funds of up to 2.5 percent of annual budgets of Caribbean Governments on security on sea and air patrols: US $450m over five years: to combat the narco-trafficking the region will require intercept helicopters, long range vessels and speed boats, radar equipment, appropriate weapons, personnel training among the main items.</td>
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