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Resilience and capital flows

in the Caribbean

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Abstract

The economic challenges in the Caribbean can be linked in significant measure to the region's external vulnerability. This paper looks at trends in financial flows in the context of the region's need to strengthen its resilience. It starts by focusing on three concepts: vulnerability, fragility and resilience-building. Vulnerability is looked at as a 'structural' variable, dictated by geography and reinforced by economic forces. Fragility is looked at as a 'process' variable, a recurring feature of the workings of the institutions, underscored by a shortage of resources, and missing systems for accountability and effectiveness in delivery. Building resilience in Caribbean economies is the most challenging variable – to generate a net inflow of funds, sustain competitiveness and grow the wellbeing of their citizens on a persistent path.

Next is an assessment of the trends in international capital flows – including portfolio flows and foreign direct investment – to the Caribbean in recent years. It addresses what can be done to improve countries' access to external financing as part of the region's overall answer to its development challenges. It looks at the role of private flows in the mobilization of resources, and the Caribbean access to international debt markets in particular. With only a handful of Caribbean countries having tapped international markets in recent years, private portfolio flows are often overlooked because of their volatility and small role as a source of external financing. However, through innovative security instruments – such as debt swaps or green bonds, among others – and increased cooperation among countries, as well as with the international community, private portfolio flows could play a more significant role in the Caribbean mobilization of resources for the implementation of the 2030 Agenda.

The paper concludes with a discussion of strategies for building Caribbean resilience in a context of external vulnerability, as well as restricted access to financing, focusing on the nexus between resilience and competitiveness – as resilience enhances competitiveness – and the logic of integration and convergence to foster cooperation.

List of acronyms

CARICOM	Caribbean Community
CRF	Caribbean Resilience Fund
ECLAC	Economic Commission for Latin America and the Caribbean
EMBI	JPMorgan Emerging Market Bond Index
EMBIG	JPMorgan Emerging Market Bond Index - Global
GDP	Gross Domestic Product
GNI	Gross National Income
MDGs	Millennium Development Goals
ODA	Official development Assistance
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
SDGs	Sustainable Development Goals
SIDS	Small Island Developing States
UNDP	United Nations Development Programme
VIX	Chicago Board Options Exchange Volatility Index

Introduction

The economic challenges in the Caribbean can be linked in significant measure to the region's external vulnerability. Vulnerability to economic shocks, as well as small size, implying a narrow range of economic activities, limited economies of scale and constrained competitiveness, affect access to international capital. As a result, Caribbean countries' access to external financing tends to be more limited and costly than that of other countries of Latin America. Moreover, financial vulnerabilities pose a threat to competitiveness and the ability to finance innovation and technological adoption. This is particularly important in the context of the 2030 Agenda and the Sustainable Development Goals (SDGs), which have underscored the need to find ways of supporting long-term solutions to current development challenges. The 2030 Agenda poses great challenges in terms of mobilizing resources.

This paper looks at the recent trends in financial flows to the Caribbean, in the context of a decline in official development assistance and increasing importance of private flows in the global external environment; the need to channel resources towards the 2030 agenda; and the Caribbean region's vulnerability and need to strengthen its resilience. It is structured as follows.

Chapter I focuses on the region's vulnerability, fragility and need to strengthen its resilience. Vulnerability is looked at as a 'structural' variable, dictated by geography and reinforced by economic forces. Fragility is looked at as a 'process' variable, a recurring feature of the workings of the institutions, underscored by a shortage of resources, and missing systems for accountability and effectiveness in delivery. Building resilience in Caribbean economies is the most challenging variable – to generate a net inflow of funds, sustain competitiveness and grow the wellbeing of their citizens on a persistent path.

Chapter II is an assessment of the trends in international capital flows – including foreign direct investment, portfolio flows, remittances and official development assistance – to the Caribbean in recent years. It addresses what can be done to improve countries' access to external financing as part of the region's overall answer to its development challenges. The increasing importance of private flows poses a key challenge to find a way to mobilize and channel those resources of the financial architecture towards economic development objectives, meeting the challenges of the new development agenda.

Chapter III focuses on the unequal access to international bond markets and private capital flows on the part of the Caribbean countries. The chapter looks at trends in new debt issuance and spreads, as well as countries' creditworthiness in recent years, examining the market deficiencies and institutional

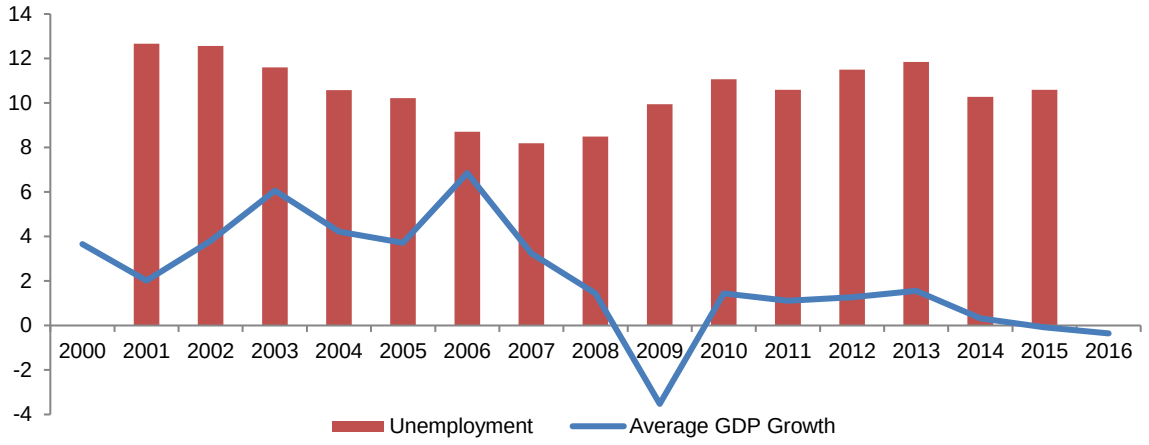
barriers that have prevented Caribbean countries from benefitting from the increased access to international financial markets in the past twenty years, in the same way as other countries in the Latin America and the Caribbean region did. As new and innovative debt instruments have emerged in the context of the 2030 Agenda and the Paris Climate agreement, identifying Caribbean countries' difficulties in tapping international markets becomes important. If these difficulties can be overcome, these innovative mechanisms may become an effective way to complement international resource flows and mobilize additional resources for development.

Finally, in Chapter IV, we discuss strategies for building resilience in a context of external vulnerability and restricted access to financing, as well as policy links to strengthening resilience, stressing the nexus between resilience and competitiveness, and the logic of Caribbean integration and convergence. In Chapter V we conclude with some final thoughts.

I. The Caribbean economy: vulnerability, fragility and the need to strengthen resilience

Caribbean economies have serious development challenges. They have shown slow and volatile economic growth, and high and rising levels of unemployment (figure 1), especially among young people; significant incidence of poverty; inequality of income and wealth; underachievement of the Millennium Development Goals (MDGs) in the areas of health, access of basic services, gender equality and environmental sustainability[1]; acute vulnerability to natural disasters and substantial risks ensuing from climate change and rising sea levels; and a very high debt burden, which, in turn, has a pernicious effect on growth.[2]

Figure 1
Caribbean: low growth and high unemployment
(Average GDP growth and unemployment rate in percentage)



Source: ECLAC, on the basis of data from World Development Indicators - World Bank DataBase.

[1] See ECLAC, Caribbean Millennium Development Goals Report 2010, LC/L.3537, LC/CAR/L.371, report prepared by Mendoza and Stuart (2011).
[2] See McLean, Sheldon and Don Charles (2018).

In addition, fiscal challenges limit governments' ability to respond to external shocks and to enhance social protection programs. The roots of the region's challenges are its vulnerability, fragility and need to strengthen resilience.

Vulnerability as a structural variable

The geography of the Caribbean renders it vulnerable. The uniqueness of these vulnerabilities is that they are of a structural nature. Vulnerability is dictated by geology and geography, reinforced by economic forces and flows, and defined by history and politics.

The Caribbean region is one of the most disaster-prone regions in the world, and natural disasters have severe economic consequences for the countries of the region, which include contraction in economic output, worsening of external balances, deteriorating fiscal conditions, increasing debt, and increasing poverty, as natural disasters affect poorer segments of the population disproportionately. Given the recurrence of these natural disasters in the region, their macroeconomic impacts, which would be transitory in nature, linger over time and turn into a long-term feature. These economic consequences compound as every new disaster takes place before the region can fully recover from the previous one.

There is little escape from these conditions, a part of 'historical structuralism' in the ECLAC thought tradition. In the context of the Caribbean, there are inherent permanent or quasi-permanent features that translate into vulnerability and susceptibility to external economic shocks. These features include geographic size, remoteness and insularity; economic openness; and lack of economic and export diversification due to limited natural resources. The heavy reliance on few activities and few source markets for exports leaves the Caribbean extremely vulnerable to external shocks. The relative stagnation of its exports reflects the Caribbean region's difficulty in overcoming an export structure with limited diversification, in which more than half of the value of its total exports is concentrated in commodities and natural resource-based manufactures.

Fragility as a process variable

Fragility is largely the making of process variables, including conflict situations, inertia in institutions, exposure to shocks and violence. Fragility in the process of development has often been cited as a recurring feature of the workings of the institutions – always stuck in transition mode (from colonial times), with persistent shortage of resources, and missing systems for accountability and effectiveness in delivery. Institutional inertia is a process outcome that is endemic, yet in a sense it is "curable" when institutions are strengthened and firmly anchored in democratic values and the rule of law. Fragility is deeply imbedded in the advancement and success of development itself, which largely depends on a reduction in the region's fragility, as one feeds the other.[3]

Resilience as a strategy variable

The third concept deals with the policy matrix that makes up the quest for resilience. External shocks are often seen as temporary in nature, but given the recurrence of these shocks, the vulnerability of the region and the fragility of Caribbean institutional frameworks, their effects tend to linger and never really disappear, thus building resilience becomes an imperative. Building 'resilience' in Caribbean economies is the most challenging strategy variable – to generate a net inflow of funds, sustain competitive enterprises and grow the well-being of its citizens on a persistent path.

Briguglio (2014a)'s pioneering work on a measurement matrix of resilience, calculates the gaps in resilience variables, and points towards policy – domestic and international – that are required to close them. Building economic resilience relies on macroeconomic stability, market efficiency, political governance, social development and environmental governance. It is measured by the ability of an economy to absorb a shock, as well as to implement counteraction policies. Steps to build financial buffers for resilience are a key approach to economic survival and placing equality at the center of sustainable

[3] See Dookeran (2017).

development. Survivability today is a key requisite to sustainability tomorrow and is at the heart of a viable strategy for economic resilience in Caribbean economies.

There is a nexus between economic and environmental resilience. The geographic location of Caribbean economies makes them highly susceptible to hurricanes, storms and floods. The effects of these are further compounded by the impacts of climate change, which manifest as prolonged periods of drought, rising sea levels, and higher temperatures. The main economic sectors of small state economies in the Caribbean are particularly vulnerable to climate change impacts. The catastrophic storms that recently ravaged Caribbean territories, brought devastation to fisheries and agriculture sectors, as well as to critical tourism-related infrastructure (hotels, restaurants, and air and sea ports). These disasters often lead to deterioration in government fiscal balances as the decline in economic activity decreases tax revenues, and increases government expenditure due to emergency relief and reconstruction efforts.

Caribbean states therefore must rely on international financing to expand their limited fiscal capacity to respond to these persistent shocks. Nonetheless, some official sources of financing have been on a downward trend. The counterpart of this decline has been an increase in private sources of financing, including foreign direct investment, remittances and portfolio private flows, which so far have not been enough to offset the loss of official assistance.

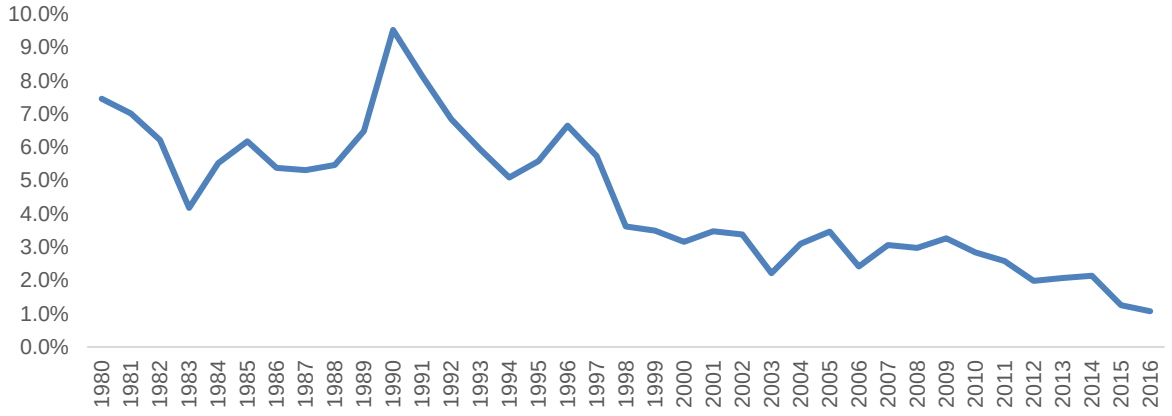
These private flows are the object of this report, and an assessment of recent trends is an important step towards a more efficient use of these sources of financing. The increasing importance of private flows has led to the emergence of new actors, as well as innovative instruments – such as green and project bonds, or funds for climate change. The wider range of financing options creates the need for coordination, making the mobilization of resources a more complex process.

The capacity to access international capital markets and use private portfolio flows in an effective manner varies widely among the countries of Latin America and the Caribbean, with access being more limited and borrowing costs higher for Caribbean countries, as the following chapters will show. Efforts to expand the mobilization of resources need to consider this heterogeneity when looking for ways to channel private resources towards economic development objectives, build Caribbean resilience and meet the challenges of the new development agenda. Resilience is more than an issue of financing, however. It also involves opening new space for development within the Caribbean economies and outside.

II. Recent trends in capital flows to the Caribbean

The increasing importance of private capital flows in the past fifteen years poses a key challenge to the Latin America and Caribbean region: find a way to mobilize and channel those resources of the financial architecture towards economic development objectives, especially in a context of declining official flows. The analysis of capital flows towards Latin America and the Caribbean shows that official development assistance (ODA) has been on a clear downward trend relative to other developing regions and to its average gross national income (GNI). In 2016 flows of ODA represented 0.17% of regional GNI, a significant drop from the 0.4% that was the average for the 1970s, 1980s and 1990s. In the Caribbean subregion[4], ODA flows in 2016 represented 1.1% of the region's GNI, lower than the registered 3.1% average in the 2000s, and the 4.4% average for the 1980-2016 period (figure 2).

Figure 2
Caribbean: ODA net flows
(Simple average, as percentage of GNI)

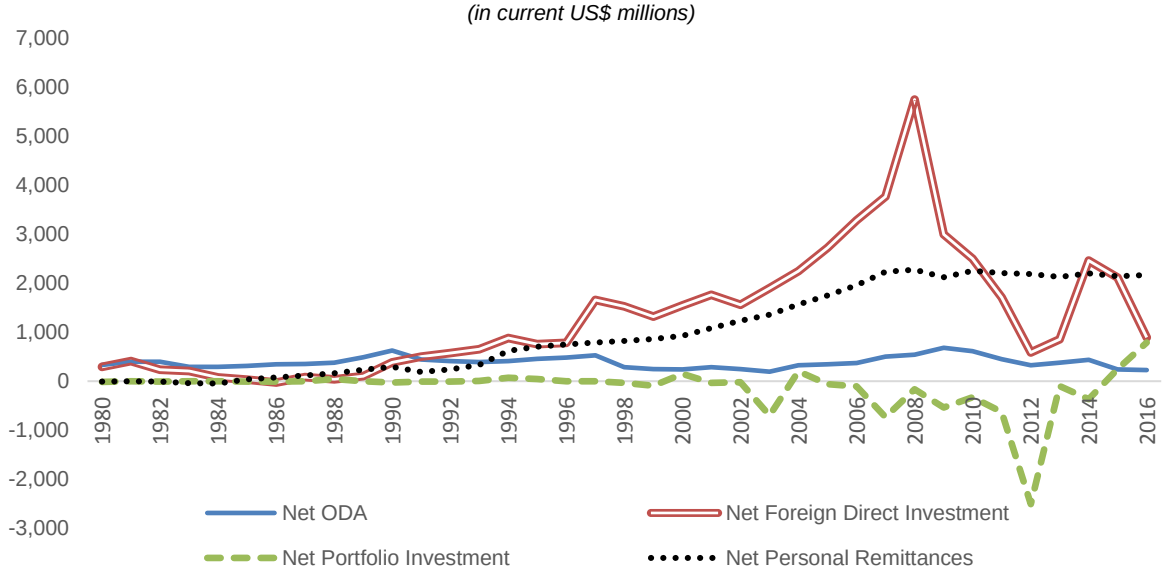


Source: OECD, http://stats.oecd.org/

[4] The Caribbean subregion discussed in this section comprises the following ECLAC member States: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname, Trinidad and Tobago.

The counterpart of the decline in ODA flows is the increasing importance of private flows. For Latin America and the Caribbean, they represented 95% of the total financial flows to the region in 2016. In the case of the Caribbean, foreign direct investment and remittances became the main sources of external financing flows in the 1990s and have remained so thus far. There have been positive inflows of FDI and remittances since the mid-1990s, while portfolio flows have shown more volatility and cyclicality.

Figure 3
Main external financing flows to the Caribbean
(in current US$ millions)



Source: ECLAC on the basis of data from OECD, CEPALSTAT and World Development Indicators.
Note: full information for all countries of the region from 1980 to 2013. Information on FDI and portfolio flows not available for Barbados (2014-2016), which is not included in the data in 2014, 2015 and 2016, and for Bahamas, Belize, and Trinidad & Tobago (2016), which were not included in the data in 2016.

The main component of private sector financial flows to the Caribbean is foreign direct investment. FDI flows go mainly to natural resource and service sectors, thus tying in directly with the region's trade specialization patterns and increasing exposure to sector-dependent shocks (box 1). Caribbean economies receive substantial FDI flows relative to their size, and a large share of their economic activity is conducted by transnational corporations. The ratio of inward FDI to gross domestic product (GDP) was 4.2% in 2014 for the whole subregion. By way of comparison, the ratio is 2.6% in Latin America and lower, if anything, in other developing regions. Even compared with other small economies such as Pacific Island States, Caribbean economies receive particularly high levels of FDI in relation to their economic size.[5] In most economies, inward FDI as a share of GDP in the period 2008-2016 exceeded 6%, making them sensitive to variations in these inflows (figure 4). In terms of amount, the five top recipients of FDI in the 2008-2016 period were Jamaica, Bahamas, Barbados, Trinidad & Tobago, and Guyana (figure 5).

Caribbean countries share many similarities but the subregion is also marked by heterogeneity. Population size and per capita income levels, for example, differ quite widely within the region. Some are commodity-exporters, while most are service-oriented economies. Growth has also been uneven in the subregion, as seen in the previous chapter. Similarities include proximity to major markets in North and South America, and for most countries, a transition from agriculture or mining to a service-driven economy, anchored in particular on tourism and financial services. Another similarity is that domestic private investment is strongly driven by public investment, which highlights the importance of FDI as a source of investment financing.

[5] ECLAC (2015), Chapter II.

Box 1: FDI in the Caribbean

FDI is narrowly based in terms of origin, with a great portion coming from a limited number of countries, especially Canada and the United States. As a result, shocks that affect these countries of origin are quickly transmitted to the Caribbean. Investment decisions made in Europe, the United States or Asia can have large effects on the levels of investment, employment or tax receipts in Caribbean economies because of the relative size of individual companies in those economies. Policies designed to maintain or attract FDI, including those aimed at making it easier to do business, are thus particularly important because policy changes may affect individual companies' decisions, directly impacting local economies.

Sectoral trends

The Caribbean consists of several groups of economies, each with its own economic story reflecting its strengths and weaknesses. There are some sectoral trends that are common to the whole subregion, however. For many economies, the tourism sector is the largest earner of foreign exchange and the primary destination for investment. The second most important sector is natural resources. The third category is export-oriented FDI – FDI that seeks to exploit local production advantages in order to supply an external market. This is not a single sector, but includes both export-oriented manufacturing and various export-oriented services, such as offshore education and business process outsourcing (BPO)[6]. The final category is market-seeking FDI – defined as FDI whose purpose is to produce and sell a product in a specific market, rather than export it. This also encompasses various sectors, mostly in services (banking, retail, energy) but also in small-scale manufacturing.[7]

FDI impact on Balance of Payments and economic growth

With respect to the *balance of payments*, the impact of FDI is ambiguous. While it is true that economies with temporary current account deficits may be able to offset them with a capital account surplus, many economies in the Caribbean have permanent current account deficits, and the continuous inflow of FDI that would be required to offset them would lead to a large build-up of foreign capital. Furthermore, such inflows are then associated with outflows of capital in the form of income from FDI. On average, outflows of income from FDI are equivalent to more than three quarters of FDI inflows in the Caribbean, and they are particularly substantial in Barbados, Suriname and Trinidad and Tobago.

The degree to which FDI crowds out local investment also affects its impact on the balance of payments. A local investment will not give rise to an influx of capital at the time the initial expenditure is carried out and does not lead to significant outward current transfers compared with a similar amount of FDI. Export receipts can rise whatever the source of the investment. Although local investment may seem more likely to have a beneficial long-term impact on the balance of payments than a similar amount of FDI, it is important to remember that FDI is often sought by countries because local firms do not have the resources to make the same types of greenfield investments that large multinational corporations do.

Besides the impact on the balance of payments, there is potential to positively affect *economic growth* in the different economies. Many Caribbean economies have long been suffering from a lack of competitiveness, and FDI could help to transform them. However, evidence for a transformative impact is limited.

Are FDI promotion policies effective?

The impact of the extensive use of FDI promotion policies in the Caribbean is a subject of debate. The effectiveness of different policies of this type has not been sufficiently researched in the Caribbean context, making them difficult to justify at a time when many governments in the subregion are suffering from significant revenue shortfalls. At present, investment incentives are too often granted on the basis of individual negotiations between investors and policymakers. Unfortunately, this is not always a relationship between equals in the Caribbean, with investors having substantially more bargaining power.

The result of such unbalanced relationships and of the fact that many Caribbean economies offer very similar products has been a race to the bottom between the different governments, which match one another's incentive offers. Caribbean governments should thus be encouraged to cooperate more energetically on reducing the FDI promotion policies available to investors, particularly those that do not seem to directly affect the variables which governments wish to act upon, such as employment creation. Only if governments cooperate closely through forums like CARICOM and OECS can they stand up to the market power of some of the larger corporate players in the region.[8] In particular, rather than having blanket fiscal subsidies, they could target specific sectors with reforms that can increase the local benefits of FDI.

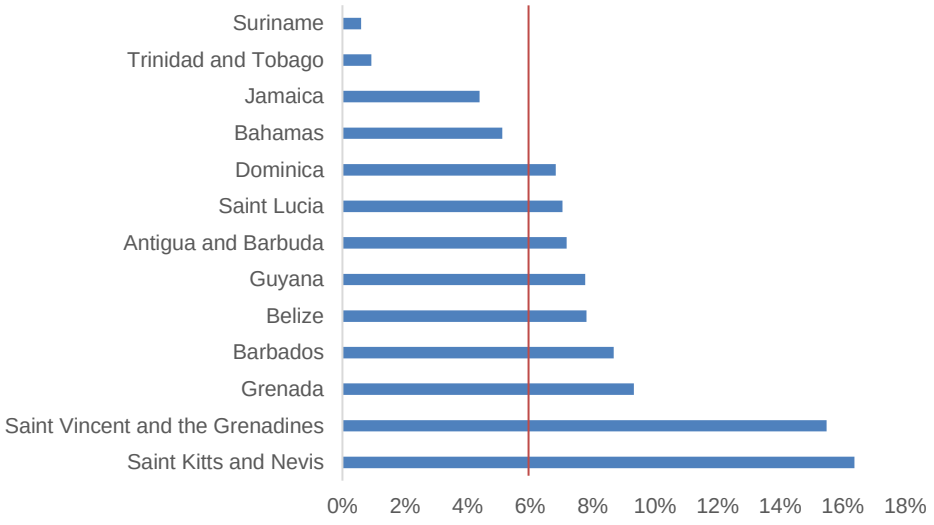
Source: ECLAC (2015), Chapter II.

[6] BPO is the most important type of export-oriented service in the Caribbean (it includes call center services at the lower end, and technical support, accounting and even management in the high end).

[7] For a more detailed and deeper analysis of FDI in the Caribbean see ECLAC (2015), Chapter II.

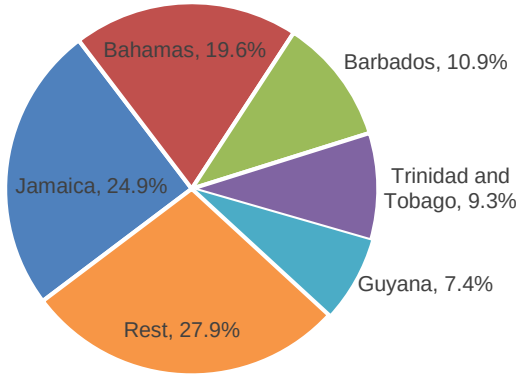
[8] CARICOM, the Caribbean Community, is a group of twenty countries: fifteen Member States and five Associate Members. Except for Belize, all Members and Associate Members are island states. The Organization of Eastern Caribbean States (OECS) is an International inter-governmental organization dedicated to economic harmonization and integration, protection of human and legal rights, and the encouragement of good governance among independent and non-independent countries in the Eastern Caribbean.

Figure 4
FDI inflows by country: 2008-2016
(as a percentage of GDP)



Source: ECLAC on the basis of data from CEPALSTAT.

Figure 5
Five top Caribbean recipients of FDI: 2008-2016
(as a percentage of GDP)



Source: ECLAC on the basis of data from CEPALSTAT.

Migrant remittances have also increased substantially in the Caribbean, becoming the most dynamic component of financial flows together with FDI. Remittances exceed 10% of GDP in some Caribbean countries. Following the global financial crisis in 2008, while FDI in the Caribbean has declined and become more volatile, remittances have remained as a steady flow to the subregion (figure 3).

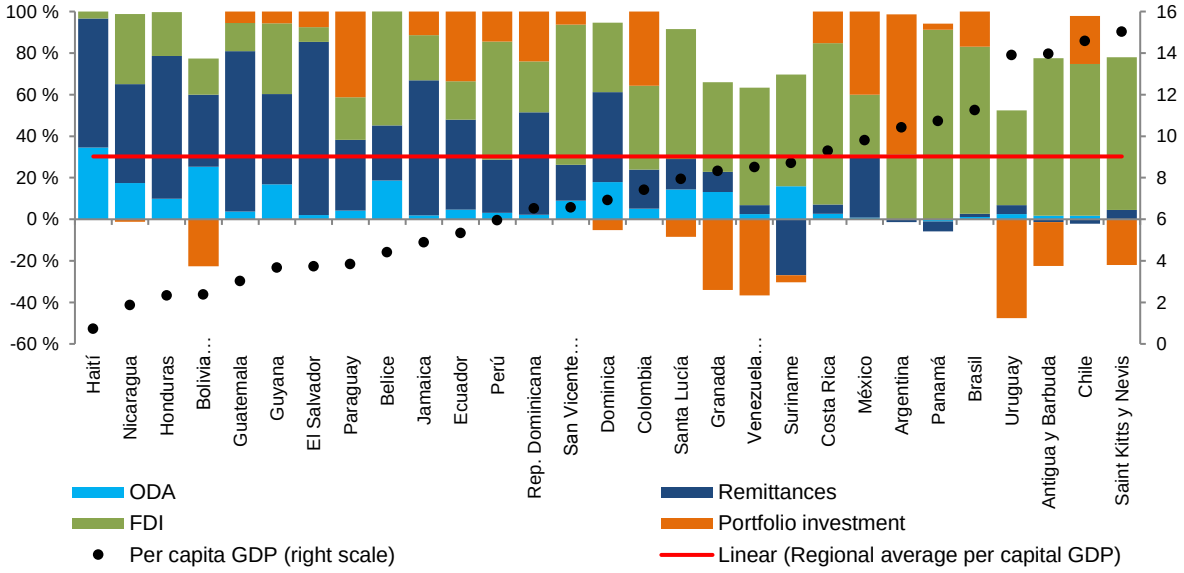
In the case of portfolio investment flows, they have increased since 2014, following some important debt restructurings in the Caribbean region. However, they represent a much smaller share of the total, given that Caribbean access to international capital markets is more limited and costlier than that of larger Latin American countries.[9]

[9] For a more detailed discussion see Bustillo, Inés and Helvia Velloso (2014).

The relative scale of the different sources of external financing is highly heterogeneous across Latin America and the Caribbean. There are countries such as Haiti in which ODA and remittances together account for practically the whole of the external financing flows received. Conversely, these flows play a lesser role in upper middle-income countries, such as Brazil, where most financing comes from FDI, and depending on the period, portfolio investment flows. According to ECLAC (2017c), a breakdown of external financial flows to Latin America and the Caribbean reveals notable differences between the three principal subregions—the Caribbean, Central America and South America— and that a country's per capita GDP is a strong predictor of its main sources of financial flows.[10]

On average, over the past three years, countries with per capita GDP significantly lower than the regional average tended to receive around half their flows from ODA and remittances, while those with per capital GDP around or above the regional average attracted more capital in the form of FDI and portfolio flows, with remittances and ODA representing less than 15% of total financial flows (figure 6).

Figure 6
Composition of external financial flows: selected LAC countries
(Percentage of all flows analyzed (left scale); per capita GDP in US$ thousands (right scale); three-year average)



Source: ECLAC (2017c), p.22, on the basis of data from OECD, CEPALSTAT and World Development Indicators.
Note: countries for which full information for the reference period was not available were not included.

On average, between 2013 and 2015, foreign financial flows into the Caribbean represented 15% of GDP and did not appear to vary in relation to per capita GDP, while foreign financial flows into the economies of South America represented at most 7% of GDP, regardless of per capita income.[11]

The increasing importance of private financial flows poses a key challenge to the Caribbean subregion, which is to find a way to mobilize and channel these resources towards development objectives, meeting the challenges of the new development agenda. Flows of private capital are driven by the search of yield and not by concerns about economic development. Therefore, investment may be insufficient in areas that are crucial for the region's sustainable development, if the anticipated economic returns are unsatisfactory relative to other investment opportunities. In this context, cooperation between the public sector, the international community and the private sector should come to the fore, so that a cost-benefit analysis of investment projects include social and environmental criteria.

[10] ECLAC (2017c), pp. 21-22.
[11] Ibid.

Among the changes to the composition of development financing, an important focus should be on new and innovative instruments and mechanisms for financing social and production development, which may be important for the future shape of the development financial architecture. These innovative mechanisms, some of them already implemented, fall into four broad categories (ECLAC, 2016b): (i) those that generate new public revenue streams; (ii) debt-based and front-loading instruments (such as debt swaps and international finance facilities); (iii) public-private incentives, guarantees and insurance (such as advance market commitments and sovereign insurance pools); and (iv) voluntary contributions using public or public-private channels (such as person-to-person giving).[12]

Innovative financing mechanisms can complement international resource flows (ODA, FDI and remittances), mobilize additional resources for development and allow some market deficiencies and institutional barriers to be overcome, while increasing collaboration with the private sector. They include a wide variety of instruments – debt swaps, green bonds, public-private incentives, insurance or other market-based tools, among others – some of which are already being used, while others are still in the planning stage.

[12] ECLAC (2016b), p.149.

III. Unequal access to international debt markets

The increase in financial depth in recent years have translated into greater availability of funding for Latin America and Caribbean countries and into better access to external financing. For Latin America and the Caribbean, the cost of external finance in the period of strongest regional growth before the international financial crisis (2008-2009) was the lowest since the 1970s (Ocampo, 2015). However, not all countries have the same opportunities to access financing as these depend, among other factors, on the size and openness of their economies, the depth of their financial systems and their production structures. In this chapter, we take a closer look at the Caribbean access to international debt markets, looking at key characteristics of Caribbean debt securities, such as issuance volume, spreads, and credit ratings.[13]

Although access to international capital markets and flows of private capital towards Latin America and the Caribbean have increased significantly in the past twenty years, for the most part, Caribbean countries have not borrowed as frequently or on the same terms as some of the larger economies in the region (Bustillo and Velloso, 2013). Access to international capital markets is more limited and costly for some Caribbean countries than for other countries in Latin America, as they face peculiar constraints in attracting global capital. Their small size, which implies a narrow range of economic activities and limited economies of scale, and vulnerability to economic shocks are among the factors that impair access.

Vulnerability tends to increase during periods of external shocks and financial turbulence. During the 2008 global financial crisis and more recent bouts of volatility, Caribbean felt a stronger impact than the rest of the LAC region, with larger increases in their sovereign debt spreads and sharper downgrades in their credit risk ratings (Bustillo and Velloso, 2014).[14]

The post-crisis recovery in the Caribbean was also lackluster relative to the recovery of the LAC region as a whole. Caribbean average spreads measured by the JPMorgan EMBI Global Index increased more sharply during the crisis, and the gap relative to average spreads for the LAC region continued in the post-crisis period and actually widened from late 2010 to late 2012, when they reached a peak (figure 7).

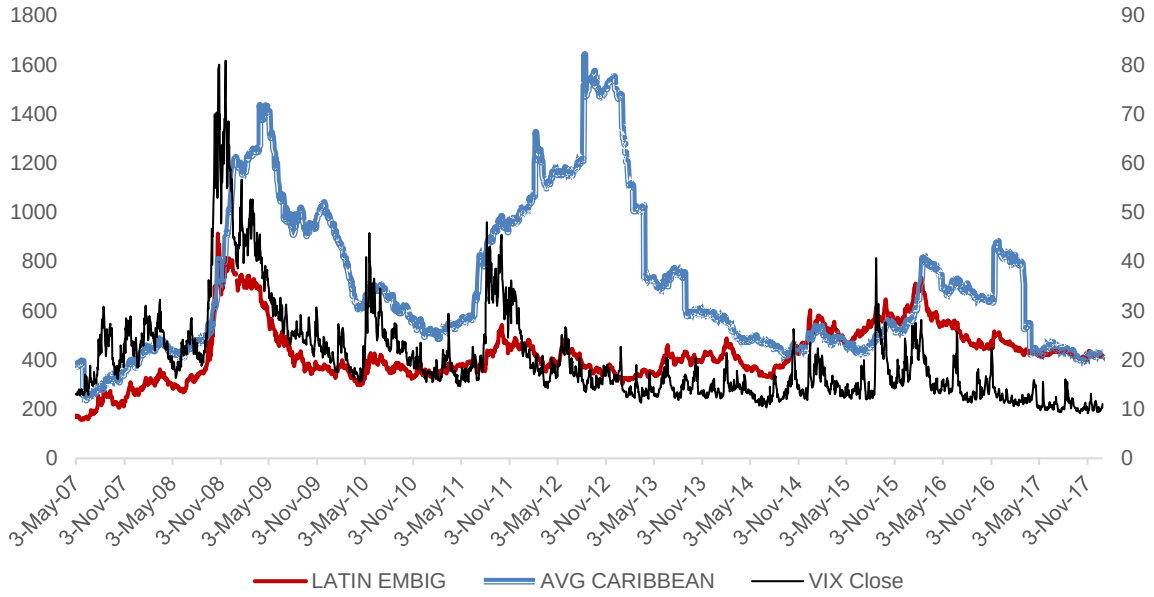
[13] For a historic perspective, see Bustillo, Inés and Helvia Velloso (2013), Chapter VII.

[14] For debt issuance, spreads and credit ratings' behavior during more recent bouts of volatility see recent issues of *Capital Flows to Latin America and the Caribbean*, Part II, ECLAC Washington Office, periodical publication.

In addition, Caribbean sovereign credit risk ratings suffered a stronger negative impact, and new debt issuance as a share of the region's total issuance had not yet recovered by the end of 2012.[15]

The following sections focus on the trajectory of Caribbean bond spreads and issuance, as well as credit quality, during the 2008 global financial crisis and in the post-crisis period, up to end-2017. The behavior of bond spreads and new debt issuance in the period supports the notion that access to international bond markets for small, vulnerable economies tends to be more sporadic and costlier than for larger economies. Countries in the Caribbean were hit harder during the crisis, and they had not yet regained their pre-crisis standings by the end of 2012. Caribbean access to international debt markets has improved since late 2012, following a series of important debt restructurings in the region, but access is still more limited than for the larger countries in the Latin America and Caribbean region.

Figure 7
JPMorgan EMBIG and CBOE volatility index: 2007–2017
(Left scale: basis points; right scale: VIX close)



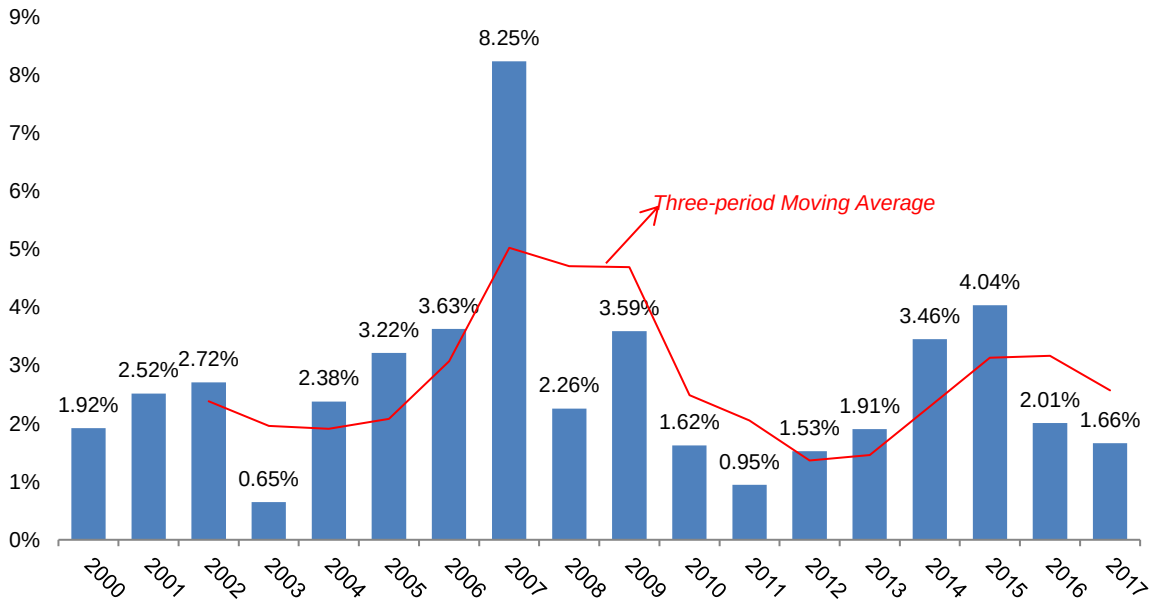
Source: ECLAC Washington Office, on the basis of data from JPMorgan Emerging Markets Bond Index Global (EMBI Global) and from the Chicago Board Options Exchange VIX Index.

A. New debt issuance

The volume of international bond issuance in Latin America and the Caribbean rose considerably in recent years, from US$ 40 billion in 2000 to a record US$ 145 billion in 2017. Despite record issuances in the region since 2009, debt issuance by Caribbean countries[16] remains a small share of the regional total (see figure 8). In 2011, this share reached its lowest level since 2003, suggesting that the small economies of the region were struggling to return to pre-crisis levels. This was probably due to their close ties with the U.S. economy and its business cycle, what made them more vulnerable than the rest of the region to the fluctuations of output in the U.S. The share was on an upward trend from 2011 to 2015, following a series of debt restructurings in the region, but it declined in 2016 and 2017, as commodity producers were affected by a downward trend in commodity prices and service producers were affected by the passage of a number of hurricanes in the region.

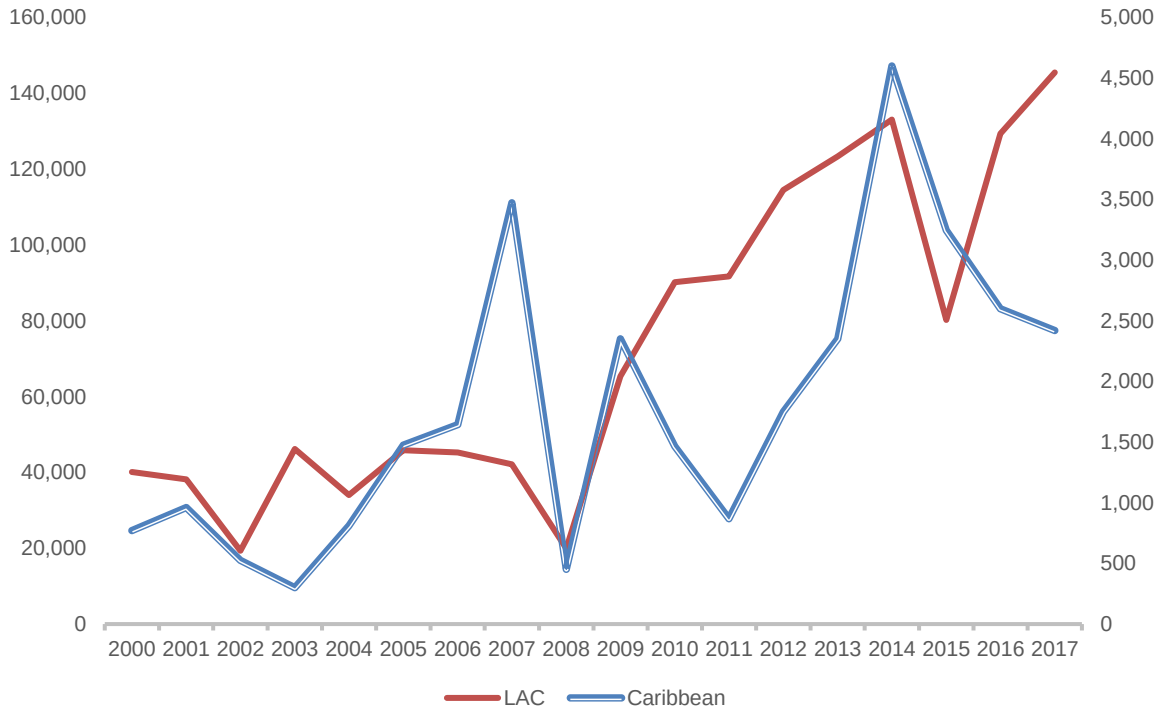
[15] McLean, Sheldon and Don Charles (2018) show that the global financial crisis also negatively affected economic growth in the Caribbean.
[16] Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Of these 13 countries, only a few have tapped international capital markets.

Figure 8
Caribbean annual debt issuance as a share of the regional total: 2000–2017
(Percentage)



Source: ECLAC Washington Office, on the basis of data from LatinFinance, J.P. Morgan and Bank of America/Merrill Lynch.
Note: in 2007, two unusual big issuances from two companies – Petroleum Co. of Trinidad & Tobago (US$ 750 million) and Digicel Group Ltd (US$ 1.4 billion) – increased the participation of the Caribbean in the total regional amount issued.

Figure 9
Caribbean annual debt issuance vs LAC annual debt issuance: 2000–2017
(US$ Millions; LAC issuance (left scale); Caribbean issuance (right scale))

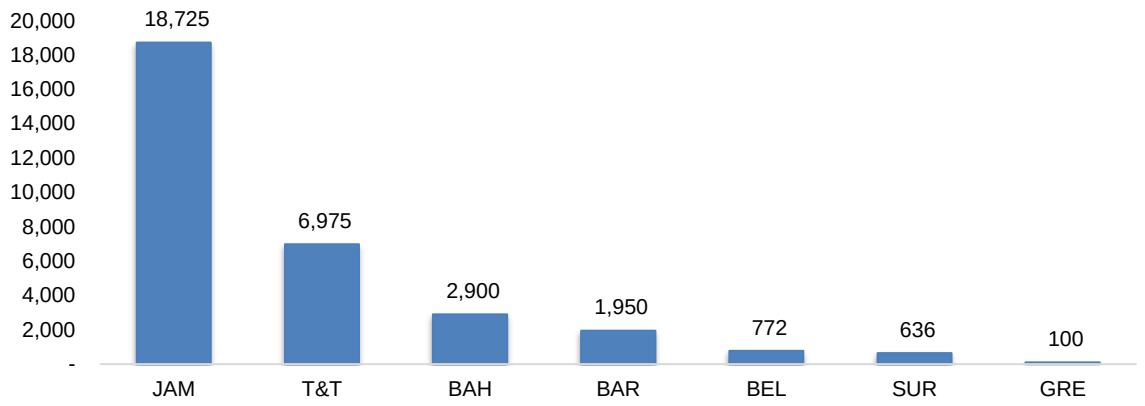


Source: ECLAC Washington Office, on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch.

Caribbean debt issuance has shown more volatility and cyclicality than the debt issuance for the LAC region as a whole. During the global financial crisis, debt issuance fell more in the Caribbean than in the rest of the region, and although LAC issuance started to recover in 2009, Caribbean debt issuance fell again in 2010, only reverting to an upward trend in 2011 (figure 9). Following a series of debt restructurings, Caribbean debt issuance in international bond markets reached a peak in 2014. Since then, Caribbean debt issuance has been on a downward trend, reflecting the impact of lower commodity prices on commodity-producer countries, and the negative impact of recent storms that ravaged the region, with very negatives impacts on tourism and other service sectors.

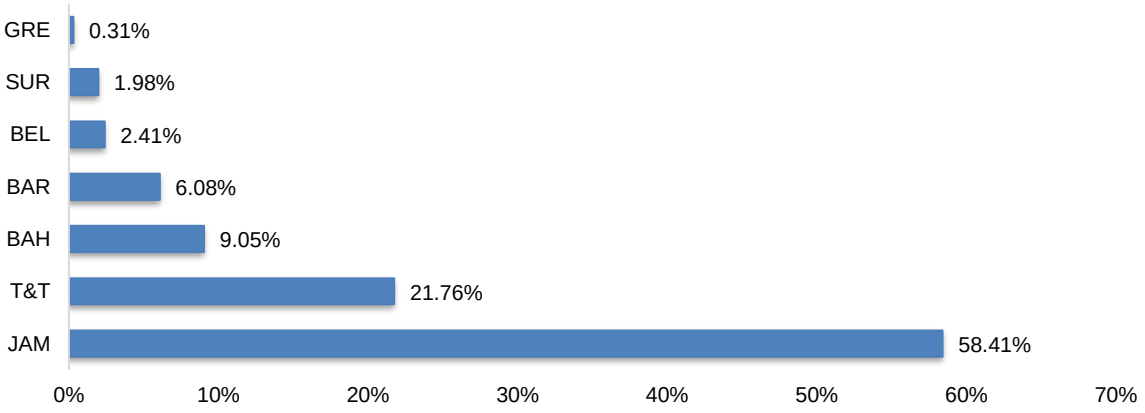
Issuance by Caribbean countries, totaling US$ 32 billion in the 2000–2017 period, represented only 2.5% of the LAC region's total. Only seven Caribbean countries tapped international debt markets during this period. The biggest issuer was Jamaica, which issued a total of US$ 19 billion and accounted for 58% of the total Caribbean issuance (see figures 10 and 11). Jamaica was followed by Trinidad and Tobago, with US$ 7 billion and 22% of the total; Bahamas, with US$ 3 billion and 9% of the total; Barbados, with US$ 2 billion and 6% of the total, Belize, with US$ 772 million and 2.4% of the total; Suriname, with US$ 636 million and 2% of the total; and Grenada, with US$ 100 million and 0.3% of the total.

Figure 10
Caribbean debt issuance by country, 2000–2017
(US$ Million)



Source: ECLAC Washington Office, on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch.

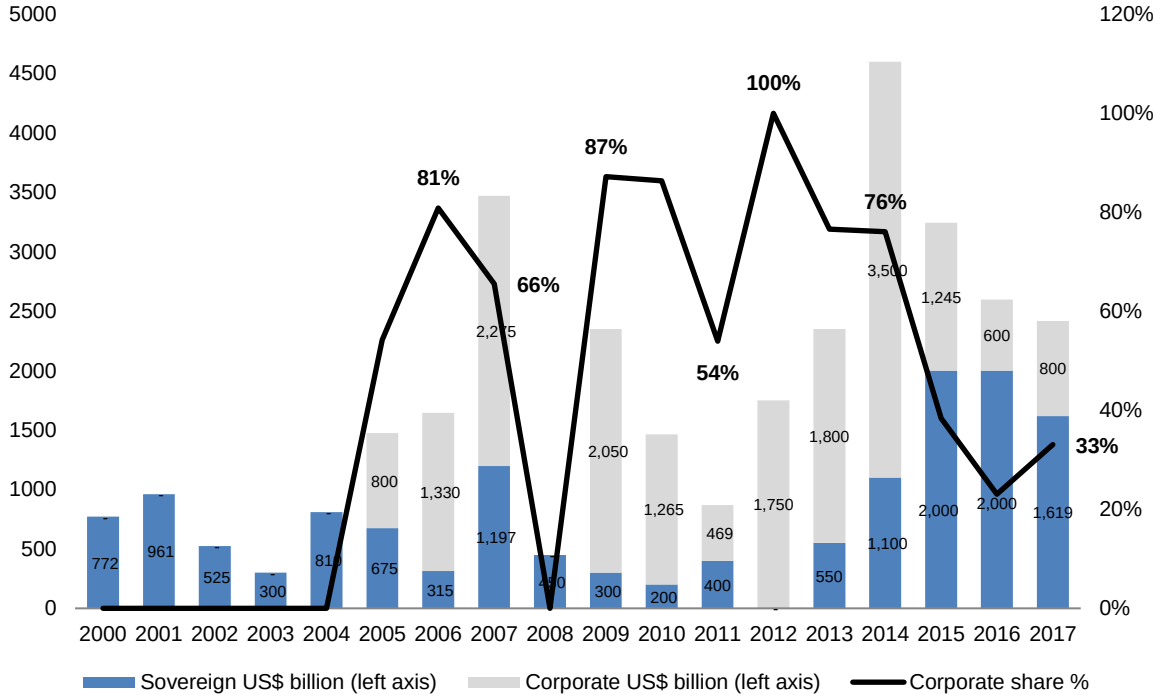
Figure 11
Caribbean debt issuance 2000–2017: country shares
(Percentage)



Source: ECLAC Washington Office, on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch.

One of the debt financing trends in the past decade for the LAC region as a whole was a shift in external funding from sovereign to corporate and bank debt. Caribbean countries have mirrored this trend in a way, although with a lot more volatility. The Caribbean share of corporate bond issuance increased from zero in the 2000-2004 period, to 54% of total issuance in 2005, surpassing sovereign issuance for the first time, and to 81% in 2006. It declined to 66% in 2007 and went back to zero in 2008, when the trend towards a higher share of corporate issuance was interrupted by the onset of the global financial crisis. The share of corporate issuance surpassed the share of sovereign issuance from 2009 to 2014, reaching a peak in 2012, when only corporate issuers tapped international markets. However, the corporate share fell from 76% in 2014 to 33% in 2017 (figure 12).

Figure 12
Caribbean: sovereign and corporate debt issuance, 2000–2017
(Left scale: US$ Millions; right scale: Percentage)

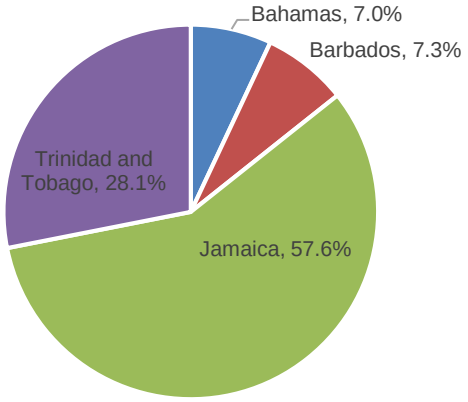


Source: ECLAC Washington Office, on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch.

Only a small number of Caribbean companies have tapped international markets, and most are either transnational corporations or state-owned, with state-owned companies representing 27% of the total corporate issuance in international debt markets in the 2005-2017 period. The small number of companies reflect the difficulties brought about by limited economies of scale and constrained competitiveness, which affect the region's access to international capital.

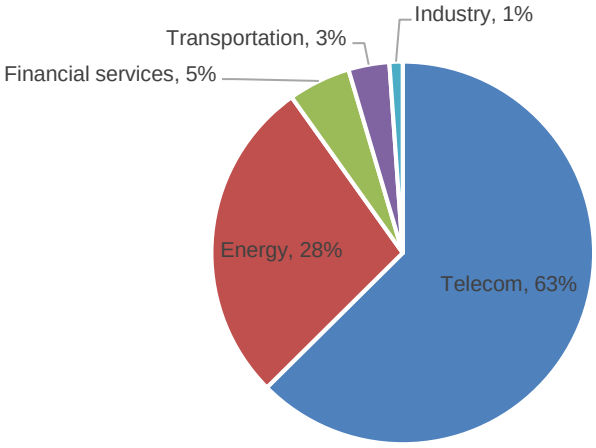
More than half of the Caribbean total corporate issuance in the 2005-2017 period was issued by Digicel Group, a telecommunications conglomerate based in Jamaica. Companies based on only four Caribbean countries – Jamaica, Trinidad and Tobago, Barbados and Bahamas – have tapped international bond markets. The top two corporate issuers were Jamaica and Trinidad and Tobago, with a share of 58% and 28%, respectively (figure 13). Among all corporate issuers that were state-owned, 83% were from Trinidad and Tobago, including Consolidated Energy, Trinidad Generation Unlimited (TGU), Petroleum Company of Trinidad and Tobago, National Gas Company, and First Citizens Bank. More than 90% of the Caribbean issuances took place in two sectors, telecommunication and energy, including power and oil and gas (figure 14).

Figure 13
Caribbean corporate debt issuance 2000–2017: country shares
(Percentage)



Source: ECLAC Washington Office, on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch.

Figure 14
Caribbean corporate debt issuance 2000–2017: sectoral composition
(Percentage)



Source: ECLAC Washington Office, on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch.

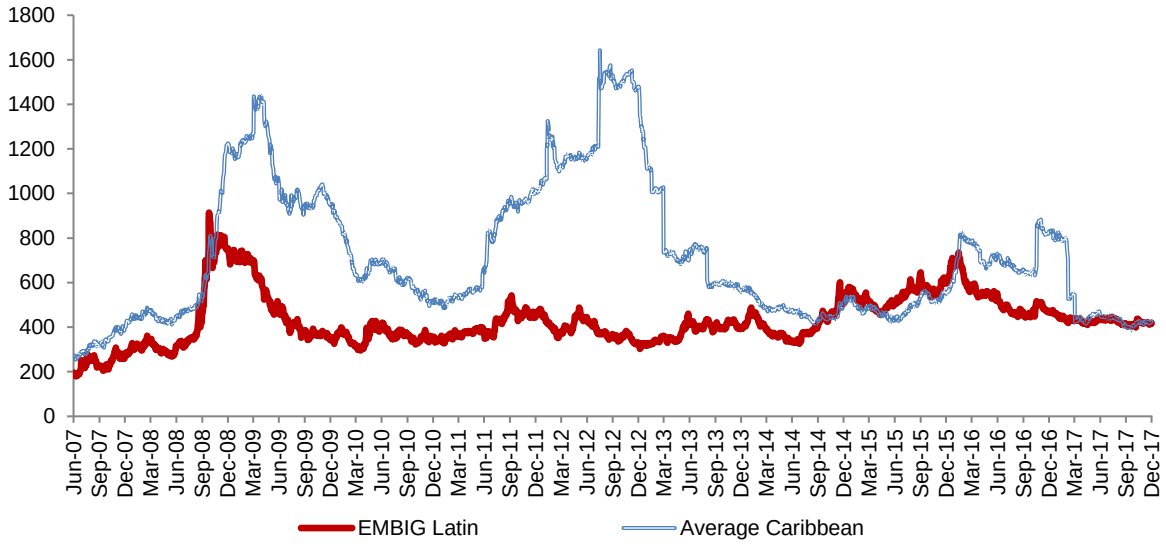
B. Sovereign debt spreads

The liabilities of the Caribbean region are far beyond what would be considered safe for small, open and undiversified economies. ECLAC has called for the creation of a Caribbean Resilience Fund as part of a debt alleviation strategy, which will be discussed with more detail in the next chapter. As we have seen, Caribbean countries are vulnerable to external shocks, have inherent structural weaknesses and limited capacity to respond. Many Caribbean countries have been hit by the downturn in tourism that followed the global financial crisis, while others struggle with a stagnant financial services industry. The Caribbean is also one of the most disaster-prone regions in the world, and some countries continue to struggle with fiscal and economic wounds left by severe tropical storms.

For some of the economies of the region, it is difficult to get a foothold in the capital markets borrowing, because bonds' benchmark sizes – US$ 500 million is the EMBI (the JPMorgan Emerging Market Bond Index) minimum – are in general too high for the size of their economies. The region's high level of indebtedness has compounded the problem.

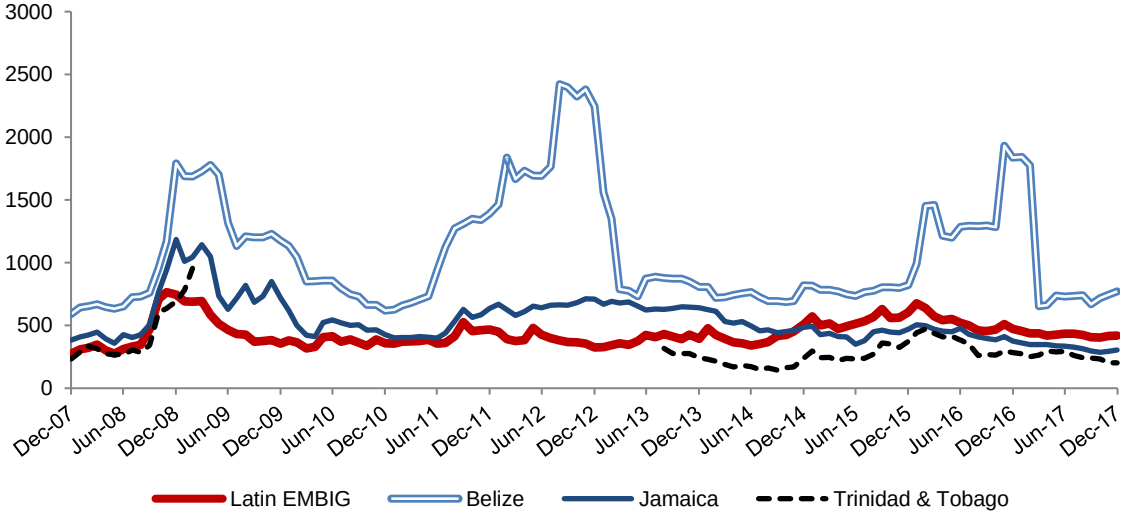
From late 2010 to late 2012 the spread gap between the Caribbean countries and the EMBIG Latin component widened by almost 1,000 basis points as a result of the high number of defaults in the Caribbean subregion. In 2014 the spread gap was finally closed, as successful bond restructurings lowered spreads for the subregion. In 2015 the gap was actually reversed, with Caribbean spreads lower than the EMBIG Latin component by 50 basis points at the end of the year (figure 15). Since then, the gap has remained more subdued, although in 2016 the gap opened once again, primarily because of a widening of more than 1,000 basis points in Belize's spreads. In 2017 there was a retreat in the spread gap again driven by Belize, whose spreads tightened more than 1,000 basis points for the year (figure 16).

Figure 15
EMBIG spreads, Caribbean versus LAC
(Basis points)



Source: ECLAC Washington Office, on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch.

Figure 16
Caribbean EMBIG spreads by country
(Basis points)



Source: ECLAC Washington Office), on the basis of data from LatinFinance, JPMorgan and Bank of America/Merrill Lynch. Trinidad & Tobago was out of the JPMorgan EMBI index from March 2009 to August 2013.

The reason for the widening in Belize spreads in 2016 was investors' concern about the country's ability to service a stepped-up coupon on its "super bond". Belize's spreads tightened again in 2017 following an agreement reached in mid-March between the government and 87% of its bondholders to restructure the bond's payments. The behavior of Belize's spreads in the past ten years reflects the restructuring of its US$ 547 million 2029 "super bond" (box 2), which reflects the difficulty of a small Caribbean country to issue a sizable bond in international debt and maintain coupon payments, as Belize's debt level remains elevated even after the repeated debt exchanges.

In a decade, from December 2007 to December 2017, Belize's spreads widened 180 basis points, while showing wide volatility during this period, Jamaica's spreads tightened 80 basis points, and Trinidad and Tobago tightened 29 basis points, although Trinidad & Tobago was out of the JPMorgan EMBI index from March 2009 to August 2013 (see figure 16). At the end of December 2017, spreads for Belize, Jamaica, and Trinidad & Tobago, were at 771, 304 and 203 basis points, respectively, while the EMBIG Latin component was at 419 basis points. Jamaica and Trinidad & Tobago's country risk were thus at a lower level than risk spreads for the LAC region as a whole.

Box 2: Belize's "super bond"

The behavior of Belize's spread in the past ten years reflects the restructuring of its US$ 547 million 2029 "super bond". The Government of Belize undertook three sovereign debt restructurings within a relatively short-time span. Following default in August 2006, the bond—which originally carried an interest rate averaging more than 11%—was restructured in early 2007 as a "super bond". It was restructured again in February 2013 as "Super bond 2.0", following another default in August 2012, and again in 2017.

The 2006-07 restructuring

In 2006–07, facing an acute external liquidity shortage due to high debt service burden, Belize exchanged its various external debt instruments, including both loans and bonds, into one single U.S. dollar denominated bond ("super-bond") with face value of US$ 547 million. The exchange lengthened maturity and lowered coupon rates. The debt restructuring provided a significant liquidity relief, but solvency concerns remained unresolved. After the completion of debt exchange, Belize did not access international capital markets.

Six years later, the Belizean authorities, this time driven mainly by a substantial increase in the coupon rates and future fiscal solvency concern, launched a second external debt restructuring, with a modest face value haircut as well as cash-flow relief through changes in both coupon and maturity structures.

The 2012-13 restructuring

In March 2012, the Government of Belize announced the commencement of a comprehensive review of external public-sector debt and contingent liabilities. On 21 August 2012, the Government of Belize missed a US$ 23 million coupon payment on the "super-bond" resulting in S&P's downgrading the country to a default rating. On 20 September 2012, after the expiration of the 30-day grace period, the government announced that it would make a partial payment of US$ 11.6 million, roughly half of the interest owed to bondholders. The Coordinating Committee of Belize Bondholders described the government's announcement as a step in the right direction and agreed not to seek legal remedies for 60 days in order to provide enough time for the two sides to finalize negotiations on the debt restructuring process. Negotiations began on 2 October, and an exchange offer was made on 15 February 2013. On 8 March 2013, the government announced that the holders of 86% of the country's United States dollar bonds due in 2029 had decided to participate in the restructuring and exchange their bonds for new United States dollar bonds *due in 2038*.

The 2016-17 restructuring

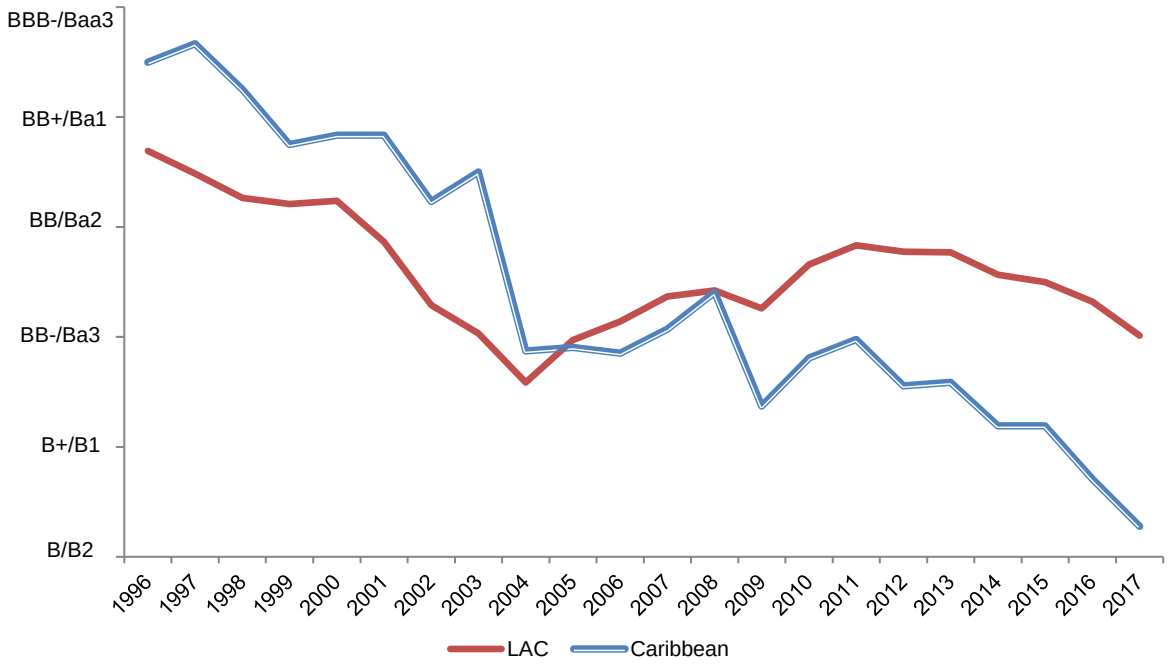
Starting in 2016, the Belizean authorities had attempted to negotiate a restructuring of the 2038 US$ 547 million bond, known locally as the "super bond", before a US$13 million coupon payment on 20 February 2017. The government claimed that it could not meet scheduled repayments falling due in 2017 or in the medium term. Belize's attempts to negotiate a deal with creditors was met with strong resistance from bondholders, but as both parties conceded that the debt terms were unsustainable, a deal between the government and 87% of bondholders was reached in March 2017. The deal extended maturity, reduced the coupon and changed the amortization schedule. Belize also committed to taking IMF assistance in case it misses primary surplus targets in the coming years.

Source: authors, based on information from Tamon Asonuma et al (2014), The Economist Intelligence Unit, and other markets sources.

C. Evolution of credit ratings

The evolution of credit ratings in Latin America and the Caribbean closely followed the region's business cycle. During the financial shocks of the second half of the 1990s, many of countries in the region were downgraded, but there was a trend towards improved credit quality from 2004 to 2008, which was interrupted by the global financial crisis (see figure 17). For the purposes of this section, sovereign ratings were converted to numerical values (see table 1) and averaged across the three main credit rating agencies (Fitch, Moody's and Standard & Poor's).

Figure 17
The evolution of credit ratings in Latin America and the Caribbean
(Average credit rating: Fitch, Moody's and Standard & Poor's)



Source: ECLAC Washington Office, on the basis of data from Fitch, Moody's and Standard & Poor's.
Notes: Caribbean includes Barbados, the Bahamas, Belize, Jamaica, Suriname and Trinidad & Tobago.
Investment grade: BBB–/Baa3 and above.

In parallel with the increase in EMBIG spreads, Caribbean countries experienced downgrades in their credit risk rating during the global financial crisis, and many of them have yet to regain their previous rating. Because of the small size and underdeveloped capital markets in many of their economies, credit ratings can potentially play an important role in investors' decisions towards the region. Together, the three main credit rating agencies —Fitch, Moody's and Standard & Poor's— provide ratings for about seven Caribbean small states, including Barbados, the Bahamas, Belize, Jamaica, Suriname, Trinidad and Tobago, as well as Saint Vincent and the Grenadines, which is rated only by Moody's and was rated for the first time only in 2016.

Overall, credit ratings for the Caribbean started form a better position in 1996 than the rest of the region, but after 2003 their credit rating fell lower than the regional trend on average. While the LAC region showed an improvement in creditworthiness after 2004, the Caribbean small states continued on the downward trend that started in the mid-1990s. The downward trend reflects credit weakness as a result of stagnant economic growth, struggles with recurrent natural disasters, and fiscal deterioration, with financial instability brought about by the global financial crisis weighing heavily on the countries' fiscal accounts.

Table 1
Credit rating scale

	S&P	*Score*	MOODY'S	*Score*	FITCH	*Score*
Upper investment grade	AAA	22	Aaa	22	AAA	22
	AA+	21	Aa1	21	AA+	21
	AA	20	Aa2	20	AA	20
	AA-	19	Aa3	19	AA-	19
	A+	18	A1	18	A+	18
	A	17	A2	17	A	17
	A-	16	A3	16	A-	16
Lower investment grade	BBB+	15	Baa1	15	BBB+	15
	BBB	14	Baa2	14	BBB	14
	BBB-	13	Baa3	13	BBB-	13
Non-investment grade	BB+	12	Ba1	12	BB+	12
	BB	11	Ba2	11	BB	11
	BB-	10	Ba3	10	BB-	10
Lower non-investment grade	B+	9	B1	9	B+	9
	B	8	B2	8	B	8
	B-	7	B3	7	B-	7
	CCC+	6	Caa1	6	CCC+	6
	CCC	5	Caa2	5	CCC	5
	CCC-	4	Caa3	4	CCC-	4
	CC	3	Ca	3	CC	3
	C	2	C	2	C	2
Default	SD	1		1	RD	1
	D	0		0	D	0

Source: ECLAC Washington Office, on the basis of data from Fitch, Moody's and Standard & Poor's.

For South America and Mexico, credit quality has recorded an upward trend since 2003, with upgrades outpacing downgrades on a yearly basis up until 2013. Since then, the number of downgrades has increased, but on average creditworthiness remains a lot higher than in 2003. That's not the case for Caribbean countries. For them, creditworthiness has been on downward trend since then (figure 18).

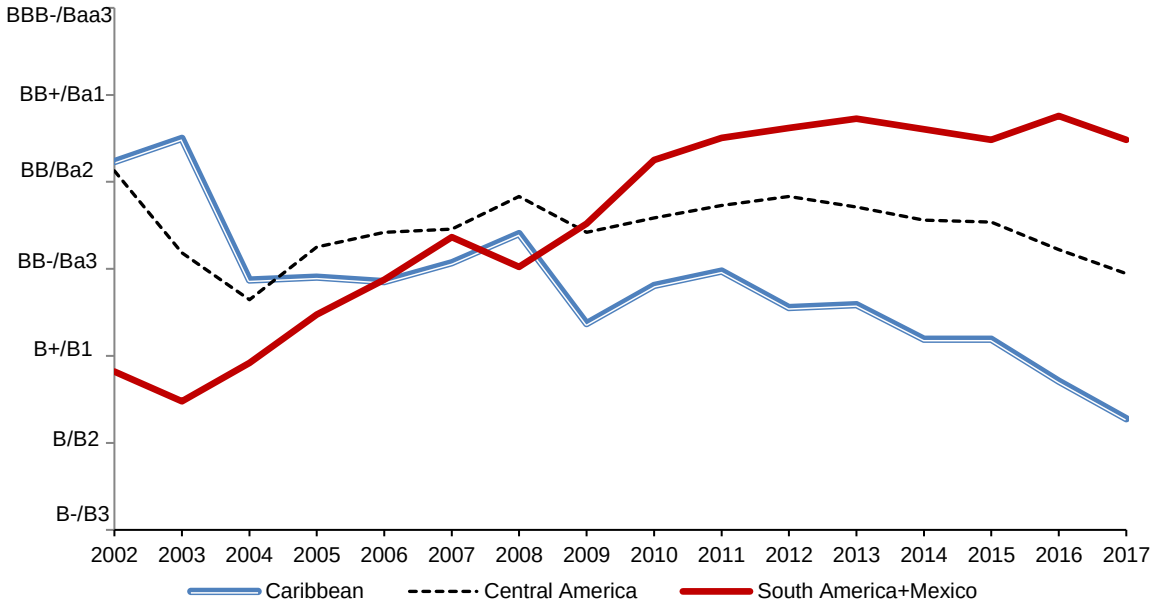
Moreover, most of the Caribbean small states suffered downgrades following the onset of the 2008 financial crisis, and although there was an incipient recovery in creditworthiness from 2009 to 2011, since then the downward trend has resumed. By the end of 2017, most of the Caribbean countries in our sample had not yet recovered the credit rating standing they held at the onset of the global financial crisis (table 2).

The Bahamas held an investment grade of A–/A3 by Standard & Poor's and Moody's prior to the crisis. By the end of 2017, the sovereign had lost its investment grade by Standard & Poor's, which rated the Bahamas BB+, while Moody's gave it a lower investment grade, Baa3. According to credit rating agencies, the Bahamian economy is vulnerable to the country's dependence on one sector, tourism, and one geographic market, the United States.

Barbados held an investment grade of BBB/Baa2 by Standard & Poor's and Moody's prior to the crisis. By the end of 2017, the sovereign had lost its investment grade by both agencies, which held Barbados at CCC+/Caa3, junk status. The main reasons given for the downgrades were the deterioration and weakening of the country's fiscal profile and key debt indicators, as well as weakening economic fundamentals, stemming from rising competitive challenges and other structural factors that the government can address only in the long-term.

Belize held a non-investment-grade rating of B by Standard & Poor's and Caa1 by Moody's (two notches lower than Standard & Poor's) prior to the crisis. By the end of 2017 the two agencies converged to the same level, with Belize holding a B- form S&P and a B3 from Moody's. During this period the sovereign undertook two debt restructuring processes, which contributed to the improvement in Moody's rating by the end of 2017.

Figure 18
Average credit ratings by region, 2002–2012
(Average credit rating: Fitch, Moody's and Standard & Poor's)



Source: ECLAC Washington Office, on the basis of data from Fitch, Moody's and Standard & Poor's.

Table 2
Credit ratings before and after the global financial crisis (2007 and 2017)

	S&P		Moody's		Fitch	
	2007	2017	2007	2017	2007	2017
Bahamas	A-	BB+	A3	Baa3	n/a	n/a
Barbados	BBB+	CCC+	Baa2	Caa3	n/a	n/a
Belize	B	B-	Caa1	B3	n/a	n/a
Jamaica	B	B	B1	B3	B+	B
Suriname	B+	B	B1	B1	B	B-
St Vincent and the Grenadines	n/a	n/a	n/a	B3	n/a	n/a
Trinidad &Tobago	A-	BBB+	Baa1	Ba1	n/a	n/a

Source: ECLAC Washington Office, on the basis of data from Fitch, Moody's and Standard & Poor's.
In red: credit rating in 2017 is lower than in 2007.
In green: credit rating in 2017 is higher in 2007.

Prior to the crisis, Jamaica held a non-investment-grade rating of B1 by Moody's, B+ by Fitch and B (one notch lower than the other agencies) by Standard & Poor's. The sovereign's rating was immediately affected by the global crisis, with the three agencies changing the outlook to negative and proceeding to further downgrade the sovereign. The agencies indicated that shocks from global financial turbulence and the expected United States recession had heightened downside credit risks, given Jamaica's reliance on external funding for its comparatively high fiscal and external deficits. The sovereign was downgraded further in 2009. In 2010, however, Jamaica was upgraded by all three agencies after the successful outcome of a domestic debt exchange and the approval of a US$ 1.27 billion IMF Stand-By Arrangement, which mitigated near-term external liquidity concerns. By the end of 2017, while S&P kept its rating at B, Moody's and Fitch gave Jamaica a B3 and a B- rating, respectively (one notch lower than S&P).

Suriname was upgraded from B+ prior to the crisis to BB– in August 2011 by Standard & Poor's and from B to B+ in July 2011 by Fitch. The changes reflected improving macroeconomic fundamentals, good medium-term growth prospects and a low debt position. In July 2012 Suriname's rating was upgraded further by Fitch, from B+ toto BB–, with the agency citing government action to minimize fiscal imbalances while maintaining price and exchange rate stability as the reason. In August 2012, Moody's also upgraded Suriname to Ba3 from B1, with a positive outlook. The upgrade reflected prudent fiscal management, as well as robust growth, driven by the gold mining, petroleum and construction sectors. It was also supported by the country's ability to attract significant foreign investment in the extractive industries and offshore exploration. In 2016, however, following a change in direction in the commodity prices trend, both Fitch and Moody's downgraded Suriname to B- and B1, respectively, citing weakening external finances driven by a shock to commodity export prices.

Suriname is among the Caribbean's top commodity producers and exporters. Together with Guyana, Trinidad and Tobago and Belize (despite its debt restructuring), it benefits from higher commodity prices, which lead to more fiscal space and a more manageable debt burden for these countries. Suriname and Guyana benefit from high prices for gold and minerals and Trinidad and Tobago from high prices for oil and natural gas.

Trinidad and Tobago had an upper investment grade from Standard & Poor's prior to the financial crisis (A-), and a lower investment grade from Moody's (Baa3). By the end of 2017 the sovereign had lost its investment grade from Moody's, which gave it a Ba1 rating, and held a lower investment grade from S&P (BBB+).

The evolution of credit ratings, debt issuance and debt spreads for the Caribbean countries suggests that the advantage conferred by their openness, export-driven growth and linkages to developed countries can soon become a disadvantage with the onset of a global shock that originates in these same advanced economies. A potential explanation for why so many of these economies were so hard hit by the 2008 global financial crisis is their sensitivity to the economic cycle of advanced countries, particularly the United States. In addition, during the recovery phase, the weak linkages with the emerging countries that were driving the global recovery, such as China and India, prevented them from enjoying a stronger performance.

Many countries are still constrained by high levels of debt as a share of GDP and have limited fiscal space, which can slow down their policy response during economic downturns. Most of the credit rating downgrades that took place in the aftermath of the global financial crisis were motivated by fiscal deterioration, as financial instability brought about by the global financial crisis weighed heavily on the countries' fiscal accounts.

For the most part, Caribbean countries' access to private international capital markets was costlier and more limited during and after the global financial crisis than it was for many of the larger economies of Latin America. This underscores the importance of keeping financing from multilateral sources available. Multilateral development banks and bilateral aid agencies must remain fully cognizant of these countries' vulnerability to shocks. The system of international cooperation should search for a comprehensive and broad-based response to the development challenge, one that considers Latin American and Caribbean economies' diverse needs, given that access to private international capital markets is not homogeneous and borrowing terms can be more or less favorable depending on the borrower.

Finally, financial stability and integration is integral to economic growth and development. The development agenda for the region should consider the vulnerabilities of Caribbean countries, their small size and sensitivity to global economic downturns. The ideal strategy will take into consideration the unique constraints and strengths of each of these countries to best fit their needs. Often overlooked because of their volatility and small role as a source of external financing (with only a handful of Caribbean countries having tapped international debt markets in recent years), private debt flows – through innovative security instruments and increased cooperation among countries, as well as with the international community – can complement international resource flows and play a more active role in the Caribbean mobilization of resources for the implementation of the 2030 Agenda.

IV. Strategies for building Caribbean resilience

The constraints and disadvantages that small states face in pursuit of development have been well discussed in the literature over the past several decades. The range of issues related to size and lack of diversification has been extensive. Moreover, with the 2030 agenda and the SDGs bringing global attention to the environment and the need for sustainable development, the geographic and environmental vulnerability of small island and low lying coastal states, such as the ones found in the Caribbean region, has come to the fore. Caribbean states are exposed and susceptible to exogenous economic and environmental shocks, and a major drive of economic vulnerability in the Caribbean is the region's high level of exposure to natural disasters. While resilience may be viewed as the ability to adjust and to cope with such shocks, in the context of the 2030 agenda a more expansive perspective is warranted, meaning that building resilience requires efforts that go beyond adjusting and coping with external shocks, by assuming a more pro-active stance.

A. Possible strategies

To be more pro-active and find long-term solutions for long-term development challenges, a broad set of new ideas and initiatives is required in order to build Caribbean resilience in the context of the 2030 agenda and the SDGs. The following are different approaches for how Caribbean economies can mitigate and adapt to the consequences of climate change while trying to reduce the debt burden, increase growth and achieve the SDGs.

1. Linking debt solutions to resilience measures

The windows of financing open to Caribbean countries have been premised on the interpretation that external shocks facing the region are temporary in nature; however, historical trends show that external shocks are a permanent feature in the workings of these economies. In addition, there is no fiscal policy space for growth, and little prospect of changing the persistent public-sector deficits that stifle the economy. As such, short term financial flows from the international donor agencies are unlikely to address the region's development challenges.

Addressing structural vulnerabilities, such as debt sustainability, is key to building resilience in Caribbean economies. ECLAC has proposed "debt for climate adaptation swaps," including the creation

of a Caribbean Resilience Fund (CRF) to help ease the region's debt, which as of October 2017 amounted to approximately US$ 52 billion dollars.[17] The premise is that Caribbean debt is rooted in external shocks and compounded by inherent structural weakness and vulnerabilities, particularly extreme weather events. According to ECLAC, a disaster resulting in damage and losses in excess of 5% of GDP can be expected to hit any Caribbean country every few years.

Moreover, the upper and middle-income classification of the majority of Caribbean countries poses a number of challenges, such as limited access to concessional external finance and decline in official development assistance.

The essence of ECLAC's proposal (ECLAC, 2017b) is:

- Channeling pledged climate funds to write down Caribbean debt through debt-for-climate-adaptation swaps, and
- Creation of the Caribbean Resilience Fund (CRF), which would be expected to provide financing for investment in climate resilience, green growth and structural transformation in the economies of the region.

It is envisaged that the CRF will be supported by writing off multilateral debts of Caribbean economies, and those economies benefitting from the debt relief will make annual payments in local currency to the CRF (other bodies will also be able to donate to it). ECLAC's proposal recognizes that Caribbean debt is heterogeneous, with member states carrying varying combinations of multilateral, bilateral and private debt, which requires a menu approach. The anticipated outcomes are:

- Debt relief for high debt countries
- Replenishment of the fund by these countries in local currency; and
- Application of new resources to climate change actions.

Additionally, the Fund would, inter alia, facilitate access to concessional climate financing.[18]

2. Connecting domestic savings and external flow of funds

Finding the link between domestic savings in the economy and the external flow of funds is critical to fostering capital formation. Hence, strategic measures to deepen this relationship will add to the resilience of the economy. As such, the question of building partnerships with councils and bodies fostering business incubators and innovative capital will unearth new space for the integration of the small business sector with the world industry. Here, the banking sector, along with the Chambers of Commerce and trade union movement, may take the lead in setting up institutions to achieve these goals.

3. Enhancing financial windows of support for small economies

"As development assistance becomes more constrained relative to the demands of reconstruction and development…the role of private investment…will continue to grow. This underscores the need for active strategies for attracting investment and for developing the private sector."[19] In its most recent annual report, the World Bank informs of its efforts to improve its assistance so that it can be used to promote private financing in developing countries. *"It is doing so by encouraging upstream public sector reforms, looking for places where the private sector can finance development alone and leveraging new concessional financing tools."*[20] To this end, its new Private Sector Window will leverage US$ 2.5 billion of the International Development Association's (IDA) capital over the next three years to mobilize US$ 6 - US$ 8 billion in private sector investments in "low-capacity and fragile environments". In IDA

[17] ECLAC press release *"Criteria for Access to Concessional Financing Must Change to Support Caribbean Countries with their Reconstruction,"* October 2017.

[18] The ECLAC proposal has been discussed at the 36th CARICOM Heads of Governments meeting in July 2015 and at ECLAC's Caribbean Development Roundtable held in Saint Kitts and Nevis in April 2016. Heads of Government in their report to the 37th CARICOM Conference, agreed that ECLAC should pursue the initiative "to the extent feasible, on behalf of the region."

[19] World Bank Group (2018).

[20] World Bank Group (2017).

countries, the concessional financing obtained through this facility would help to support private investment in challenged markets.

4. Building new financial buffers for small economies

Finance and liquidity are the lifeblood of any economic system. The task is to shore up sufficient regional finance to ensure there is enough liquidity to support building resilience, and one of the ways to achieve this financial strategy is buffers. The buffers alluded to are those that are internally generated and shored up as sovereign wealth funds and international reserves. The other form of buffer is that which is externally supportive of small states and exist in terms of international institutions. The requirement of national buffers will also act as disciplining the fiscal policy of respective economies of the Caribbean Sea.[21]

Options for building new financial buffers include:

- *Green bonds*: an environment and climate change financing tool – green bonds are used to increase energy efficiency and develop renewable energy. The Caribbean subregion's participation in the global green bond market is minimal; however, there is "growing interest in alternative sustainable financing, and there is an upward trend in issuances with a green focus in the LAC region."[22] The Caribbean, being the least culpable yet most vulnerable to the effects of climate change, must consider this as a viable option for building its resilience against such. However, while issuers from larger countries in the LAC region have been issuing green bonds in international and domestic markets since the end of 2014, so far, no Caribbean issuers have issued green or project bonds (which could be used to finance green infrastructure projects). Size and scale may be an impediment for the use of these new instruments, raising once again the importance of cooperation among the countries of the region, which could pool together to find regional projects that could simultaneously benefit several countries.
- *Diaspora bonds*: fixed-debt instruments issued by a country to its emigrants outside of the home country at preferential rates. In 2015, the region had approximately 4,116,000 migrants residing in the United States and was the fastest growing population when compared to Central and South Americans.[23] For economies with limited fiscal space and access to international capital markets, these bonds are a favorable alternative financing mechanism. In 2014, the World Bank estimated that Diaspora groups from developing countries had in excess of US$ 500 billion in savings.[24] This is a large amount of wealth that the region can tap into in order to fund infrastructure and social development projects.
- *Blue bonds*: debt instruments that fund the development of sustainable fisheries. Subsequent to its graduation to a "high income country" – resulting in its inability to receive concessional financing – Seychelles' government authorities began rethinking strategies for sustaining its economic growth. One such strategy is the issuance of blue bonds, which will raise up to US$ 15 million for financing the transition to the sustainable management of small scale fisheries. It is anticipated that the issuance of these bonds will increase government revenue and attract outside investments to this sector. Issuing blue bonds would allow the Caribbean to raise funds that could be used to increase resilience to climate change's impact on the fisheries sector.

5. Accessing concessional financing

Caribbean economies face great vulnerabilities due to their small size, exposure to external shocks, and fragile fiscal situation. Despite these vulnerabilities, these countries are categorized as middle-income countries by international financial institutions, complicating their ability to access financing. It is imperative that the conditions for accessing concessionary funds be altered, in order to assist in the reconstruction of these economies after they have been hit by external shocks that are beyond their control.

[21] Winston Dookeran (2013a).
[22] ECLAC Washington Office (2017).
[23] Mark Wenner (2015).
[24] Supriyo De, Dilip Ratha, and Seyed Reza Yousefi (2014).

GDP per capita criteria fail to take into account threats from natural disasters such as hurricanes as well as economic shocks. This problem must be collectively addressed by the international community and remain a top priority on the regional and global landscapes.

B. Policy links with resilience

Development still remains an elusive achievement, despite years of adjustment. Policy prescriptions such as reducing costs, flexible exchange rates and removing price controls and subsidies are important, but not enough. For example, there is a nexus between resilience and competitiveness. Competition is a complex and dynamic phenomenon. Moreover, there must be internal forces for change that will result in growth. An adjustment framework for development must stimulate the dynamics for endogenous growth, "so that the industrial structure of production may be transformed, creating new vehicles for the empowerment of peoples which will yield a high-level equilibrium and momentum for sustainable growth."[25]

The nexus between resilience and competitiveness

Resilience enhances competitiveness. According to the latest World Economic Forum's Global Competitiveness Report, economies remain at risk from further shock and are ill-prepared for the next wave of innovation and automation. The report emphasizes that global competitiveness will be increasingly defined by the innovative capacity of a country. Countries preparing for the Fourth Industrial Revolution and simultaneously strengthening their political, economic and social systems will be the winners in the competitive race of the future.[26]

Moving forward, jobs are expected to be disrupted as a result of automation and robotization. Therefore, creating conditions that can withstand exogenous economic shocks and support workers through transition periods are essential.

An economy's ability to sustain high levels of income is determined by its productivity. Competitiveness challenges for the region include enhancing labor productivity and reducing energy costs. Further boosting energy efficiency, as well as improving labor productivity, remain essential for fostering competition and growth in the Caribbean.

Caribbean economies must strengthen their capacity to adapt to evolving external economic conditions and develop new sources of sustainable growth based on a sound competitiveness agenda that facilitates new innovation and entrepreneurship. However, building a competitiveness agenda requires public-private partnerships that extend the life of single term government administrations.

Countries' ability to respond to international crises depends on the strength of their institutions, which determines to a great extent how proactive and effective their policies can be. There are several gaps in the fundamental pillars of competitiveness in the region – institutions, infrastructure, labor market efficiency, and innovation – which must be addressed to improve resilience to external shocks.

The logic of Caribbean integration and convergence

The logic of convergence is to foster cooperation among likeminded states over common interests, by providing information, reducing transaction costs, and facilitating linkages (Anyanwu, 2015). Traditional multilateralism is increasingly becoming slow to adjust and respond to evolving configurations of international political economy. The inability to achieve consensus within a multilateral framework (for example WTO multilateral trade agreements) has stunted economic progress. "These reconfigurations of the international political economy architecture have…prompted changes in the ways international relations is conducted…[and] broadened the scope of participation for a wide range of actors."[27]

[25] Winston Dookeran (1996)
[26] See press release, https://www.weforum.org/press/2017/09/new-focus-needed-to-raise-global-competitiveness/
[27] Anyanwu (2015), p.16.

According to Anyanwu, convergence is about moving beyond boundaries to create economic opportunities and will call for bold political and economic decision-making, new and innovative ideas, and integrated interests towards win-win outcomes.

The approach towards convergence is based on three key points:[28]

- A new approach to regionalism that focuses on the wider hemisphere;
- An emphasis on capability building through cooperation and not just a focus on trade and markets;
- A strong focus on production integration, competitiveness and equity of the Caribbean economies in the global order.

These points are further supported by four pillars: [29]

Endogenous growth: the drivers of endogenous growth require the capacity to pool regional resources, and transformation will necessitate fostering new models of public-private partnerships.

Inclusive and equitable development: inclusiveness implies the enlargement of the Caribbean, the widening of trade arrangements, and a process to incorporate the private sector and civil society intrinsically into the development process.

Entrepreneurial competitiveness: in the new frontier of Caribbean convergence, innovation in science, technology and entrepreneurship, must go hand in hand with raising the ambition of the region to engage in global initiatives in areas like space economy, and in the growing outsourcing opportunities in the world.

Adaptive and realigned institutions: institutions are key mechanisms for execution and sustainable convergence. This requires a new adaptive framework and a realignment of regional institutions to achieve the convergence outcome.

[28] Anyanwu (2015), p.19.
[29] Winston Dookeran (2013b).

V. Looking ahead

The Caribbean countries are characterized by a small population, limited human capital and a confined land area. They face labor market and capacity constraints. Constrained economic prospects mean relatively few employment opportunities, so skilled labor often migrates to seek economic opportunities elsewhere. Less space for land-based economic activity and a constrained pool of human resources thus limit economic activity and sources of income. Small states therefore rely on international finance to supplement their fiscal envelope.

However, unless they have commodity exports or a service sector geared to the external market, many of these states are not sufficiently big or creditworthy to raise funds in international capital markets. Several small states thus need to rely on concessional finance, others have significant debt as they draw on their natural resources to graduate from low-income status and lose their access to concessional financing. Overall, climate change and natural disasters heighten debt exposure.

It is important to address the Caribbean's debt dilemma in a sustainable manner while fostering structural change and economic diversification. The Caribbean region's debt burden, as well as its growth, are closely intertwined with climate related natural disasters. Hurricanes, tropical depressions, floods, droughts, the gradual rise in sea level, all impact negatively the region's economic development.

New initiatives and strategies are needed to reduce debt to sustainable levels in the Caribbean. They require closer collaboration among Caribbean states, multilateral institutions, and international development partners. Moreover, given the heterogeneity of debt in the region, a menu of innovative financing and policy options is required.

The Caribbean's high debt-to-GDP ratio, is a problem that is not insurmountable, but requires innovative thinking and commitment from governments and the international community, including reopening concessional financing from international financial institutions, external creditors agreeing to write off debt or reduce it, a cap on borrowing, and swapping debt for climate change adaptation and mitigation, as ECLAC has proposed. Only with a collaborative effort to resolve the Caribbean's high debt problem, there will be room for the region to implement the 2030 Agenda and the SDGs and finally address its development challenges.

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