

Sixth Caribbean Development Round Table

10 September 2020

Concept Note

There is no doubt that the economic and social impact of COVID-19 on the Caribbean will be devastating. A full-scale debt crisis is looming for the economies of the subregion, most already burdened by high debt to GDP and debt service ratios. Loss of revenue from the suspension of the tourism industry in particular will result in negative growth of between 12 and 20% for the service economies; the goods producers will see 5-7% contraction. Furthermore, the capacity of member States to provide relief to workers and their families displaced by national efforts to control the spread of the virus has been stretched to breaking point in already fiscally constrained circumstances. And with no clear end in sight for this pandemic, the Caribbean is in real danger of spiraling from a crisis of liquidity to one of solvency.

What scope for redress? This being a shock of global scale, the entire international community is actively engaged in the search for respite from this systemic financial disaster, which will demand a concerted multidimensional approach for its resolution. In this regard, the Caribbean will need to convince both the donor community and private creditors that the countries of the subregion are deserving of special consideration for debt relief, middle- and upper-income status notwithstanding. This year's Caribbean Development roundtable is devoted to brainstorming on the most effective strategy, with specific recommendations to advance the Caribbean case with the international community.

It will be an opportunity to review the progress being made with respect to the UN sponsored process on Financing for Development in the Era of COVID-19. Initial proposals from the six Discussion Groups addressing (i) *external finance and remittances, jobs and inclusive growth*; (ii) *recovering better for sustainability*; (iii) *global liquidity and financial stability*; (iv) *debt vulnerability*; (v) *private sector creditor involvement*; and (vi) *illicit financial flows* will have been presented to the Ministers of Finance on 8 September, for their consideration in preparation for the summit meeting to be held on 29 September. The Caribbean will want to speak with one voice at the summit on those proposals which will best serve both the immediate and longer term needs of the countries of the subregion.

It will also be an opportunity for member States to contemplate a more direct approach to the international financial institutions and the rest of the donor community to further specific propositions which might offer urgent relief to the subregion. Certainly, access to international capital markets is limited and more costly for many Caribbean countries, which face particular constraints in attracting global capital, now further aggravated by the current global fiscal and economic crisis. COVID-19 has had a decidedly negative impact on economic growth and liquidity in the Caribbean. It is therefore crucial that the international community consider debt vulnerability and liquidity challenges as systemic issues. What is required is decisive action through the introduction of innovative debt relief instruments; countercyclical and risk-sharing tools; and a liquidity generating mechanism to safeguard against solvency issues and the likely collapse of many economies in the subregion.

Renewed consideration should also be given to the inextricable link between debt, growth and natural disasters in Caribbean economies, when designing financing instruments which may contribute to the economic recovery in the COVID-19 era and beyond. Public sector investment in resilience building in the wake of COVID-19 has been rendered effectively impossible. An update on progress being made

regarding the ECLAC Debt for Climate Adaptation Initiative, and consideration of strategy to advance the proposal in the prevailing economic environment is thus considered timely.

The CDR will therefore begin with a comprehensive report and discussion on the important ongoing dialogue on FFD in the Era of COVID-19, with specific attention given to the proposals championed by ECLAC and Caribbean representatives during this process that are responsive to the liquidity and debt vulnerability challenges currently faced by the Caribbean. These include expanding the G-20 Debt Service Suspension Initiative in terms of flexibility and country eligibility; institutionalizing state-contingent debt instruments such as natural disaster clauses, GDP-linked or export-linked bonds and state contingent convertible bonds, which are key to providing much needed fiscal space for MICs, while reducing the likelihood of debt default; supporting the ECLAC Debt for Climate Adaptation Swap initiative and the creation of regional Resilience Funds; and consideration of a new sovereign debt restructuring architecture which would allow middle income countries facing financial distress or approaching default to reduce and renegotiate their outstanding debt with creditors to improve their liquidity. Such financial instruments and initiatives are considered key to assisting the subregion in mitigating the fiscal and development challenges that have been exacerbated by COVID-19.

The report on the FFD process will then be followed by Ministerial dialogue and panel discussion on a more in-depth assessment of the most urgent short and medium-to-long-term solutions to the liquidity, debt, growth, economic-restructuring and resilience-building challenges currently facing the region.