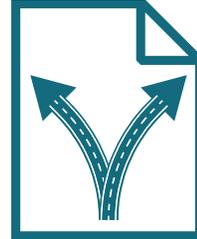




POLICY BRIEF

SOVEREIGN DEBT AND CLIMATE JUSTICE FOR CARIBBEAN SIDS:

FIVE PRIORITY ACTIONS



March 2023

SUMMARY



Debt justice for Caribbean SIDS is not possible without climate justice. Caribbean SIDS have been gripped by a silent debt crisis which has placed them among the most heavily indebted countries worldwide since they gained political independence six decades ago from their Global North colonial masters. An important factor underlying the Caribbean's unsustainable debt overhang is the severe impact of climate-related extreme events, especially more intense and frequent hurricanes. For some Caribbean SIDS, the loss and damages from these hurricanes far exceed the size of their respective economies, making it almost impossible to fully recover after climate-related disasters or to protect themselves from future ones. The brunt of this destruction and suffering is borne by the poorest people in the Caribbean. Shielding these vulnerable groups from loss of life and livelihoods requires vast amounts of money, but Caribbean countries are caught in a vicious cycle as the resources they need to invest in climate mitigation and adaptation, and to address loss and damage, are increasingly being diverted to repay their debts while borrowing costs increase due to climate vulnerabilities.

Global North nations have a moral responsibility to help the Global South. This is because historical cumulative emissions from the Global North spanning colonialism, the Industrial Revolution, and the present day have contributed the most to the climate crisis. However, the Global North is failing to provide the promised amounts of climate finance to support countries in the Global South to tackle the climate crisis that they did little to create. Most of the climate finance comes in the form of loans, which further aggravates the already unsustainable debt burden of Caribbean SIDS, which are not eligible to access even the most modest amounts of grant-based climate finance due to their higher middle-income status. Sovereign debt and climate justice demand that climate finance be linked to debt relief and forgiveness as a form of climate reparations and to other forms of debt-free support, such as the IMF Special Drawing Rights (SDRs).

In this regard, the Caribbean Policy Development Centre (CPDC) is calling on the international community to implement the following five priority actions to help Caribbean SIDS and other highly indebted, climate vulnerable countries:

1

PROVIDE GREATER VOLUMES OF NEW AND ADDITIONAL CONCESSIONAL/GRANT-BASED CLIMATE FINANCE.



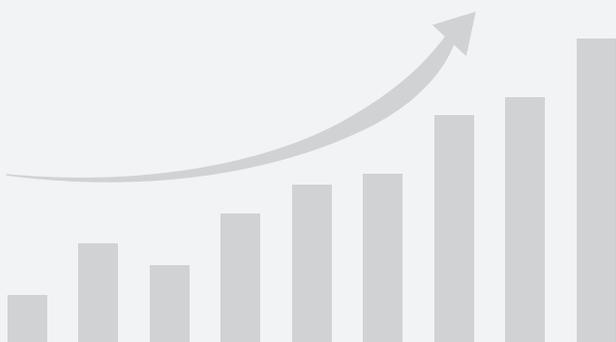
This requires the World Bank to replace its arbitrary income indicator, which it uses to determine access to concessional finance, with a multi-dimensional vulnerability index which includes the physical, economic, social, environmental, and institutional characteristics of the countries being assessed. Scaled-up, grant-based climate finance must be additional to aid commitments made by the Global North.

2

DELIVER COMPREHENSIVE DEBT RELIEF AS A MAIN FORM OF CLIMATE REPARATIONS.



Debt relief must be seen as a main form of climate reparations to compensate the Global South for the destruction and harm that the Global North caused them from colonialism to the Industrial Revolution to the present day. CPDC has developed 'Caribbean Emancipation 2030', a sovereign debt and climate justice initiative which seeks to remove the onerous debt overhang of Caribbean SIDS, free up resources to boost climate resilience actions aligned with the 2015 Paris Agreement and support sustainable development. Caribbean Emancipation 2030 provides a useful template which can be further refined and expanded to include other heavily indebted, climate vulnerable Global South nations.



3

COP
27

MAKE FULLY OPERATIONAL THE LOSS AND DAMAGE FUND ESTABLISHED AT COP27.

The climate finance provided through this Loss and Damage Fund must be in line with the needs of Caribbean SIDS and other climate vulnerable countries, and must come in the form of grants, not loans. The Santiago Network on Loss and Damage also needs to be operationalised as an effective mechanism to catalyse and deliver the required technical assistance to help climate vulnerable countries.

4



RE-CHANNEL AT LEAST US\$1 BILLION OF UNUSED IMF SPECIAL DRAWING RIGHTS (SDRS) TO THE CARIBBEAN DEVELOPMENT BANK (CDB).

Rechanneling this volume of unused SDRs can provide sufficient capital for the CDB to ramp up lending to finance the climate change projects of Caribbean SIDS. This rechanneling must preserve the existing debt-free, no-conditionality characteristics of SDRs.

5



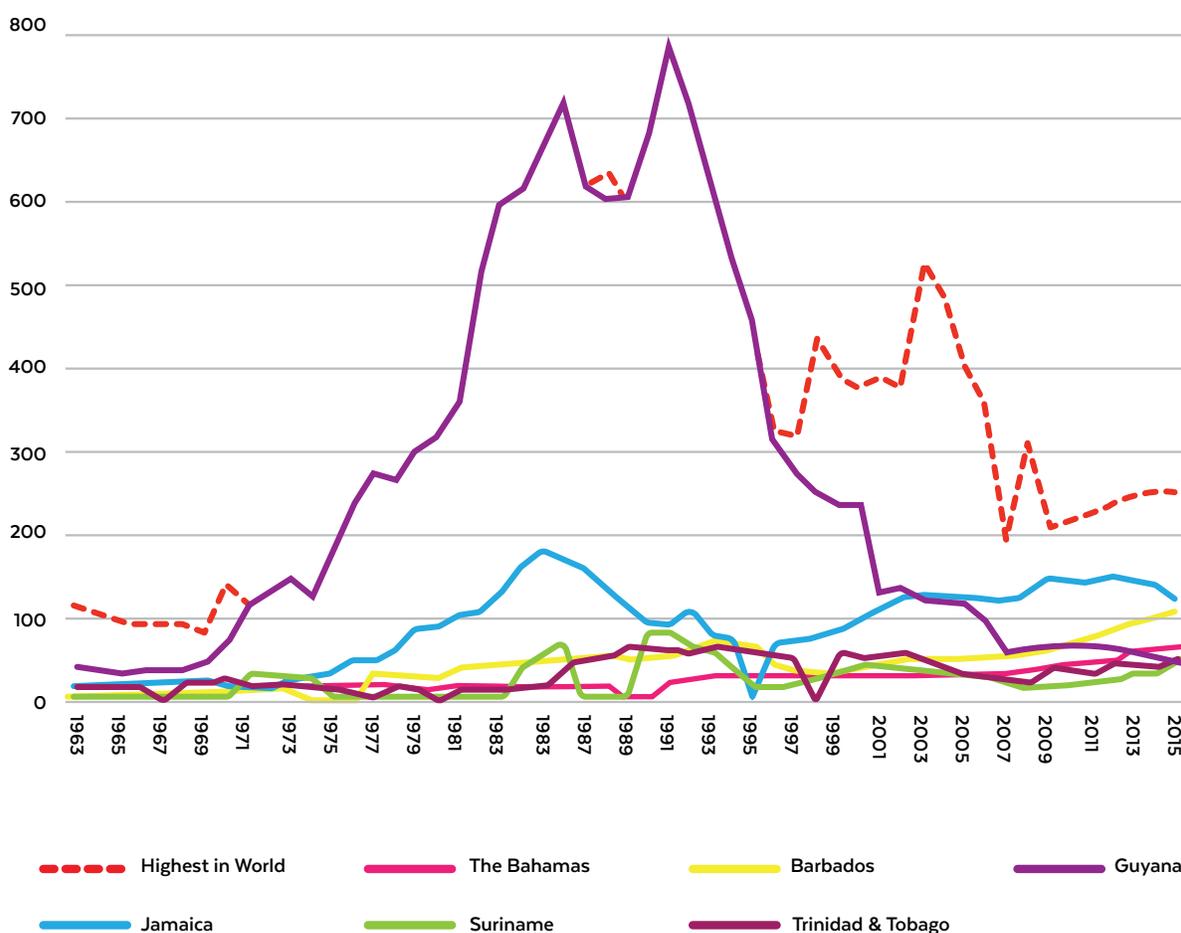
CONDUCT A REVIEW OF THE IMF'S RESILIENCE AND SUSTAINABILITY FACILITY (RSF) TO MAKE IT MORE FIT FOR PURPOSE.

The RSF is the IMF's first-ever financing tool which provides concessional, longer-term funding to help middle-income countries address structural challenges such as climate change. An interim review of the RSF scheduled for April 2024 should take into account the experience of Barbados, the first Caribbean SIDS to reach a staff-level agreement to access the RSF.

THE CARIBBEAN'S SILENT DEBT CRISIS

Since gaining political independence from their Global North colonial masters around the 1960s, several countries in the Caribbean region were already among the most indebted in the world (see **Figure 1**). Caribbean countries are now saddled with debt burdens well in excess of the carrying capacity of their respective economies, holding back living standards for millions of people. At the end of 2020, six Caribbean countries – Barbados, Suriname, Belize, Dominica, Jamaica and Antigua & Barbuda – ranked in the top ten of the world's most highly indebted SIDS, with their public debt stock beyond 100% of GDP (see **Figure 2**). This build-up of debt was not sudden. It happened gradually and almost unnoticeably over several decades. In many respects, it is a silent debt crisis.

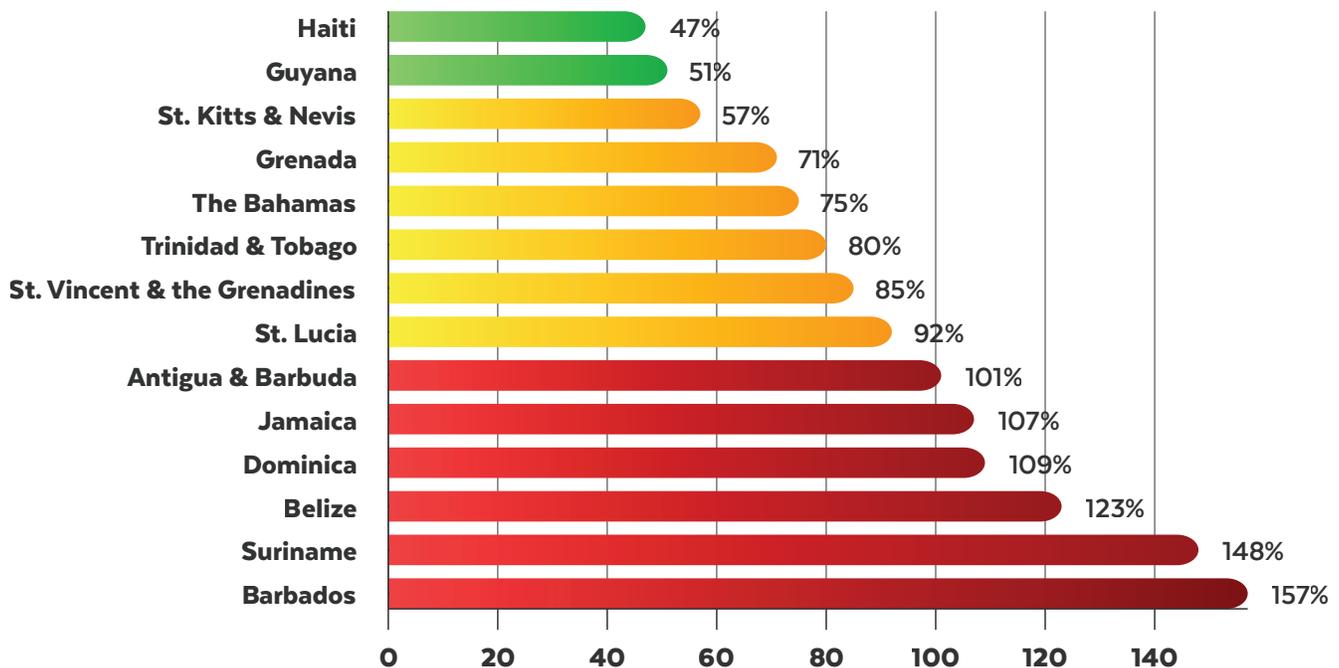
FIGURE 1: CARIBBEAN SIDS: GROSS PUBLIC DEBT (2020, % OF GDP)



Source: Mooney, Prats and Rosenblatt (2021).

Note: Highest in world represents the highest of 197 countries for which data were available continuously starting 1963.

FIGURE 2: CARIBBEAN SIDS: GROSS PUBLIC DEBT (2020, % OF GDP)



Source: IMF World Economic Outlook Database

There are many reasons for the debt accumulation of Caribbean SIDS.



FIRSTLY, initial conditions mattered. Upon gaining political independence from their European colonial masters in the Global North, Caribbean countries were left with a legacy of underdevelopment, manifested in a wide range of socio-economic problems – small size, sugar production for export to metropole Europe being the main economic activity, and relatively high unemployment, poverty and crime. While they did inherit institutional structures such as English common law, parliamentary democracy and the rule of law, the former British Caribbean colonies severely lacked financial resources and had little choice but to borrow mainly from their former colonial masters to fund their post-independence development pathways. Through the CARICOM Reparations Commission, Caribbean countries have developed a Ten Point Plan of Action for Reparatory Justice, which calls upon their former European colonisers to cancel their debts as partial compensation for the crimes of chattel slavery and genocide committed against them.



SECONDLY, Caribbean countries are small and open, with inherited narrow production bases, making them particularly vulnerable to external shocks. Over the past three decades, Caribbean SIDS have been hit by multiple economic shocks over which they had no control and with significant adverse effects on their trade, fiscal and debt balances. These multiple shocks, mostly originating from Global North countries, included Europe's phasing out of its preferential trade agreements for sugar and bananas with the Caribbean from 1996 (see **Box 1**); the terrorist attacks in New York and Washington DC on September 11, 2001; the 2008 global financial crisis with the United States at the epi-centre of the meltdown; the COVID-19 global pandemic in 2020; Russia's invasion of Ukraine in 2022; and the resultant food and fuel crises, as well as rising US interest rates.

Box 1. Europe's Phasing Out of Preferential Trade Agreements with the Caribbean

Sugar and bananas were once the two most important foreign exchange earners and sources of employment in several Caribbean countries, as these production and export bases were inherited from the former colonial powers in the Global North. Although the Caribbean's cost of production for sugar and bananas was three times higher than the world market price, this was compensated for by a higher preferential pricing arrangement in the European market under what was known as the Lomé Convention, which gave special prices and privileges to agricultural imports from the Caribbean, reflecting a long-standing relationship dating back to the periods of slavery and colonialism. However, the Caribbean eventually had to adjust from the mid-1990s to the new trade liberalisation rules-based regime of the World Trade Organization (WTO) in which such preferential trade agreements were deemed incompatible with the evolving neoliberal economic order.

Europe's decision to phase out its preferential trade agreements with the Caribbean had a significant effect on the export income, trade and fiscal balances of the sugar and banana exporting Caribbean

countries. The substantial output losses and the associated reductions in fiscal revenues, increased safety net expenditures, as well as the worsening external current account positions all contributed to the increased financing needs of affected countries and the build-up of public debt.

The micro-states in the Eastern Caribbean were particularly hard hit and suffered significantly weakened external positions. Between 1996 and 2005, the external current account deficits of the Eastern Caribbean region amounted to a period average of 17.7% of GDP, significantly higher than the Caribbean regional average deficit of 11.4%. Between 2005 and 2010, the current account position further deteriorated to an average deficit of 23% of GDP for the Eastern Caribbean states. The decline in St. Vincent and the Grenadines was the most severe, with its current account deficit averaging 26.5% of GDP over the period 2005-2010. The erosion of trade preferences alone is estimated to have caused St. Kitts and Nevis annual fiscal losses equivalent to 3-4% of GDP. Outside of the Eastern Caribbean, cumulative output losses of 6.5% were estimated for Guyana with the dismantling of sugar trade preferences.



THIRDLY, since the 1990s, Caribbean SIDS have experienced a dwindling in traditional aid flows from the Global North. Official Development Assistance (ODA) to the Caribbean fell by half from US\$0.8 billion in 1990 to US\$0.4 billion in 2000. ODA inflows subsequently recovered and reached a peak of US\$3.4 billion in 2010, but this mainly reflected substantial humanitarian inflows of US\$3 billion after a catastrophic earthquake struck Haiti. Since then, ODA flows to Caribbean SIDS (excluding Haiti) have been under US\$0.5 billion between 2010-2020. Increasingly, bilateral lending from China began to replace concessional aid from Global North governments. China is now the single, largest, non-Paris Club creditor and the most important bilateral lending partner in the Caribbean.



FOURTHLY, over the past three decades, Caribbean countries have been graduating from low- to middle-income status, which makes them ineligible for concessional borrowing from multilateral institutions, especially the World Bank. Concessional lending carries lower interest rates and longer maturities and allows a country to more easily manage its debt. The criteria which the World Bank uses to determine access to concessional finance is Gross National Income (GNI) per capita. According to the World Bank's latest income classification, most Caribbean SIDS are in the upper-middle income group. For this reason, many Caribbean SIDS are considered not poor enough to participate in international debt relief programs such as the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, the G20 Debt Service Suspension Initiative (DSSI) and the G20 Common Framework for Debt Treatment Beyond the DSSI. As a result, some Caribbean SIDS have been forced to borrow from private creditors, which is the most expensive source of debt, while others have borrowed on non-concessional terms from the IMF and regional multilateral development banks. Of the Caribbean's total external debt, private creditors currently hold the largest share at 47%, multilateral creditors account for 35%, and bilateral creditors hold the remaining share of 17%.





FINALLY, their location within the path traversed by storms in the North Atlantic basin makes Caribbean countries among the most vulnerable on earth to climate-related shocks. **Table 1** shows that Caribbean SIDS experienced loss and damages of over US\$30 billion (in constant 2020 US\$) from hurricanes over the past 70 years. For some Caribbean SIDS, the loss and damages well exceed the size of their economy. Hurricane Maria – a powerful Category 5 hurricane – caused destruction to Dominica, estimated at 225% of the country’s GDP in 2017. In Grenada and St. Kitts and Nevis, the damage was equivalent to more than one year of economic activity after the passage of Hurricane Ivan in 2004 and Hurricane Georges in 1998, respectively. In the Bahamas, Hurricane Dorian in 2019 is estimated to have caused loss and damages equivalent to 25% of the country’s GDP. In the aftermath of these destructive climate-related disasters, Caribbean governments with already limited fiscal space due to the high cost of debt servicing have little choice but to borrow more to fund emergency response, economic recovery and longer-term reconstruction efforts.

Table 1. Hurricane Damages Per Caribbean SIDS, 1950-2021 (2020 constant US\$ Mn)

	# Of Hurricanes	Total Damages	HURRICANE WITH LARGEST DAMAGES				
			Hurricane	Year	Category	Damages	% of GDP
The Bahamas	20	\$8,481,244	Dorian	2019	5	\$3,603,638	25
Haiti	36	\$6,463,233	Matthew	2016	4	\$2,258,013	20
Jamaica	23	\$5,254,125	Gilbert	1988	3	\$2,291,337	50
Dominica	12	\$2,773,055	Maria	2017	5	\$1,609,548	225
Antigua & Barbuda	12	\$2,304,093	Donna	1960	4	\$1,037,362	n.a.
Belize	13	\$1,480,081	Hattie	1961	4	\$543,904	n.a.
Grenada	6	\$1,301,722	Ivan	2004	4	\$1,275,348	200
St. Kitts & Nevis	9	\$1,205,233	Goerges	1998	4	\$664,922	122
St. Lucia	15	\$441,201	Allen	1980	3	\$289,323	51
Trinidad & Tobago	5	\$294,459	Flora	1963	3	\$265,440	5
Barbados	9	\$250,883	Emily	1987	3	\$238,477	6
St. Vincent	11	\$157,600	Allen	1980	4	\$53,597	20
Total/Average		\$30,406,929				\$14,130,909	72

Source: Calculated using data from Emergency Events Database (EM-DAT)

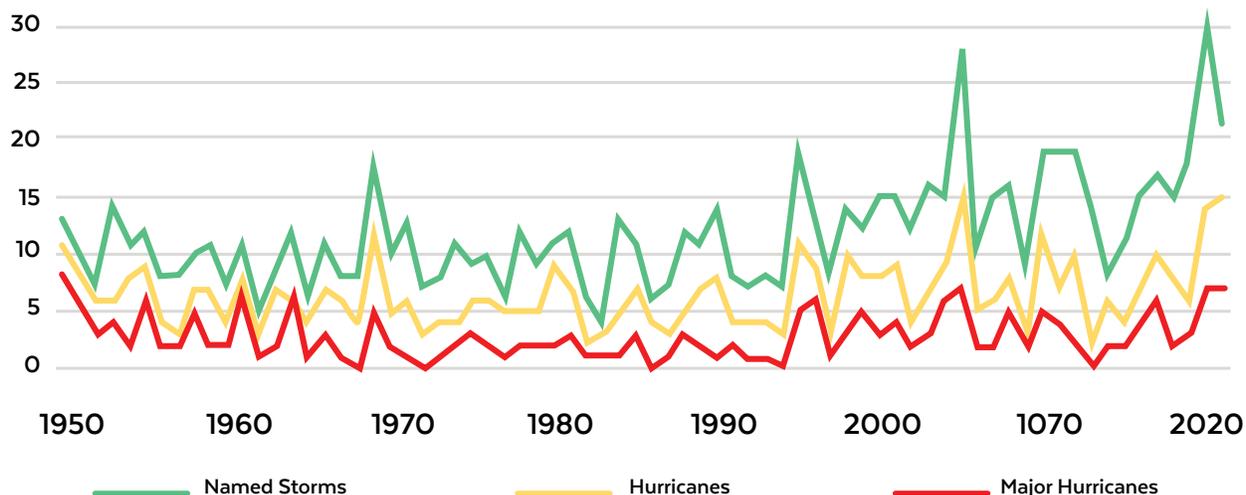
Note: Nonimal GDP data available in 1960 and 1961

THE CARIBBEAN'S CLIMATE CRISIS



The climate crisis, which has been created by Global North countries from colonialism to the Industrial Revolution to the present day, is likely to worsen the precarious debt burden of Caribbean SIDS, which are already disproportionately experiencing the worst impacts of climate extreme events, even though they are responsible for less than 1% of global emissions. With 70% of the Caribbean population living and working in coastal areas, where most of the infrastructure is located, climate change poses an existential threat to the region's communities, economic sectors and biodiverse ecosystems. Of special concern to heavily indebted Caribbean SIDS is the link between climate change and the frequency, intensity and duration of tropical storms and hurricanes. Since around 1995, there appears to be an acceleration in the number of tropical storms developing in the North Atlantic basin, with half of the named storms occurring in the last 25 years, marked by a distinct increase in the number of intense hurricanes (see Figure 3). The 2017 Atlantic hurricane season provided valuable insight into the future that the Caribbean might face under climate change.

Figure 3. Tropical Storm Activity in the North Atlantic Basin, 1950-2021



Source: National Oceanic and Atmospheric Administration (NOAA)

In historical terms, the 2017 Atlantic hurricane season was the most active in the North Atlantic basin since 2005 and the seventh most active since the beginning of consistent hurricane data recording in 1851. There was a total of 17 named tropical storms, of which 10 were hurricanes and six further intensified to major hurricanes. Three of the most notable systems of the 2017 Atlantic hurricane season were Hurricanes Harvey, Irma and Maria, all of which attained Category 5 status. Both Hurricanes Irma and Maria, which inflicted tremendous damage in the Eastern Caribbean, were “Cape Verde” type hurricanes. There was substantial loss of life, widespread infrastructural damage, destruction of crops and livestock, diminished standards of living, and loss of livelihoods. The 2019 hurricane season proved to also be record-breaking, with Hurricane Dorian (Category 5) causing significant devastation in the Bahamas.

Climate projections suggest that, as the century progresses, the Caribbean under the worst scenarios will be a significantly different place – much warmer and drier, with higher sea levels and prone to more intense storms – than at present, at a huge cost to impacted Caribbean SIDS. For example, the climate crisis due to hurricane damage, tourism losses and infrastructure damages could cost Caribbean countries US\$22 billion annually by 2050 and US\$46 billion annually by 2100. This indicates that the climate finance needs of Caribbean SIDS are considerable and beyond the capacities of many heavily indebted governments.

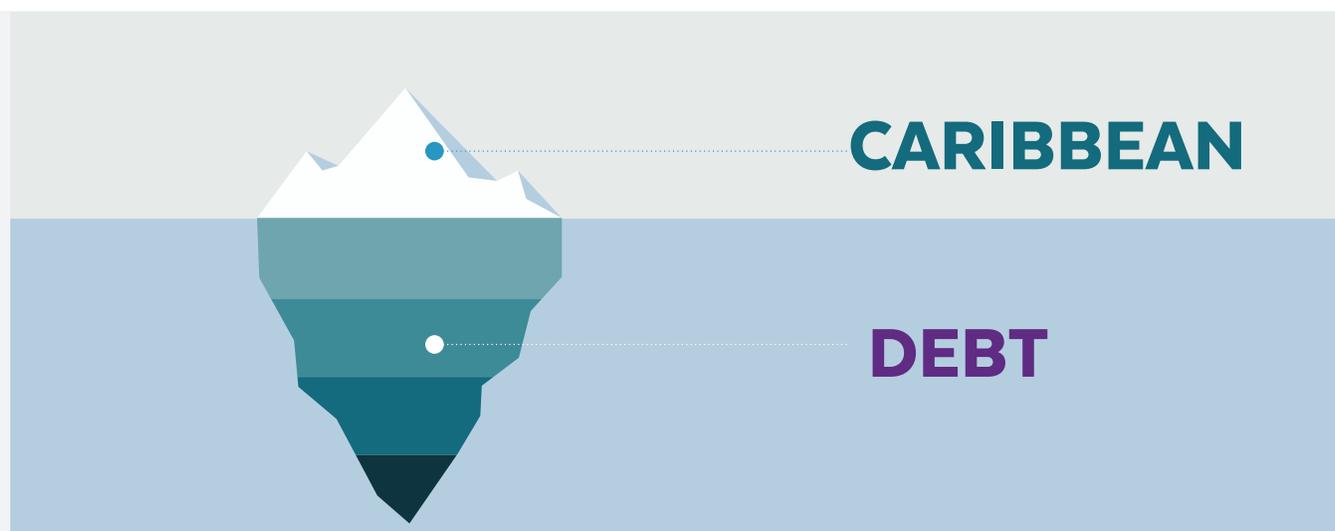
In 2009, Global North countries promised to provide US\$100 billion in climate finance per year by 2020. Apart from being a woefully inadequate amount that falls far short of the trillions of climate finance per year that the Global South needs, this goal is likely to be met in 2023, three years after the promised target. Most of this climate finance comes as loans (71%) rather than grants and adds to the already unsustainable debt burdens of climate vulnerable countries, including those in the Caribbean. Even more disconcerting is that many Caribbean SIDS cannot access any of the modest amounts of grant-based climate finance due to their higher middle-income status.



The lack of climate finance is most stark when it comes to addressing Loss and Damage – the impacts of the climate crisis that cannot be prevented or addressed. While ‘loss and damage’ has gained increasing recognition in international climate change negotiations since the Conference of the Parties or COP meetings started in the early 1990s, Global North nations have repeatedly blocked efforts to add it to the agenda. This is because ‘loss and damage’ is interwoven with issues of fairness and equity. Increasingly, climate advocates and the Global South have framed Loss and Damage funding as a form of reparations. Since Global North industrialised countries such as the United States and Europe have been responsible for the cumulative stock of global emissions, while the late-industrialising countries such as Brazil and India are responsible for the current rise in emissions, and small island nations like those in the Caribbean have done little historically to cause climate change, then the Global North should compensate the Global South for now having to shoulder the burden of climate change.

Without adequate climate finance, Caribbean SIDS are forced to borrow more, incurring significant debt to pay for response, recovery and reconstruction costs. This keeps Caribbean countries locked into a debt-climate trap where they accumulate even more debt, only to have efforts wiped out again by the next hurricane, forcing them to borrow once more and creating ever-mounting debt levels. In addition, loans to Caribbean countries are often at high and rising interest rates because of their extreme vulnerability to climate events. Higher interest rates based on climate vulnerability are predicted to cost Caribbean SIDS nearly US\$5 billion over the next decade, providing a long-term source of income, especially for private creditors from the Global North, at the cost of people’s lives in the Caribbean.

Furthermore, there is currently no comprehensive and consistently applied mechanism to suspend debt payments when a country is hit by a climate extreme event. This means that, in many cases, countries continue servicing their debt when a climate extreme event strikes, diverting vital resources away from emergency response and reconstruction efforts. Dominica, for example, had to make a debt payment to lenders just days after Hurricane Maria struck in September 2017 and destroyed most of the island.



RECOMMENDATIONS

In order to deal with the sovereign debt and climate finance crises facing Caribbean SIDS and other heavily indebted, climate-vulnerable Global South countries, CPDC calls on the international community to urgently implement the following five priority actions:



PROVIDE GREATER VOLUMES OF NEW AND ADDITIONAL CONCESSIONAL/GRANT-BASED CLIMATE FINANCE

1

Greater volumes of new concessional/grant-based climate funding must be accessible to all Caribbean SIDS and other Global South nations. This requires the World Bank to replace its arbitrary income criteria, which determines access to concessional finance, with a multi-dimensional vulnerability index which includes the physical, economic, social, environmental, and institutional characteristics of the countries being assessed. Adequate levels of additional grant-based climate finance, including those to civil society, would go a long way in ensuring that climate finance responds to the needs of vulnerable communities in a just and equitable manner. Scaled-up concessional financing must be additional to existing financial commitments made by Global North nations, such as on ODA.

DELIVER COMPREHENSIVE DEBT RELIEF AS A MAIN FORM OF CLIMATE REPARATIONS

2

CPDC has developed 'Caribbean Emancipation 2030', a sovereign debt and climate justice initiative which seeks to remove the onerous debt overhang of Caribbean SIDS, free up resources to boost climate resilience actions aligned with the 2015 Paris Agreement, and support sustainable development. This debt relief must be seen as a main form of climate reparations for the destruction and harm caused by Global North polluting nations from colonialism to the Industrial Revolution to the present day.

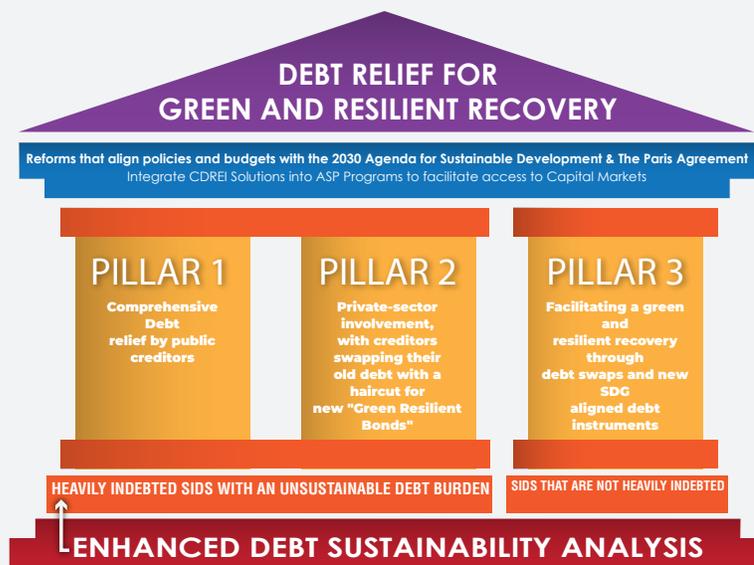
Caribbean Emancipation 2030 has three pillars aimed at achieving maximum creditor and debtor participation. These pillars are as follows:

Under Pillar 1, bilateral and multilateral creditors would grant comprehensive debt relief to eligible Caribbean SIDS with an unsustainable debt burden. Non-Paris Club creditors such as China would be expected to provide debt relief on comparable terms with Paris Club creditors. The IMF would remain key to coordinating actions between creditors and debtors.

Under Pillar 2, private creditors would grant debt relief through appropriate ‘haircuts’ to the same group of eligible Caribbean SIDS. Private creditors participating in the debt restructuring would swap their old debt holdings for new ‘Green Resilience Bonds’ with ‘hurricane clauses’ to help mitigate natural disaster risks. The World Bank or regional multilateral development banks could give these Green Resilience Bonds credit enhancements, which will help Caribbean SIDS create a liquid secondary market for new tradeable green bond instruments and have renewed access to international capital markets. When a climate extreme event such as a tropical storm or hurricane occurs that significantly affects the economic outlook of a Caribbean SIDS, the hurricane clause would allow for an immediate, interest-free suspension of all debt payments from that country and free up resources for response, recovery and reconstruction.

Under Pillar 3, Caribbean SIDS that are not heavily indebted but have reduced fiscal space could undertake a debt for climate swap. A debt for climate swap is an agreement between a debtor country and one or more creditors to restructure, reduce or buy a portion of outstanding debt in exchange for a percentage of the proceeds (in local currency) to finance climate mitigation and adaptation efforts, usually by a third party. Debt for climate swaps, when well-designed, are useful tools for complementing sovereign debt restructurings to provide additional climate finance. Belize completed a debt for climate swap in 2021, while both Barbados and Antigua & Barbuda are in the process of completing debt for climate swap transactions.

Figure 4: Caribbean Emancipation 2023: Pillars of Recovery



In return for this substantial debt relief, Caribbean governments would agree to commit to spending a significant portion of the reduced debt service burden on pursuing appropriate green resilience policies aligned with the 2030 Agenda for Sustainable Development and the Paris Agreement. Caribbean governments could also integrate Climate Disaster Risk Finance and Insurance (CDRFI) solutions and shock responsive or adaptive social protection (ASP) programs into their National Adaptation Plans and National Disaster Resilience Strategies. Caribbean Emancipation 2030 provides a useful template which can be expanded to include other heavily indebted, climate vulnerable Global South nations.

ESTABLISH A FACILITY DEDICATED TO FUNDING LOSS AND DAMAGE

3

Climate-related loss and damage is already a brutal reality, impacting millions on the frontlines of climate change all over the world, but especially those who contributed the least to climate change, such as Caribbean SIDS. In 2022, no continent avoided unprecedented extreme weather disasters. There was the devastation caused by Hurricane Ian in the Caribbean and eastern United States, severe flooding in Pakistan and Nigeria, record heatwaves in Portugal and Spain, forest fires in Australia and the ongoing drought in the Horn of Africa. Given that these record heatwaves, drought and floods have come about from elevated temperatures, the world can expect far worse to come, which adds urgency to the calls of the Global South to establish a facility to finance Loss and Damage caused by climate change, based on the polluters pay principle, and separate and apart from funding for climate mitigation and adaptation. Funding for Loss and Damage must be seen as another form of climate reparations for the damage and destruction caused by Global North nations from colonialism to the Industrial Revolution to the present day.

The New Collective Quantified Goal on Climate Finance (NCQG) for post-2025 provides an opportunity for a new climate finance structure that addresses Loss and Damage. This was missing in the current US\$100 billion goal, which prioritised mitigation, left adaptation underfunded and ignored Loss and Damage finance. The Global North should stop blocking negotiations and facilitate an agreement to establish and make fully operational a separate and dedicated Loss and Damage Finance Facility. Funding for such a facility could come from a levy on the windfall oil and gas profits of energy companies. The volume of climate finance provided through the Loss and Damage Finance facility must be in line with the needs of Caribbean SIDS and other climate vulnerable countries and must come in the form of grants, not loans. The Santiago Network on Loss and Damage also needs to be operationalised as an effective mechanism to catalyse and deliver the required technical assistance to climate vulnerable countries.

RE-CHANNEL AT LEAST US\$1 BILLION OF UNUSED IMF SPECIAL DRAWING RIGHTS (SDRS) TO THE CARIBBEAN DEVELOPMENT BANK (CDB)

4

Special Drawing Rights (SDRs) are a reserve asset initially created to help IMF member countries facing balance of payment crises and are distributed on the grounds of each country's quota share in the IMF. SDRs have two characteristics that make them 'special' and extremely valuable at a time of crisis: they create no debt in the recipient country, and they come with no conditionality. In August 2021, the IMF issued US\$650 billion of SDRs – the largest allocation in history – to the countries of the world. Given its unfair distribution based on IMF quotas, SDRs did not reach the Global South countries that needed them the most. **Table 2** shows that of the US\$650 billion of the newly allocated SDRs, about US\$400 billion have been left idle in central banks in Global North countries. About US\$250 billion went to emerging and developing countries, while low-income countries received just over US\$21 billion. Reflecting their small quota share, Caribbean countries received about US\$2 billion.

Figure 2. Distribution of Historic 2021 SDR Allocation

Broad IMF Categorization	Percent Categorization	SHARE OF SDR ALLOCATION	
		Amount (US\$mn)	Percent
World		\$650,00	100%
Advanced Economies	Advanced Economies	\$399,241	61.4%
Emerging & Developing Economies	Emerging & Developing Economies	\$250,914	38.6%
	Emerging & Developing Asia	\$84,361	13%
	Latin America & the Caribbean	\$51,505	7.9%
	Middle East & the Central Asia	\$49,484	7.6%
	Emerging & Developing Europe	\$42,634	6.6%
	Sub-Saharan Africa	\$22,931	3.5%
	China	\$41,612	6.4%
	Low-Income Countries	\$21,508	3.30%
	Vulnerable 20 Group	\$25,883	4%

Source: Merling, Lara. 2022. "No Voice for the Vulnerable: Climate Change and the need for Quota Reform at the IMF." GCI Working Paper 057/10/2022. Global Development Policy Center. Boston University

In late 2021, the G20 countries committed to recycling US\$100 billion of their unused SDRs to help the Global South in need of international reserves – a process called recycling. One recycling proposal led to the recently established IMF’s Resilience and Sustainability Trust (RST). Another promising proposal is to recycle SDRs outside of the IMF to the Multilateral Development Banks (MDBs) such as the World Bank, the African Development Bank and the Asian Development Bank. The Caribbean Development Bank (CDB) is an MDB which operates in the Caribbean region. It is a highly rated international financial institution with a track record of helping Caribbean countries mobilise financial resources in pursuit of economic and social development objectives. It has a loan portfolio of around US\$1.5 billion. A rechanneling of about US\$1 billion of SDRs to the CDB can provide sufficient capital for it to ramp up lending to Caribbean SIDS for climate change. This rechanneling of unused SDRs through the CDB to recipient countries must preserve the existing debt-free, no-conditionality characteristics of SDR financing.

While some technical innovation and flexibility can help in getting SDRs to the CDB, what is needed most right now is a political push to use the SDRs at the CDB.

CONDUCT A REVIEW OF THE IMF’S NEW RESILIENT AND SUSTAINABILITY FACILITY (RSF) TO MAKE IT MORE FIT FOR PURPOSE

5

The IMF’s Resilient and Sustainability Facility (RSF), created under the Resilience and Sustainability Trust, is a new financing tool to help low-income and vulnerable middle-income countries build resilience to external shocks and ensure sustainable growth. It complements the IMF’s existing lending facilities by providing concessional, long-term financing to address challenges such as climate change. So far, the Resilience and Sustainability Trust has more than US\$40 billion in funding pledges for the unused Special Drawing Rights (SDRs), arising from the IMF’s historic allocation of US\$650 billion in August 2021. Still, this amount is considerably below the US\$6 trillion in resources that the Global South nations need to tackle the climate crisis.

For the first time in its history, the IMF has created a concessionary instrument for longer-term financing that explicitly takes vulnerability into account. While the RSF appears to be a key innovation in international financial architecture, its current design features may not have the intended transformational impact on Global South countries. Instead, the RSF may end up giving additional powers to the IMF in areas outside its mandate, such as climate action. Only in July 2021 did the IMF recognise climate as a macro-critical issue that is relevant to its mandate and approved a roadmap on how to incorporate climate issues into its operations. This is a controversial move that warrants further scrutiny.

On September 28th, 2022, the IMF announced that Barbados had reached a staff-level agreement to access the RSF with an accompanying Extended Fund Facility (EFF). According to the agreement – which is subject to approval by the IMF Executive Board – Barbados will get access to about US\$183 million under the RSF and an additional US\$110 million under a 36-month EFF to maintain and strengthen macroeconomic stability and continue implementation of the structural reform agenda. Subsequently, the IMF announced that Costa Rica and Rwanda planned to access the RSF.

The IMF is expected to conduct an interim review of the RSF around April 2024, and a more comprehensive review is scheduled to take place around October 2026 at the latest. There is still a window of opportunity to improve the design of the RSF to make it more fit for purpose as an important, transformational instrument for resilience and sustainability in the world economy.

CPDC calls on regional and international partners, governments to gaze upon the impacts and challenges associated with unsustainable debt in the region as we aim to achieve the sustainable goals. If not fully addressed, the Caribbean will be left behind and delayed in the fulfillment of the SDGs.





ABOUT US

The Caribbean Policy Development Centre was established in 1991, by Caribbean NGOs to work towards policy change in the interest of Caribbean peoples. CPDC's mandate is to help Caribbean NGOs to:



- *Understand how policies affecting Caribbean people are made,*
- *Share information about policies and decision-making processes,*
- *Work to influence and bring positive change to the development process, and*
- *Lobby for policies which are in the interest of Caribbean people.*

The CPDC is a regional network, whose membership comprises other regional development organizations, national networks, umbrella organisations, national agencies, and individuals. Since its inception, the CPDC undertaken research, analysis, advocacy and lobbying and has formulated policy positions on a variety of issues relevant to Caribbean society. With a history of lobbying and an impressive portfolio of projects and programmes implemented on behalf of Caribbean peoples, CPDC has been recognised as an important social partner in the development of the region.





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