

POLICY BRIEF

What is the Relevance of the Fourth International Conference on Financing for Development (FFD4) for Caribbean SIDS?

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Introduction

Since 2020, Caribbean Small Island Developing States (SIDS) and other developing countries have been grappling with multiple external shocks that have seriously setback their attempts to reduce poverty, eradicate hunger and achieve other Sustainable Development Goals (SDGs). These shocks include the unprecedented COVID-19 pandemic, Russia's war on Ukraine, and aggressive monetary tightening in Global North countries which spiked global interest rates. Additionally, although Caribbean SIDS contribute little to global warming, they are on the frontlines of climate change, as their economies endure significant loss and damages caused by more frequent and powerful hurricanes. As a result, these small island nations have been ensnared in a vicious debt-climate trap, placing them among the most heavily indebted SIDS worldwide.

For Caribbean SIDS, the upcoming Fourth International Conference on Financing for Development (FFD4) which will take place at the end of June 2025 in Seville, Spain is of critical importance to their sustainable development prospects. Despite very challenging geopolitical circumstances, especially current attempts by the United States and European countries to slash aid budgets, FFD4 will attempt to forge the main global policy framework for development finance over the next decade, complementing earlier multilateral agreements such as the Addis Ababa Action Agenda (2015) and the Monterrey Consensus (2002).

More and better development financing can help Caribbean countries to catch up on the 2030 Agenda and tackle the climate crisis which poses an existential threat. At the same time, the FFD4 Conference provides an opportunity to reform the 80-year-old global financial architecture so that its apex institutions – the International Monetary Fund (IMF) and the World Bank – can meet current and future challenges, while enhancing the voice and representation of Global South nations, including those in the Caribbean.

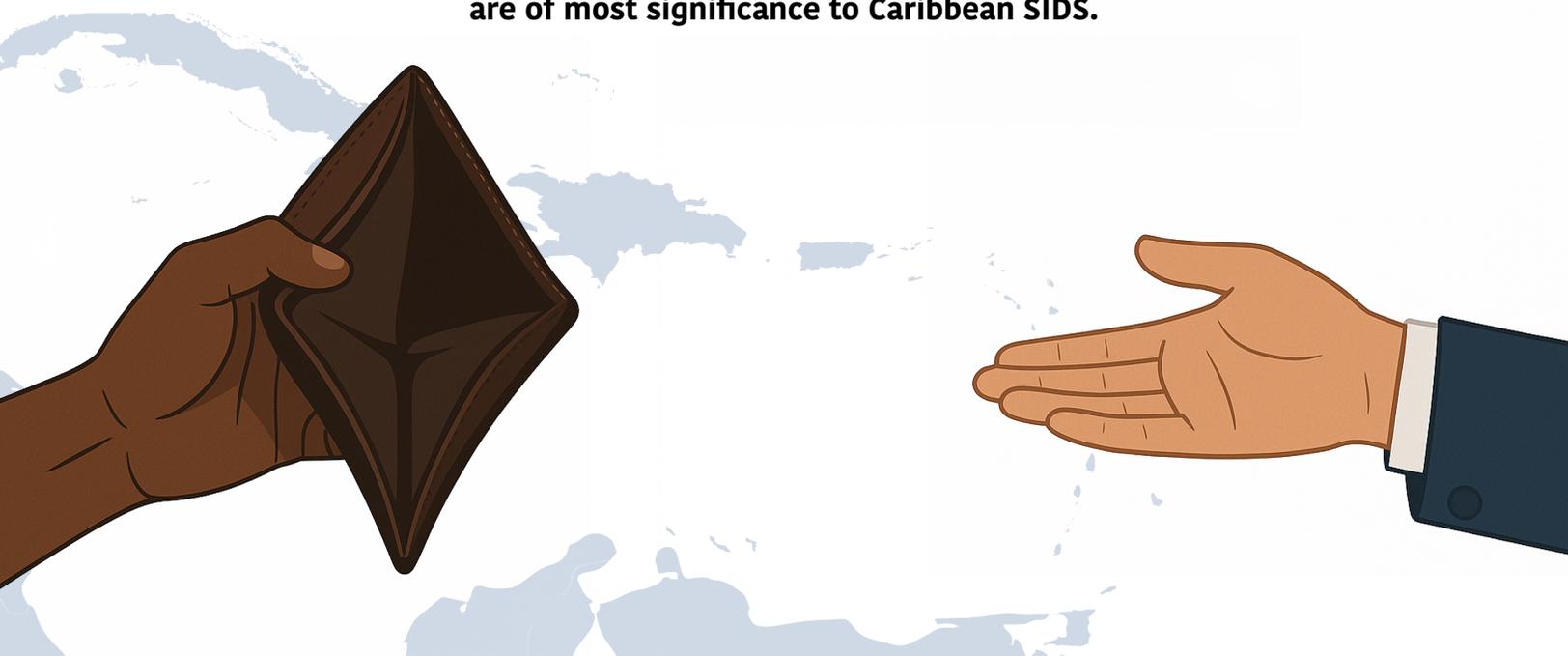
Expectations are therefore high that the FFD4 conference, which brings all 193 United Nations' member states together at the negotiating table, must produce concrete decisions that have worldwide validity and global legitimacy, demonstrating that the international community is prepared to cooperate constructively to tackle global pressing development problems in a spirit of renewed solidarity.



What's in the First Draft Outcome Document?

In the leadup to the Sevilla Conference, the UN circulated the Zero Draft document which served as the starting point for interventions by Member States and other stakeholders at the third session of the Preparatory Committee (PrepCom3) that took place during 10-14 February 2025. Subsequently, on 10 March 2025, the UN released the First Draft Outcome document, which after negotiations eventually results in the Outcome Document that will become the world's key multilateral agreement on development finance over the coming decade.

The following are key thematic areas in the First Draft Outcome document that are of most significance to Caribbean SIDS.



Sovereign Debt Crisis

A major development since the 2015 FFD3 conference in Addis Ababa is that Global South countries are now facing a widespread sovereign debt crisis that is symptomatic of the structural flaws of the global financial architecture. Many developing countries have been forced to rely on expensive private market financing to meet their regular development needs and to mobilize additional funds in response to multiple external shocks from COVID-19 to wars to interest rate hikes as well as natural disasters and climate change.

The situation is worsened by the lack of effective mechanisms to prevent and manage debt crises in the global debt architecture, resulting in most episodes of sovereign debt restructuring being typically too late or too small in scale. The ‘Common Framework’ agreed by the G20 in 2020 to help low-income countries restructure their debts was intended to provide a remedy, but it has failed to deliver timely debt relief and to involve private creditors and China in comprehensive debt solutions.

Both UNCTAD and the World Bank have rung the alarm bells that urgent action on debt is needed, as rising debt service costs squeeze fiscal space and push an increasing number of developing countries into acute debt crises. In 2023 alone, debt servicing consumed almost 40 percent of budget revenues across the Global South, with low-income countries recording their highest debt payments since 1998, surpassing spending on healthcare, education and climate action.

The First Draft Outcome document puts forward several recommendations to both prevent and resolve debt crises. Some of the main recommendations are as follows:

- ▶ Encourage the G20 to further strengthen the Common Framework by expanding it to include other highly indebted countries (such as Caribbean SIDS).
- ▶ Request the UN Secretary General to create an independent expert working group to develop a set of principles on responsible sovereign borrowing and lending.
- ▶ Urge the IMF and the World Bank to refine debt sustainability assessments to better account for SDG spending needs, better capture nature and climate risks and account for the impact of investments on longer-term growth and sustainable development.
- ▶ Encourage official creditors to establish an institutional home for liquidity and liability management support within an existing facility, such as the Debt Reduction Facility of the World Bank.
- ▶ Operationalize the SIDS Debt Sustainability Support Service (agreed to at SIDS4 in Antigua in May 2024) and consider broadening it to cover other developing countries, including Less Developed Countries (LDCs).
- ▶ Initiate a UN intergovernmental process to closing gaps in the debt architecture and exploring options to address debt sustainability, including but not limited to a multilateral sovereign debt mechanism.



— Reform of International Financial Architecture —

The FFD4 conference has been explicitly mandated by the UN General Assembly in **Resolution 78/231** to support the reform of the global financial architecture bringing a dedicated development perspective to the discussions. Institutions such as the IMF and the World Bank, which are central to the architecture, date back to 1944 and have not been fundamentally overhauled in the past 80 years, resulting in governance, effectiveness and legitimacy problems. For example, the share of votes of the 45 LDCs in the UN General Assembly is 23 percent, but it is only 3.5 percent at the IMF. Further, not a single developing country is a member of the G20, OECD or the Financial Stability Board, all of which significantly influences the global economic and financial policy environment. Not surprisingly, the UN Secretary-General has characterized the international financial architecture as “out-dated, dysfunctional and unjust”.

The First Draft Outcome document contains many actions to reform the global financial architecture. The main recommendations are as follows:

▶ **IMF and World Bank Governance:**

Restore basic votes back to $\frac{1}{9}$ of the total voting rights in the IMF at the time of the IMF's founding; ensure a comprehensive and successful World Bank shareholding review in 2025 that delivers a more equitable balance of voting power; and consider options to increase the voice and representation of developing countries, including increasing the size of the Executive Boards of the IMF and World Bank to create balanced geographic representation.

- ▶ **IMF Facilities:**
Further review of the IMF’s precautionary lines, drawing on successes of bilateral swap lines to consider creating a new IMF multilateral swap line.
- ▶ **IMF Surcharges:**
Adopt a policy for suspending surcharges during disasters and exogenous shocks while maintaining the revolving nature of IMF resources.
- ▶ **The IMF’s Resilience and Sustainability Facility (RSF):**
Reconsider the requirement for countries to have a concurrent upper credit tranche IMF programme to access RSF funding.
- ▶ **Special Drawing Rights (SDRs):**
Consider the issuance of new SDRs; encourage countries in a position to do so to re-channel 50 percent of unused SDRs from the 2021 allocation while retaining SDR’s liquidity and reserve asset character; and create a “playbook” to guide future SDR allocations that are rapid, fair and needs based.
- ▶ **Credit Ratings:**
Organise an annual special high-level meeting under the auspices of the UN’s Economic and Social Council (ECOSOC) for dialogue with Member States, credit rating agencies, regulators, standard setters and other stakeholders.
- ▶ **Risk-Weighting:**
Invite the Financial Stability Board to carry out a review of the potential miscalibration of risk weightings in financial regulatory frameworks, such as Basel III.



— Domestic Resource Mobilisation (DRM) and Taxes —

Domestic resource mobilisation (DRM), mainly through tax revenue, continues to be the major non-debt-creating source that developing countries can use to finance their development. This makes it critical that DRM recommendations provide concrete steps to deliver the finance that Global South nations require.

The First Draft Outcome document contains the following main examples on mobilising domestic resource mechanisms for financing development:

- ▷ Consider extending taxation reporting obligations to high-net-worth individuals, supported by international cooperation, while respecting national sovereignty.
- ▷ Ensure international tax cooperation frameworks are fully inclusive and beneficial to all parties. Strengthen the voice and representation of developing countries in the international tax architecture.
- ▷ Continue to support and engage constructively in the negotiations on a United Nations Framework Convention on International Tax Cooperation and its protocols.
- ▷ Work towards establishing a global beneficial ownership registry covering a wide range of assets, legal entities and legal arrangements.
- ▷ Explore implementing innovative taxes to mobilize resources for sustainable development, including in the form of global solidarity levies and inviting countries to apply them on a voluntary basis.
- ▷ Establish a special meeting of the ECOSOC to address financial integrity at the systemic level.



International Development Cooperation

Global development financing is facing significant cuts, with major donor countries such as the United States, Germany, France, and the UK notably reducing their aid budgets. In response, developing nations are looking to the Fourth International Conference on Financing for Development (FFD4) to go beyond traditional aid and adopt more ambitious models for international development cooperation. However, the First Draft Outcome document falls short of delivering substantive proposals to enhance global public finance. Instead, it merely reaffirms the decades-old target of allocating 0.7% of gross national income (GNI) to official development assistance (ODA), first established in 1970, along with existing principles for effective development cooperation.

The main recommendations of the First Draft Outcome document on international development cooperation are as follows:

- ▷ Decide to undertake every effort to reverse reductions in ODA and scale up and achieve commitments by most developed countries to reach the existing target of 0.7% of ODA/GNI to developing countries, while preserving the concessional nature of the aid flows.
- ▷ Consider using complementary measures of progress that go beyond gross domestic product (GDP), including the multidimensional vulnerability index to inform access to concessional financing.
- ▷ Encourage at least five donor countries to contribute to the SDR-based hybrid-capital channelling solutions by the African Development Bank and the Inter-American Development Bank by the end of 2025.
- ▷ Urgently scale up contributions to the Fund for Responding to Loss and Damage.



Private Finance

Catalysing and scaling up private investment is seen as essential to filling the huge SDG financing gap, estimated at US\$4 trillion annually. However, the private sector is yet to come fully to table except to provide high-interest loans and bonds, which have contributed to the surging debt service costs that are now burdening developing countries. Attracting sufficient foreign direct investment has also not been successful. The First Draft Outcome document shows no clear direction on how private finance can help fund national sustainable development strategies, including industrial policies, of Global South countries, instead relying on promoting full-market-oriented policy frameworks which have not worked well.

The First Draft Outcome document suggests the following key recommendations on private finance:

- ▶ Promote the creation of new domestic investment vehicles, such as development-oriented venture capital funds, and innovative financial instruments that support sustainable development, including thematic bonds (green, social, sustainability and SDG bonds, as well as sustainability-linked bonds), with sound regulatory frameworks and adequate risk management.
- ▶ Promote access of micro-, small- and medium-sized enterprises (MSMEs) to affordable credit by strengthening the MSME ecosystem, including through local banks, credit unions and public development banks as well as through capacity building and enhance local currency financing for MSMEs.
- ▶ Establish the International Investment Support Centre for Least Developed Countries; the Infrastructure Investment Financing Facility for Landlocked Developing Countries; and the Centre of Excellence for Small Island Developing States, which will include, inter-alia, a biennial Island Investment Forum.



Trade

Despite the United States' recent mercantilist policies, which have the potential to disrupt the normative global economic framework, the trade chapter of the First Draft Outcome document outlines specific actions and innovations that could serve as a foundation for building new trade alliances and relationships. This may signal a recognition that the current global trade governance model—centred around the World Trade Organization (WTO)—is ineffective and needs to adopt a more ecosystem-based approach. Such an approach would integrate the UN General Assembly (UNGA), the Economic and Social Council (ECOSOC), and the UNCTAD's Trade and Development Board, while also considering the establishment of new institutions.

The First Draft Outcome document proposes the following key recommendations on trade:

- ▷ Invite the UN Secretary-General in collaboration with the WTO Director-General and relevant actors to review the role of trade as an engine for sustainable development and the SDGs.
- ▷ Undertake reform of the mechanisms for investor-state dispute settlements in trade and investment agreements through a multilateral approach and establish an advisory support service for developing countries for international investment dispute settlements.
- ▷ Accelerate the replacement and termination of outdated investment agreements that hinder progress on the SDGs, building on existing efforts by all stakeholders, including by UNCTAD.
- ▷ Strengthen preferential market access for LDCs by ensuring the full implementation of duty-free, quota-free market access for all products originating from LDCs and by simplifying rules of origin.

- ▶ Commit to scale up aid for trade infrastructure and facilitation with the objective of doubling Aid for Trade to LDCs by 2031 and continue to allocate at least 50 percent to building trade-related infrastructure.
- ▶ Invite the ECOSOC FFD Forum to consider the impact on sustainable development of unilateral economic, financial or trade measures that are inconsistent with the principles of international law and the Charter of the United Nations.

The First Draft section on trade also adds the entirely new critical minerals issue to the FFD4 agenda. It encourages development partners and international financial institutions to engage in global commodity partnerships to support production, refining and procession of critical minerals in developing countries. Global South countries, mainly in Africa, need to strongly protect their sovereignty over critical mineral resources and strengthen their policy space to use these resources in pursuit of sustainable development. They also need to guard against possible attempts by Global North countries to use this section to undermine developing countries' control over critical mineral resources while reinforcing extractive models and practices.



Key FFD4 Priority Areas for Caribbean SIDS

The FFD4 process is taking place at a time when Caribbean SIDS are caught in a vicious, middle-income country debt-climate change trap. The financial resources that Caribbean governments need to invest in critical areas such as education, health and building climate resilience are increasingly being diverted to repay their debts, while their borrowing costs are increasing due to climate-related vulnerabilities, leading to more debt. At the end of 2024, five Caribbean countries were in the top 10 of the world's the most heavily indebted SIDS worldwide. Additionally, since 2020, Caribbean governments have been grappling with a 'polycrisis' of multiple, often interlinked shocks which have hindered their attempts to fight poverty and meet other SDGs.

Caribbean SIDS urgently require significant concessional development financing to transition to low-carbon economies, adapt to climate change and cope with loss and damage. However, the traditional income per capita measurement, which the World Bank and international donor community uses to determine eligibility for aid and concessional financing, classifies Caribbean SIDS as middle-to high-income countries. As a result, most of the development finance which Caribbean countries receive has been in the form of loans, which further aggravate their already unsustainable debt burden.

This unjust situation facing Caribbean nations is of direct relevance to FFD4's agenda on reforming the global financial architecture since it goes to the heart of the inequalities embedded in the 80-year-old international financial system, which emerged in the aftermath of World War II and is now seen as no longer fit for purpose. Caribbean SIDS urgently need a sustained push of adequate, low-cost and growth-enhancing financial support to tackle unsustainable debt, deal with the climate crisis, reduce poverty and attain other SDGs.

Considering the foregoing, Caribbean civil society groups should continue during the FFD4 process to:



Reach out to UN delegations of their respective member states as part of broader advocacy efforts on FFD4.



Support calls made by global civil society for a UN Framework Convention on Sovereign Debt. This framework should at least encompass agreement on issues such as a multilateral sovereign debt resolution mechanism, binding responsible sovereign lending and borrowing principles, an automatic mechanism for debt payments suspension in the wake of catastrophic external shocks, creation of a global debt registry to promote debt transparency, and new approaches by the IMF and World Bank to reforming their debt sustainability analyses.



Support development of a new debt relief initiative for both low- and middle-income countries, learning from the experiences of previous international debt relief programmes to ensure the new framework is responsive to the pressing needs of affected countries, particularly Caribbean SIDS.



Call on the World Bank and other MDBs to increase Caribbean SIDS' access to concessional finance. This will require the World Bank to supplement its Gross National Income (GNI) indicator which it uses to determine eligibility for concessional finance with a multidimensional vulnerability index (MVI), which better captures the economic, social and environmental causes of vulnerability in Caribbean and other SIDS. A MVI such as that developed by the United Nations can serve as a complementary framework to guide the mobilisation and allocation of concessional finance for Caribbean SIDS.



Call for a new issuance by the IMF of SDRs and for the rechanneling of at least US\$500 million worth of unused SDRs through the Caribbean Development Bank (CDB) to reinforce regional liquidity and to ensure that resources are leveraged for maximum impact. Any rechanneling of SDRs to the CDB should preserve the existing debt-free, no-conditionality characteristics of this reserve asset.



Call for a once-for-all increase of the share of basic votes at the IMF to the proportion that existed when they were first introduced, and to maintain that proportion for future capital increases. Restoring basic votes to their original level would protect the voting power of smaller Caribbean shareholders in the IMF.



What's Next?

The First Draft Outcome document represents a good starting point to enhancing the global development finance landscape, but Caribbean civil society will need to undertake significant advocacy efforts to ensure that the Final Outcome Document captures the priorities and aspirations of Caribbean SIDS and its peoples.

Building on the First Draft Outcome document, Member States will continue refining their proposals ahead of the fourth Preparatory Committee to be held April 30-May 1, 2025. This provides another opportunity for Caribbean civil society to further ensure its voice and representations are heard on this landmark document.

CPDC will continue to participate in the FFD4 process making sure we build on this momentum to drive ambitious and actionable reforms for financing the Caribbean's shared climate, debt and development goals.
