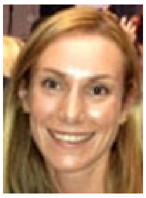
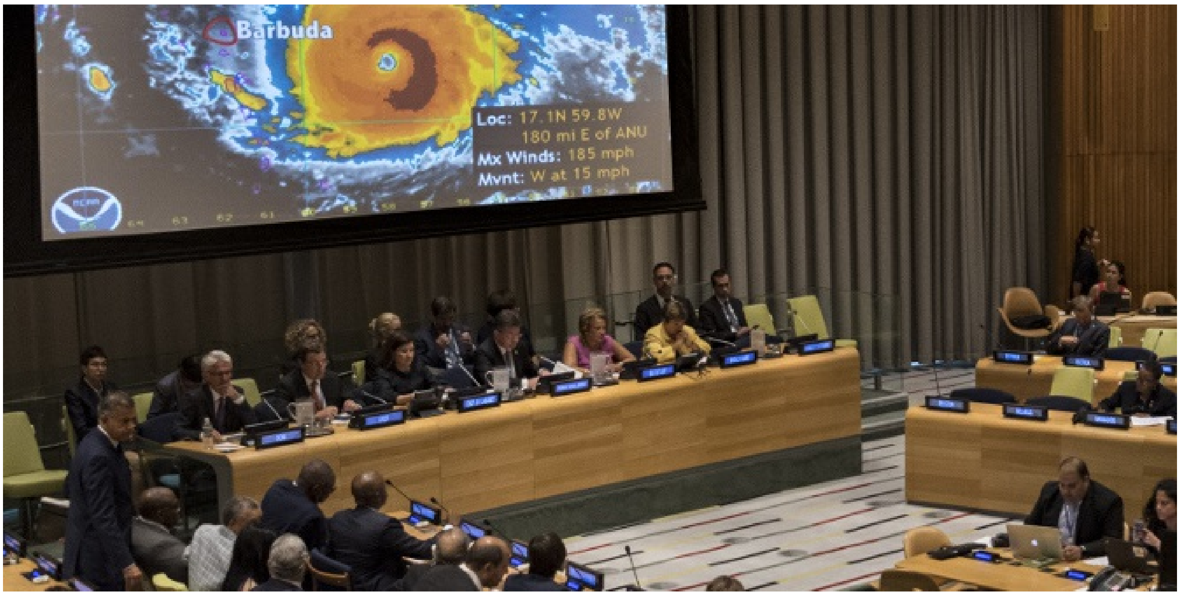
Building back better in the Caribbean requires supportive international finance



The time has come for the international community to shape a financial architecture that is more supportive of small island states' special circumstances and needs, writes **Gail Hurley** (United Nations Development Programme)*.*

In September 2017, hurricanes Maria and Irma laid waste to the Caribbean islands of Barbuda, Dominica, Puerto Rico, the British Virgin Islands, St. Martin, and many more. Gaston Browne, Prime Minister of Antigua and Barbuda, declared Barbuda to be "a rubble" and "barely habitable," and implemented a mandatory evacuation order to move the island's 1,800 people to safety. It is the first time the island has been uninhabited in over 300 years. In Dominica, Prime Minister Roosevelt Skerrit described the damage as "mind-boggling" and declared that Dominica "will need help of all kinds" to rebuild. The press noted that the island's rainforests appeared to have vanished.

These recent disasters have laid bare the deficiencies of an international aid and assistance architecture that sees many countries of the Caribbean ineligible for aid or concessional loans from bilateral and multilateral finance providers due to higher income per capita levels.



The UN General Assembly convenes to consider the impact of Hurricane Irma (Freya Morales, UNDP, CC BY-NC-ND 2.0)

Antigua and Barbuda, for example, can access only non-concessional emergency finance from the International Monetary Fund (IMF) to respond to disasters. Moreover, it will soon become ineligible for Official Development Assistance (ODA) from OECD-DAC aid providers as it is deemed too rich (the same has happened to several other small island states such as St. Kitts and Nevis). This is problematic because Antigua and Barbuda is already a severely indebted country, with public debt at over 90 percent of GDP. The authorities estimate that reconstruction will cost over US$200 million, far too much for a small country to fund through domestic resources alone.

Dominica – also severely indebted and whose debt stands at over 80 percent of GDP – is also ineligible to apply for debt relief from the IMF under the Catastrophe Containment and Relief Trust (CCR), a mechanism established in 2015 to provide exceptional debt relief for countries hit by catastrophic natural disasters or other emergencies such as disease outbreaks.

It is inconceivable that small vulnerable and severely indebted economies at the frontline of climate change (a problem they did not cause) should be expected to rebuild on the back of market-based finance.

What can be done? In the immediate-term, a facility is needed to support middle-income and high-income small island states vulnerable to weather shocks with access to concessional finance from multilateral and bilateral finance providers. There is a precedent for such an approach; last year the World Bank established the Global Concessional Financing Facility to help middle-income countries hosting large refugee populations, notably Jordan and Lebanon, access cheaper finance to help meet their increased costs.

Second, eligibility criteria for access to aid and concessional loans needs to be updated to reflect the new realities of small vulnerable countries. Small states face a particular set of sustainable development challenges – from vulnerability to extreme weather events and climate change to narrow export bases and scarce financial resources. As the UN and the Commonwealth Secretariat have long argued, environmental and economic vulnerability should be used to help determine eligibility for concessional resources. UNDP, the World Bank, the Commonwealth Secretariat, the UN Department of Economic and Social Affairs, the Caribbean Development Bank, and several other international organisations have established a joint technical working group to study how this could work in practice.

An aerial view of Dominica's capital Roseau reveals the extent of the devastation (Russell Watkins, DFID, CC BY 2.0)

Third, affected countries have high reconstruction costs. Dominica's Prime Minister Roosevelt Skerrit has said of his country, "so far we have lost all what money can buy and replace." For a small vulnerable economy already highly indebted, heavy reconstruction costs can put debt sustainability at risk. The devastation wrought by hurricane Ivan on Grenada in 2004 (which caused damages estimated at over 200 percent of GDP) was a key factor in the country's debt default in 2005. Debt relief for impacted countries must therefore be on the table.

At UNDP, we're looking at how creditors might sponsor a debt-for-resilience swap for the Caribbean, under which official creditors would reduce debt claims in exchange for investments in projects designed to enhance islands' resilience to weather shocks and climate change. This could represent a double-win: reduced debt and more resources for much-needed capital investments in resilience.

Finally, the moment has also come to explore how innovations in lending, such as hurricane clauses (which see a pause in debt service when a weather disaster strikes) or countercyclical loans (which allow debt service to fall when a major shock occurs) can be more widely used.

The Caribbean was rightly high on the agenda at recent Annual Meetings of the IMF and World Bank. Special discussions are being convened on how the international community can best support relief and recovery efforts, and minimise fiscal risks in affected countries. The UN has launched a flash appeal to raise some $31 million for the Caribbean, but so far too few financial pledges have materialised.

UNDP is already supporting Antigua and Barbuda, Dominica, and other Caribbean countries to build back better. Dominica's Prime Minister recently outlined his vision for the country to become the first climate-resilient nation after the latest devastation. To support this, the international community can put in place an international financing architecture that is more supportive of, and responsive to, small island states' special circumstances and needs. The moment could not be more opportune.

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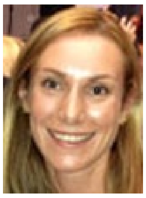

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