Framework Strategy Document: "From Vulnerability to Resilience"

INTRODUCTION

The COVID-19 pandemic has brought into stark reality the multidimensional nature of the developmental challenges confronting 14 members of the Organization of American States (OAS). These states comprise the Caribbean Community (CARICOM) group,[1] the majority of which are among the smallest and most vulnerable countries in the hemisphere.

These small island and low-lying coastal developing states have well-known, inherent, structural and systemic vulnerabilities, due to their remote locations, small size, the openness of their economies, and human, technical and financial constraints. In addition, they are acutely susceptible to climate change and its adverse effects, including sea level rise, increased and more intense hurricanes, droughts and flooding; economic and fiscal crises in the economies of their major trading partners; and the accompanying humanitarian problems arising from the impact of all such external events. The pandemic has compounded many of these challenges and highlighted the existential threats posed by exogenous shocks.

Economic security, health and human security, food security, and environmental security are all intertwined and are all at stake.

The impact of the coronavirus has been transmitted into the Caribbean through five channels: a collapse of the tourism industry; a worsening of financial conditions with an inadequate response from the international financial institutions; a reduction in remittances from developed countries where migrant workers are principally among those who have lost their jobs; a fall in commodity prices resulting from a global rise in unemployment and a consequent drop in demand for commodities; and an abrupt curtailment of foreign investment.

Governments have had to expend significant resources, spending between 1% and 4% of GDP, to mitigate the impact of the public health crisis, amid a sudden and extraordinary decline in revenues and foreign exchange. As their foreign reserves deplete, they have been forced to increase their debt burdens and suffer a drastic narrowing of their individual and collective fiscal space. While some of this debt has arisen from soft loan instruments from International Financial Institutions (IFIs), such as the International Monetary Fund (IMF), the World Bank Group (WBG) and the Inter-American Development Bank (IDB), it has increased the debt stock of these countries, which had already been high.

It is important to note that much of the debt was incurred by governments to rebuild their countries after hurricanes, which, in recent years, have intensified in ferocity and frequency attributable to increased greenhouse gas emissions by industrialized nations that have exacerbated climate changes.

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[1] These countries are: Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname and Trinidad and Tobago. Paradoxically, Haiti, whose population is almost twice as large as the other 13 countries, is the poorest.

Because of per capita income criteria, applied by the policy-making Boards of the IFIs, some CARICOM countries have been denied special consideration that have applied to less developed and low-income countries, even though they share many of the characteristics of vulnerabilities and under-development. Therefore, they have had to resort to either accepting non-concessionary loans which have worsened their debt burden, or they have opted to struggle on much depleted incomes by deferring payments of debt, thus exacerbating their debilitating debt situation.

The Paris Club of official debt holders has not found it possible to agree to suspension of debt payments or debt rescheduling to give these countries an opportunity to cope with the extraordinary challenges confronting them and which they had no hand in creating.

Economic collapse beckons as CARICOM states contend with the prospects of a long and damaging recession due to enforced slowdown of economic activity, as well as increased costs of importation of inputs for agriculture, construction, manufacturing and other industries. In addition, there has been an almost total drop in revenues from tourism, the main earner for most CARICOM countries; a worrying decline in remittances; pressures on supply chains in the agriculture, construction and manufacturing sectors; and a fall in commodity prices, the main source of income for some countries, due to the slowdown in global demand.

As economies continue to weaken, with an insufficient response by the international community for debt rescheduling and access to concessional financing, unemployment and poverty are growing. In addition to the economic impact of the pandemic, social disruption and increased levels of crime will surely follow. All this could lead to a vicious cycle of increased debt and further underdevelopment, which would, in turn, lead to degraded governance and governability. This would put at risk democratic stability, which has been a hallmark of most CARICOM countries. Such an eventuality could take decades to overcome.

The onset of the pandemic has underscored the need for the hemispheric and international communities to support the ongoing efforts of CARICOM countries to lessen their vulnerability and enhance their resilience to exogenous shocks that are not of their own making. The imperative is now to establish effective and meaningful collaborative mechanisms to mitigate global risks and threats, raise levels of readiness and promote uniformity of response.

As governments of CARICOM design and implement strategies to emerge from the crises generated by the COVID-19 pandemic, the imperative of building more resilient economic, social, and environmental systems has never been more urgent. In this respect, a new consensus needs to be forged, whereby regional governments and their international partners seize the opportunity presented by the pandemic to strengthen capacity, in pursuit of a more sustainable and equitable future.

It is noteworthy that, despite their limitation of small populations (except for Haiti), the CARICOM countries are rich in natural resources that are important to the rest of the world. In commodities, these resources include oil, gas, gold, diamonds, bauxite and minerals, forestry, fisheries, and agricultural products such as sugar, rice and spices. In services, many of the CARICOM countries are amongst the world’s most attractive tourism destinations.

CARICOM countries are also a steady market for the exports of hemispheric nations, such as the United States of America, Mexico, Brazil and Argentina – all of whom have enjoyed a perennial balance of trade surplus worth tens of billions of dollars annually,[2] while being among the least recipients of official development assistance (ODA), except for Haiti.[3]

Therefore, this paper proposes a new partnership framework, within which the international community, specifically the richer, more developed nations and the international financial institutions, can support CARICOM's efforts to lessen vulnerability and build resilience, based on quantifiable measures, so that these countries might ensure their long-term viability and continue to develop their capacities to integrate fully into the global economy.

Section 1: Immediate and Long-Term Challenges to the Development Interests of CARICOM countries

The public health demands

The global economic and human impact of the COVID-19 pandemic has been severe. The countries of CARICOM have not been immune. While the region has performed better than most other areas of the world in terms of containing the spread of the coronavirus, this achievement came at a high cost of new investment in their health systems, including extraordinary expenditure, in some cases, for more hospital beds, equipment and personal protective equipment for medical personnel. All CARICOM countries have had to spend scarce financial resources on testing equipment and on contact tracing and quarantining.

With the prospect of a second wave of the coronavirus in the last quarter of 2020, the demands on health systems of these countries pose grave threats as their economies decline and their revenues decrease. The strains on their health systems will also enlarge because of the importance of the tourism industry to the economies. They will have to make adequate provision for coping with tourists who fall ill with the virus after their arrival in CARICOM countries.

The Pan-American Health Organization made an appeal to donor countries in March 2020, for estimated funding for an initial six months (1 March to 31 August 2020) for CARICOM countries to prepare for, and respond to, COVID-19, totaling $30.4 million. This was part of a wider appeal for $94.8 million for the Caribbean, Central America and South America.[4] Apart from Canada, which in June 2020 donated $5.3 million (CAN$7.5 million) for the benefit of

[2] As an example, in 2019, the US balance of trade surplus with all CARICOM countries was US$8.1 billion and in the first quarter of 2020, the trade surplus was US$2.47 billion.

[3] In 2019, US aid global aid disbursement was US$26 billion of which CARICOM countries received $247.4 million (or 0.0095%) with Haiti receiving the largest share of $211.8 million and the remaining US$35.59 million being allocated to some of the remaining 13 states.

[4] PAHO, Response to COVID-19 Outbreak In the Region of the Americas, Donor Appeal Version 2, 25 March 2020, p.10; see: file:///C:/Users/ronal/OneDrive/Documents/PAHO%20COVID-19%20Response%20Donor%20Appeal_V2_25Mar.pdf

23 countries in the Caribbean, Central and South America, the response to the appeal has been poor.[5]

It is unlikely that CARICOM countries will be able to cope with worsened health circumstances without the help of international and hemispheric institutions, such as PAHO.
The COVID-19 pandemic has gravely impacted all nations, but its effect on small states, operating in suffocating fiscal environments without depth in medical resources, both human and material, is especially catastrophic.

Tourism crisis now and in the future

All sectors of the economy in the Caribbean have been affected by the COVID-19 pandemic. In particular, the tourism industry has all but collapsed.

The stoppages of airlines and cruise ships have devastated the tourism industry. Hotels and other tourism facilities have been forced to close because of a loss of business as well as domestic measures to try to contain COVID-19 and to arrest its spread. The effect of this is huge rise in unemployment as workers in the industry were laid-off; a significant and unsustainable drop in government revenues, including foreign exchange, occurring simultaneously with demands for increased government spending to institute new health facilities and to provide such assistance as possible to families whose only money earners lost their jobs.

In 2019, the industry was estimated to have provided approximately 30 million visitors to the Caribbean, contributing approximately $50 million or 15.5% of the collective Gross Domestic Product (GDP) of the region. The sector also accounted for approximately 14% or 2.4 million of all the region's jobs - either directly or indirectly.[6]

The tourism prospects

The prospects for the industry appear dim for the foreseeable future. Prior to COVID-19, tourism provided approximately $35.5 billion annually in foreign exchange earnings to the Caribbean region. In 2020, the earnings will not reach half that sum, and only because in the first quarter, before the full impact of the coronavirus, tourism performed quite well. Since then, there has been a drop in the second quarter, and the third and fourth quarters appear to offer little improvement.

[5] The countries are: fifteen Caribbean countries – the 14 CARICOM countries, plus Cuba; and eight countries in Central and South America - Bolivia, Colombia, Ecuador, El Salvador, Guatemala, Honduras, Peru, and Paraguay. See: https://www.paho.org/en/news/11-6-2020-government-canada-contributes-53-million-paho-response-covid-19#:~:text=Washington%2C%20D.C.%2C%20June%2011%2C,23%20countries%20of%20the%20Americas

[6] Statistics produced by the World Travel and Tourism Council (WTTC) in 2019 for the following five countries, Antigua and Barbuda (78.5% of GDP), The Bahamas (49.4% of GDP), Barbados (40.4% of GDP), St. Lucia (40% of GDP) and Jamaica (30.4% of GDP), revealingly demonstrate a heavy reliance on Tourism and Hospitality.

Fear of being quarantined on a cruise ship anywhere in the world has frightened potential passengers. Cruises to the Caribbean have been severely affected. Stock values in Carnival Corporation, one of the largest cruise ship operators, was down 52.7% in May 2020 from the beginning of the year; Royal Caribbean, another large operator, was down 61.3%; and a third large company, Norwegian, had fallen 65%. These events underscore the symbiotic relationship between Caribbean countries and foreign companies and the international community.

The situation is no different for the aviation industry. Fear of flying in packed airplanes is a disincentive to air travel. Caribbean countries, that opened their borders in June 2020 to earn much needed revenue and restore some employment, experienced the importation of COVID-19 through passengers, both nationals and tourists, on arriving airplanes. This resulted in the establishment of protocols, requiring all travellers by air to secure a test, certifying that they are COVID-19 free, before boarding planes. This further requirement for travel is likely to diminish tourism numbers, despite the best efforts of Caribbean countries to market their resorts in North America and Europe as being ready to receive visitors.

All the commercial businesses in the tourism sector experienced a calamitous reduction in their profits. If the fear over COVID-19 persists and the quest for a vaccine is protracted, these businesses could fall into financial loss and collapse with little prospect of reopening. In those circumstances, even more, workers will be laid-off and the consequent restricted spending will impact other sectors from which they buy goods and services.

Therefore, if the virus continues its spread and there are new spikes in the major tourist supply markets globally, particularly the US, Europe and Canada, the more difficult it will be for Caribbean countries to weather the economic storm.

In this regard, the authorities of US and Canada (the two biggest tourist suppliers to CARICOM countries) should consider the formulation of a cooperative relationship with CARICOM countries in which protocols are established for travel between them, by air and sea, under which safe channels are created by pre-testing passengers in countries of departure (both ways), ensuring that such passengers are free of COVID-19.

Energy Insecurity

Energy security and sustainability are crucial to CARICOM countries if they are to achieve resilience, competitiveness, and prosperity. In pursuit of these goals, the countries of the group have adopted several policies and established machinery to implement them.

In 2013, CARICOM countries adopted the CARICOM Energy Policy (CEP) and the Caribbean Sustainable Energy Roadmap and Strategy (C-SERMS). Through the Caribbean Centre for Renewable Energy and Energy Efficiency (CCREEE), CARICOM states have cooperated in "building the foundation for a resilient, clean and efficient energy future".

Despite these commitments and investments, attaining energy security has been impeded significantly by the challenges of:

- Lack of access to financing for infrastructure and institutional capacity-building;

- Exogenous systemic and structural shocks, including increasingly destructive hurricanes; and

- High costs associated with replacing fossil fuel infrastructure with structures suited for renewable energy.

Therefore, energy insecurity persists even in those CARICOM member states that have been misleadingly categorized as high-income countries.

Without a more inclusive approach to cooperation by extra-regional partners, IFIs, and Multilateral Development Banks (MDBs), to achieve energy security, CARICOM countries will not acquire the required infrastructure and institutional capacity, except for the three oil and gas producing countries, Guyana, Suriname and Trinidad and Tobago. They will remain energy insecure, paying high prices for energy that will, in turn, increase the cost of production in their agricultural, manufacturing and tourism industries.

Yet, these circumstances provide an opportunity for profitable foreign investment and IFI support in the development of renewable energy sources to which CARICOM governments are fully open as either private-public partnerships or buy, operate and transfer (BOT) enterprises.

Food Insecurity

CARICOM countries, except for Belize and Guyana, are net food importers. At least seven of the 14 countries import more than 80% of the food they consume, resulting in the region's annual food import bill estimated in 2019 at US$5 billion.

The current economic conditions, exacerbated by the COVID-19 pandemic, and reflected in diminishing foreign exchange reserves amid exceptional expenditures, require each CARICOM country to bolster local food production, including by using modern technology. However, this is easier said than done. None of these countries can afford the purchase and installation of modern technology at this time. Additionally, changes in climate continue to affect agricultural production with longer periods of drought followed by floods.

Climate Change has already adversely affected food production and is forecast to have a worse effect. Extreme heat, droughts, floods, saltwater encroachment due to rising sea levels and storms have harmed agricultural productivity and caused food price hikes and income losses. Persistent hurricanes have wiped out crops, bankrupting farmers and forcing them out of business, in many cases permanently. According to the FAO, crop yield declines of 10-25% may be prevalent by 2050 because of climate change.

And, while Belize, Guyana and, to a certain extent, Jamaica, Dominica, St. Lucia and St. Vincent and the Grenadines could produce food, in some areas, for supply to other CARICOM countries, there are no significant intra-CARICOM food transportation and distribution chains because there are no suitable ships plying Caribbean waters and no government or private sector investment in shipping. In this regard, shipping is both a foreign investment opportunity and an area for IFI's to align their lending with regional development needs.

Conscious of all this, in April 2020, CARICOM, with the support of the FAO and WFP, launched a survey on the impact of COVID-19 on food security, livelihoods and access to markets, to gather more information on these critical issues, as part of CARICOM's overall food security strategy. As a result, CARICOM produced a 'Covid-19 Agri-food security action plan 'which acknowledged that the pandemic will exact severe costs on the agricultural sector and the regional economy, requiring private-public partnership instruments, government fiscal arrangements as well as grants and loans from development agencies.

CARICOM countries need both financial and technical assistance with issues related to efficient land use; modern technology, particularly for drought prone countries; farm-to-market infrastructure; refrigeration; phytosanitary measures; quality control and packaging; and agro-processing.

Each CARICOM country has different needs to be able to increase food production and to contribute to building regional food security. There is a role for specialized multilateral organizations like the Food and Agriculture Organization (FAO), the World Food Program (WFP) and the International Fund for Agricultural Development (IFAD), as well as the Inter-American Institute for Cooperation on Agriculture (IICA), to support studies, transfers of knowledge and technology, and institutional strengthening for regional agencies like the Caribbean Agricultural Research and Development Institute (CARDI) and national agricultural research institutes.

This cooperation and support is vital for the region to overcome food insecurity.

Transnational Organized Crime and Corruption

Because of the openness and interconnectedness of CARICOM states, their development interests are vulnerable to transnational organized crime and corruption (TOC).

Acquiring the capabilities and institutional capacity to combat TOC comprehensively, is cost-prohibitive for CARICOM countries, although they spend scarce financial resources to improve and enforce their law enforcement frameworks. The requirements to combat TOC have already placed a heavy economic burden on Caribbean countries and have diverted funding from the minimal fiscal space that is available to governments to pursue development priorities.

The situation is worsened by the lack of military support which is very much needed to combat drug trafficking. There is a critical requirement for CARICOM involvement in strategic and operational security and military cooperation to strengthen the region's counter-trafficking capacity.

Despite these major challenges, Security is a Pillar of CARICOM, which established a Regional Security Management Framework in 2006. More recently, in 2013, the group adopted the CARICOM Crime and Security Strategy (CCSS). In that Strategy (CCSS) all of the current manifestations of TOC, including trafficking in illicit drugs and illegal guns and human trafficking, criminal gangs, cybercrime, financial crimes and corruption, are classified as 'Tier 1 Threats', the highest category of threats to CARICOM regional security.

CARICOM member states have intensified their efforts to combat TOC in the region through the adoption of international and hemispheric instruments for cooperation in the fight against TOC and corruption, such as the recommendations of the Financial Action Task Force (FATF) and Caribbean FATF. The recommendations keep changing, placing increased demands on scarce human and financial resources in CARICOM countries. Nonetheless, most CARICOM states are largely compliant with the requirements foregoing spending on social development projects.

It would be mutually beneficial if the wealthy nations on bodies such as the FATF and the Global Forum of the Organization for Economic Cooperation and Development (OECD) and the Commission of the European Union (EU) would contribute funding to CARICOM states to help them comply with the dazzling changes to regulations, laws and enforcement placed on them, and so avoid blacklisting and the threats to cut-off their participation in the global financial system.

Despite their best efforts, CARICOM member states have been targeted or blacklisted by external agencies adversely affecting their participation in the global trading and financial system, and their capacity to maintain and strengthen their regulatory and law enforcement machinery to fight TOC.

Threats to participation in the global financial and trading system

CARICOM countries are confronted with many challenges to their participation in the global financial and trading system. One pressing challenge is the withdrawal of correspondent banking relations (CBRs)[7] from Caribbean banks by US banks because of the latter's fear of US regulatory repercussions.

Surveys conducted by the IMF have identified the Caribbean as being the most severely affected region in the world, because of the withdrawal of CBRs. By mid-2018, between 25% and 75% of the 50 banks operating across the 14 CARICOM States had reported either termination/loss and/or restrictions on correspondent banking services.

[7] Correspondent Banking Relations (CBRs) are the arteries through which the blood of financial transactions are pumped through the global financial and trading systems. They are the means by which providers in one country secure payment for goods and services supplied to a purchaser in another and by which profits from investments in a country is repatriated to a home state or remittances are sent by persons to other persons in another country. Without CBR's global trade, investment and other transactions would halt.

Yet, the provision of CBRs to all nations and all people is a global public good. It is indivisible, in that, the omission of any country, or region from corresponding banking, will result in untold human misery, which ultimately will impact all countries.

Terminations of CBRs by US banks have caused banks in the Caribbean to go as far as China, Turkey and Serbia, to settle their transactions in the US. This has had the following effects: (a) escalated the cost of doing business in the Caribbean; (b) slowed down business operations because of the extended time to complete transactions; (c) pushed the Caribbean to move its international financial transactions to other countries, and, therefore, to increase its reliance on those nations rather than the US.

US Correspondent banks have identified the main drivers of the withdrawal of their services, as the perceived risk of Caribbean jurisdictions, relative to the additional cost of compliance, vis à vis new Anti-Money-Laundering/Counter Terrorism Financing (AML/CFT) regulatory procedures and fear of regulatory sanction for non- compliance.

The threat of sanctions has led banks to avoid their exposure to perceived high-risk regions/countries/activities, rather than managing this risk. CARICOM governments maintain that **these** reports offer no evidence to warrant the description of any non-lawful activities, nor do they provide facts upon which governments could act or be held accountable. These reports worry banks into withdrawing CBRs.

Many Caribbean countries have implemented several responses to these perceived risks. They include:

(i) Constantly amending domestic legislation to address new AML/CFT requirements to include:

- Eliminating bearer shares; replaced with legislation requiring disclosure of beneficial owner/s of all companies and entities.

- Signing of tax information exchange treaties with the US and other countries.

- Routine reporting of all foreign account holders occurs under the OECD's Common Reporting Standards and the US FATCA

- Suspicious activity reporting to law enforcement and regulators, for unusual or irregular transactions.

(ii) Providing closer supervision in relation to FATF Recommendation 13 in respect to the treatment of correspondent banking; and

(iii) Regular reviews of their AML/CTF compliance with the FATF requirements. The results of their reviews are published, and they are required to address weaknesses and deficiencies.

Caribbean jurisdictions are not perfect, but then no other jurisdiction is, and work is on-going in improving them despite lack of resources. It is noteworthy, that over the decade 2008-2018, US$26 billion in fines have been imposed on banks for non-compliance. The U.S. accounted for 91% of the fines (US$23.5 billion); followed by Europe (US$1.7 billion; the rest of the world accounted for only US$0.6 million. What is significant is that none of these prosecutions involved any entity located in the Caribbean Community. This is due to the enhanced AML/CFT regulatory framework, the small size of the respondent banks and low transaction volumes, which make illicit transfers readily identifiable.

CARICOM countries understand their indivisible mutuality of interests with the international community and their obligations to be compliant in strengthening their legal and administrative frameworks, to guard against the ills of money laundering, terrorism financing, tax evasion and drug trafficking.

Ultimately, what is required, is the establishment of a transparent relationship with rules of engagement, to build trust and confidence between correspondent and respondent banks, and an inclusive framework to protect the interest of all stakeholders. CARICOM countries have worked diligently to achieve this objective, including by participating in a Round Table with US banks, led by US Congressional representatives in November 2019.

While the withdrawal of CBR's is hurting the Caribbean – and could cause many of its economies to be de-banked - there are troubling consequences for hemispheric security, if it continues unabated. Among these are: driving the movement of money underground, completely outside the banking and regulatory systems. This would create favorable conditions for money laundering and terrorism financing, against which the US has been in the forefront of the fight, with consequential escalation in costs for US law enforcement agencies**.**

A cooperative relationship between U.S. and CARICOM regulators on one hand and US and CARICOM banks on the other, within an agreed framework, would be needed to resolve the effects of this situation.

The debt burden

The eruption and rapid spread of COVID-19 have caused huge, sudden, and unbudgeted costs that Caribbean governments are confronting to tackle the pandemic. They were simultaneously beleaguered by an unexpected economic decline that has already stripped them of more than 20% of their GDP in some cases, and the certain prospect of further and prolonged deterioration.[8]

[8] In the case of the Bahamas, The Central Bank expects the economy will contract 12% in 2020 and government anticipates debt-to-GDP will reach 82.8% at the end of FY2020/21 (up 14.9 p.p.) as a result of the double shocks of Hurricane Dorian and COVID-19. In Barbados, the economy contracted 3% y/y in Q1 2020, due to the sharp drop in tourism in late March, accompanied by weak activity in agriculture and manufacturing. Unemployment rose to 24% in early May as containment measures took effect. Long stay visitors declined 17.9% y/y in Q1 2020, and cruise passengers fell 11.5%. Jamaica is forecast to experience contraction of 12-14% for Q2 2020 resulting from containment measures and the halt in tourism activity, which employs over 300,000 workers. In Trinidad and Tobago, the Finance Ministry announced a revised

All this translates into extremely high unemployment and an increase in poverty levels that, inevitably, will spur more and varied crime — drug trafficking, probably becoming rampant. Prior to COVID-19, some CARICOM countries were valiantly reducing their debt to GDP ratios. They are now set-back by the urgency to incur new debt to stave-off a humanitarian crisis. In their present situation, the huge decline in revenues and the necessary draw-down on foreign reserves to meet the cost of imports of medicines, medical equipment, and food, will impose on many of them the imperative of deferring current debt servicing.

The Caribbean region is also now in the annual hurricane season, predicted this year to be above average with 16 named storms of which seven will be hurricanes: three to four being major ones. In the region's already precarious state, the damage of a hurricane would be beyond catastrophic.

Each CARICOM country is struggling to manage the fiscal demands in these externally generated and desperate circumstances and with scarce and dwindling resources that are not the fault of their policies or failures. None of climate change, intensified disasters, economic recessions in big countries, or COVID-19 are of their making.

If COVID-19 is brought under control, it will take at least two years before the tourism industry will return to any semblance of normalcy. Many CARICOM economies will shrink by then, recording negative growth and lacking the capacity to provide the fiscal stimulus required for recovery.

Some CARICOM countries — including many that are vulnerable to hurricanes — have been graduated from access to concessional terms of financing. Therefore, under the existing criteria, based largely on per capita income, these countries will not qualify for the considerations being given by the Bank and Fund to IDA countries, including financing needs and debt relief or even access to the Fund's Rapid Credit Facility.

If this situation continues without an appropriate response from the international community, many CARICOM countries will be unable to pay existing debt and will not qualify for new borrowing. Even if they all end up in IMF programs to give them short-term relief, unless there is suspension of debt payments, debt reduction and debt rescheduling, they will not recover their economies; they will certainly not achieve the UN sustainable development goals, and their debt stock will be larger than before (as compound interest is added to unpaid debt). The economic development they have so far achieved will be reversed with little prospect of recovery.

As the Executive Secretary of the UN Economic Commission for Latin America and the Caribbean has pointed out: "The leaders of the G20 should be in favor of multilateral

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fiscal deficit of about TTD14.5 billion or 8.8% of GDP for FY2020. The Minister of Finance expects GDP will contract by 2.4% this year, similar to the economic contraction of 2.3% seen in 2017, in the absence of a global pandemic and lockdown. The Central Bank indicates COVID-19 is having an "unprecedented" impact on economic activity and employment. (source: Caribbean Monthly Economic Report, June 2020, Marla Dukharan: https://marladukharan.com/wp-content/uploads/2020/06/2020-06-Caribbean-Monthly-Report.pdf organizations making loans at favorable interest rates and alleviating the debt of countries that are highly indebted, deferring it or forgiving it. If that does not occur, the payments will be impossible and fiscal space will be compromised. Exceptional measures are required to confront an unprecedented crisis. There will be no progress without international cooperation and solidarity".[9]

Mitigating Hurricanes and Rebuilding

With regard to hurricanes which, year after year, wreck one or more CARICOM countries, keeping them in a cycle of high debt, it is proposed that IFIs and donor governments establish a "Caribbean Recovery Fund" which would be a rapid response facility addressing the urgent need for rebuilding resiliently after hurricanes but also to build in advance of hurricanes to minimize damage should they occur.

Section 2: Why the International Community should be helpful

Economic Opportunities and Resources

CARICOM countries are already importers from hemispheric nations, particularly the U.S. and Canada. Indeed, CARICOM is one of the few regions in the world with which the U.S. has enjoyed a perennial balance of trade surplus worth billions of dollars.[10]

The CARICOM region has vast resources that are important to the manufacturing and agricultural sectors of rich countries including oil, gas, minerals, forestry, fisheries, pure water and an untapped seabed.

Recent oil and gas discoveries in Guyana and Suriname offered the basis for new wealth in the Caribbean and, therefore, new resources available to the hemisphere and the world. The IMF has forecast that, by 2025, oil production in Guyana would reach up to 750,000 barrels of oil a day and that, in 2020, its economic growth would jump by 86%. In next door, Suriname, which was already an oil producer, new discoveries of significant oil reserves were announced on January 7, 2020 by Apache Corporation and French oil-major Total. Combined with the known resources of Trinidad and Tobago, these three CARICOM countries provide purchasers of oil and gas with a new and expanded market.

The significant earnings that could fall to the Governments of Guyana and Suriname also open up a new market for suppliers of goods and services for the infrastructural development that will surely follow from increased revenues.

[9] see: "COVID-19 Pandemic Will Lead to the Biggest Contraction in Economic Activity in the Region's History: A -5.3% Drop in 2020", Economic Commission for Latin America and the Caribbean (ECLAC), April, 2020 at: https://www.cepal.org/en/pressreleases/covid-19-pandemic-will-lead-biggest-contraction-economic-activity-regions-history-53

[10] See footnote 2 for figures on US trade surplus with CARICOM in 2019.

The maritime Exclusive Economic Zones (EEZ) of Caribbean states far exceed their land area and present vast, but largely untapped, opportunities for investment and new economic activity. These opportunities include fisheries and cruise and yachting tourism, which are already established. But they also offer new possibilities such as: ocean renewable energy, seabed mining, marine biotechnology and mariculture which have the transformative potential to diversify regional economies.

On mariculture and fisheries, the region would benefit from enhanced international cooperation with, and funding for the Caribbean Regional Fisheries Mechanism (CRFM), to enable it to develop a regional mariculture framework. Such a framework, which would enable farm-scale production of seafood within the Caribbean, would further bolster food security and reduce foreign exchange leakage.

The creation of an enabling environment for investment in the Caribbean's EEZ is also of paramount importance. A key constraint in the region's ability to exploit the Blue Economy is its mix of high public indebtedness and declining aid flows. Another barrier to attracting foreign investment in the Caribbean's EEZ is the risk profile and high capital costs for investments in geothermal, wind and wave energy, as well as the infrastructural costs for coastal adaptation to climate change.

IFIs and the international community could be helpful in a mutually beneficial way by supporting a Resilient Infrastructure Facility, capitalized in the first instance at $5 billion, to provide funding and risk abatement facility for public-private partnerships in projects for deep seabed mining, including the exploration of hydrocarbons such as natural gas, and the creation of biotech industries around marine products such as sargassum and the region's indigenous marine biodiversity.

Further, investment in the region's fintech sector could assist regional governments in improving the efficiency of their financial systems, extending the scope for e-commerce and e-governance, and forming the basis for new technological investments. Foreign investment as equity or loans would profit from participation in these opportunities.

Regional governments would also benefit from direct technical assistance from the World Bank in this transformation to a digital economy, particularly in accelerating the region's adoption of the framework established in the World Bank's Bali Fintech Agenda.

SECTION 3: Ten priority recommendations

Against the background of this paper which is not exhaustive of the challenges that face CARICOM countries, or of the opportunities that the sub-region provides for lucrative trade, profitable investment and peaceful enjoyment by tourists, the following recommendations are proposed:

1. The IMF, WBG and IDB and the G20 countries should consider special arrangements for CARICOM countries, including (a) suspension of per capita income as a criterion

for concessional financing; (b) debt relief including suspension of debt payments, write-offs of aged debt particularly by the Paris Club; (c) budgetary support through a mix of grants and low-cost loans on a country by country basis.

2. G20 countries should increase the resources of PAHO as well as direct programs through the Caribbean Development Bank to assist CARICOM countries with the extraordinary public health expenses that have abruptly arisen as a consequence of the effects of COVID-19.

3. In tourism, US and Canadian authorities should consider the formulation of a cooperative relationship with CARICOM countries in which protocols are established for travel between their countries, by air and sea, under which safe channels are created by pre-testing passengers in countries of departure (both ways), ensuring that such passengers are free of COVID-19.

4. In energy security, IFIs, and Multilateral Development Banks (MDBs) and private investors should take advantage of opportunities to develop renewable energy sources to which CARICOM governments are fully open as either private-public partnerships or buy, operate and transfer (BOT) enterprises. IFIs and MDBs should also be open to providing financing and technical expertise to local small and medium sized companies to participate effectively and sustainably in oil and gas industries where they exist in their countries.

5. With regard to Security, donors - whose own security is tied to events in the CARICOM area - and IFI's should fund the acquisition of strategic regional maritime and airspace security capabilities under the CARICOM Regional Security Management Framework; and also fund Institutional capacity building and organizational transformation programs for the CARICOM Implementing Agency for Crime and Security (IMPACS), the Caribbean Disaster Emergency Management Agency (CDEMA), and the Regional Security System (RSS).

6. On food security, specialized multilateral organizations like the Food and Agriculture Organization (FAO), the World Food Program (WFP) and the International Fund for Agricultural Development (IFAD), as well as the Inter-American Institute for Cooperation on Agriculture (IICA), should support studies, transfers of knowledge and technology, and institutional strengthening for regional agencies like the Caribbean Agricultural Research and Development Institute (CARDI) and national agricultural research institutes. Additionally, IFI's should align their lending policies to the sub-region's need for food security by providing finance for a regional shipping facility between CARICOM countries.

7. On correspondent banking relations, a cooperative relationship between U.S. and CARICOM regulators on one hand and US and CARICOM banks on the other, within an agreed framework, should be developed taking into account both the need for strong AML/CTF regimes and the benefits of CARICOM countries continuing to participate in the global financial and trading systems.

8. The World Bank Group should provide technical and financial assistance to CARICOM's efforts to transformation to a digital economy, particularly in accelerating the region's adoption of the framework established in the World Bank's Bali Fintech Agenda.

9. The WBG and IDB should help to structure and fund a Resilient Infrastructure Facility, capitalized in the first instance at $5 billion to help the region to exploit the Blue Economy which offers untapped opportunities to enlarge and enhance CARICOM economies as well as to provide new prospects for profitable investment by foreign and local investors.

10. With regard to hurricanes which, year after year, wreck one or more CARICOM countries, keeping them in a cycle of high debt, it is proposed that IFIs and donor governments establish a "Caribbean Recovery Fund" which would be a rapid response facility addressing the urgent need for rebuilding resiliently after hurricanes but also to build in advance of hurricanes to minimize damage should they occur.

CONCLUSION

In the absence of immediate international support, CARICOM countries, many of which are already highly indebted, are being forced to incur even more debt to cope with the sudden and unbudgeted costs related to COVID-19. Many of them found little comfort in a joint statement by the IMF and WBG on March 25, 2020 which called "on all official bilateral creditors to suspend debt payments from IDA countries that request forbearance", adding that "this will help with IDA [International Development Agency] countries 'immediate liquidity needs to tackle challenges posed by the coronavirus outbreak and allow time for an assessment of the crisis impact and financing needs for each country".

Of the 14 CARICOM countries, only six are IDA countries, defined by their lower per capita income. The remaining eight are excluded from access to concessionary financing and are unlikely to secure any suspension of bilateral debt, including by the Paris Club. This situation will lead to higher levels of public debt and worsening debt-to-GDP ratios, and assuredly default on debt payments. Already, debt levels in some countries are regarded by the IMF and the WBG as unsustainable, and, ominously, the IMF stated that "where we might be unable to lend because a country's debt is unsustainable, we will look for solutions that can unlock financing".

Even when CARICOM governments get past containment of COVID-19, which has not reached its peak, exceptional efforts will be required to stimulate their economy. However, unlike the wealthy countries of the world (the designation of high per capita income notwithstanding), Caribbean governments do not have myriad resources or tools on which to draw. More than likely, several of them will be forced to reduce the size of their public services and will be unable to provide support to private companies, including wage subsidies and tax holidays, and to the most vulnerable sectors of their populations.

Development in CARICOM countries, which has been hard won in the last few decades, could evaporate leaving the region unstable both economically and politically, and open to drug traffickers and transnational organized crime. The region could also be lost as a haven for democracy and peace, which has made it attractive as a holiday resort from people the world over and has also made its neighbors in the hemisphere much safer.

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