Some initial think points towards shaping a Caribbean Perspective for the Third International Conference on Financing for Development, 13-16 July, Addis Abba.

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Introduction framing

The Caribbean countries, as part of the larger geopolitical groupings of Small Island Developing States (SIDS), have particular experience and needs with regard to international financial and development issues. This different orientation may present multiple challenges as well as options and opportunities with regard to Caribbean Countries potential to benefit from a strong principled and country driven outcome of the upcoming 3rd International Conference for Financing for Development Conference to be held in Addis Abba, July 2015. The aim of the conference is to mobilize resources for a renewed development agenda beyond 2015. In this context and in order be of maximum benefit for fostering Caribbean growth and development, FFD3 outcome should be:

1) Consistent and coherent with the thematic areas (the six chapters of 'leading actions') of the Monterrey Consensus Outcome Document 2002. These areas/chapters signifies the key areas where developing countries face both obstacles and opportunities in mobilising the financial resources need to sustain sustainable development, particularly with regard to promoting innovation and economic transformation. The MC also focused on global and systemic matters related to sustainable development and its financing
2) Consistent with and supportive of the principles and programmatic outcomes of SIDS's multiple governance frameworks articulated through the Mauritius Strategy for Implementation, the Barbados Plan of Action and most recently the Small Island Developing States Accelerated Modalities of Action (SAMOA Pathway)[1];
3) The FFD outcome must also respect seek to ensure the special importance and characteristics of climate finance as a global public good, which is governed by the principle of common but differentiated responsibility—grounded in the historical responsibility of developed countries for the contribution to significant portion of anthropogenic climate change. Climate finance, hence should flow through the UNFCCC financial architecture and not be bundle with the broader framework of development finance.
4) Fourth Common but differentiate responsibility must also under gird the framework of financing sustainable development.

Caribbean countries' experiences with the key thematic areas, particularly trade, foreign direct investment and portfolio flows, ODA, external debt and systemic issues, covered in the Monterrey Consensus have been both mixed and problematic. At the current juncture, the sub region faces stagnating or slowing economic growth and development, rising inequality and increasing risks from climate change. These factors threaten to abort or stifle progress on poverty eradication in some countries of the sub region.

I. Eight pervasive features of current Caribbean reality that has implications for FFD3:

[1] In this regard the FFD outcome should also seek to be in sync with the Istanbul Declaration and Programme of Action for the Least Developed Countries (2011-2020) and the Vienna Declaration the ten year Programme of Action for Land Lock Developing countries (LLDCs), 2014-2024, and the The New Partnership for Africa's Development.

- Persistent development gaps—poverty, health, education, infrastructure, technology and productivity—that plague the day-to-day existence of men, women, boys and girls. Despite their supposed middle income status and while some progress have been made in terms of education, health, gender and environmental goals, significant proportion of the population of the countries in the region live in poverty or on the margins of poverty (i.e., vulnerable to economic shocks and face the risk of descending into poverty), still far too many others live with inadequate access to safe and nutritious food, inadequate housing and lack of proper sanitation.

- Middle Income trap: robust and sustainable economic growth remains elusive for far too many Caribbean SIDS. Growth in the Caribbean is fragile and vulnerable. Caribbean countries' exposure and vulnerability to the vagaries and vicissitudes of international trade, financial markets and the over-riding global macroeconomic policy governance are growing with each passing crisis and crisis response stage. Hence, many countries, such as Jamaica and the Dominican Republic remained caught in the (lower to) Middle income trap. (MIT: the phenomenon of rapid growth to stagnation in middle income countries and falling to graduate into the ranks of high income countries (IMF 2013).

- Limited access to financing and high cost of borrowing (perceived as 'risky borrowers') and characterized as too rich to need much concessional financing.

- High indebtedness, which is a most pressing development issues in many countries in the region, and Jamaica in particular. Based on income criteria, many Caribbean countries are locked out of debt relief and debt cancellation initiatives.

- Traumatized by and lack of sustained recovery from general macroeconomic shock emanating from international instabilities in trade, finance and investment—these are primarily due to issue of the extra territorial dimensionality of the macro, trade and finance policy adopted by G-8 countries as well as imbalances and deficiencies in the global governance rules and policy frameworks which have adverse impacts on development of LDCs, LLDCs, SID and African states

- Growing dependence on remittance flows: Five countries (Guyana 17% of GDP), Haiti 15.4%of GDP), Jamaica 13.8%, 2009), Grenada and the Dominican Republic) ranked among the top 30 remittance-receiving countries worldwide in relative terms (World Bank, 2010b). Among ACP countries the Caribbean region received more than one-quarter of remittance flows. For many Caribbean countries Remittances inflows are much higher than ODA (except for Suriname and St. Vincent and the Grenadines). Source: ACP 2011

  The growing challenges of non-communicable diseases (NCDs). NCDs have become the most prevalent cause of morbidity and deaths in the region. According to the World Bank, Jamaica and the Organization of Eastern Caribbean States (OECS), in particular, are facing a health crisis with rising rates of heart disease, diabetes, obesity, and other non-communicable diseases. This has implication for increasing public health care costs as well as increasing impoverishment as individual and household face personal health care costs for health care commodities such as medicines for diabetes etc. In addition, there is now the widening outbreak of Chikungunya virus (since 2013). The spread of this virus is reported to impact on productivity, economic losses and financial costs (for healthcare and educational outreach and boosting surveillance of symptoms. It can also adversely impact the tourism sector as was reported to be the case with Reunion in the Indian Ocean, which suffered from a 60% decrease in tourism when the outbreak occurred there 2005-2006.

- Increasing exposure to more frequent and more intense natural disasters and the damages of climate change and climate variability. The Caribbean, as with other SIDS, must contend with the challenges of sea level rise, ocean acidification and loss of coral refers with attendant impacts on infrastructure, housing and livelihood. SIDS as a group, face loss of industrial capacities in such key areas as agriculture, fisheries, tourism, electricity generation, distribution of food security, water scarcity, droughts, and changes to ecosystems (including loss of crucial ecosystem services). There is also potential for inundation of land, displacement, security issues and endangerment of human health. This is certainly so for Caribbean islands where, for example, coral reefs generate annual income of over $3 billion, through supporting fisheries, dive tourism, shoreline protection industries, etc. – but where about one-third of them are threatened by fishing and shipping.

The traditional economic development priorities that Caribbean countries have struggled with in the past decades and must continue to undertake, include ensuring basic services—access to energy, water and sanitation and health care, promoting and ensuring food security and employment creation (through the appropriate provision of education and training at life cycle and economic needs), while seeking to facilitate the g the transformation of the economy towards high valued activities through innovation, industrial diversification and upgrading. All of these components of the development agenda have their own implications for financing, whether from private, public, domestic or international sources. All of these components are challenged by the eight pervasive features of current Caribbean reality. All of these obstruct Caribbean growth dynamics and have been exacerbated by the global financial and economic crisis. But two are particularly pernicious for their stranglehold over the economy and the leakage of domestic budgetary resources: Sovereign indebtedness and climate change. It is therefore important to elaborate some more on these two issues.

A. Sovereign indebtedness growth and stagnation in the Caribbean

Debt is a central theme in the contemporary Caribbean development experience and a much talked about phenomenon right now in the region. Caribbean nations are some of the most highly indebted in the world. Jamaica leads the pack with Debt GDP ratio of over 130%. Most of the other English speaking Caribbean nations have Debt-GDP ratio well over 60% of GDP. (Exceptions are Trinidad and the Bahamas, and non-English speaking such as Haiti and Surinam—2011.) It is general argued that debt GDP ratio over 100% is a psychological threshold, however, in the Caribbean, and for low income countries in Africa and Asia, this is a significant and important marker with serious adverse implications for growth, employment and poverty eradication efforts. While research also indicates that in general debt GDP ratio above 90% is associated with negative impact on GDP, research on the Caribbean show that negative impacts are exhibited at above 55% -56% of GDP.

Thus high debt ratio means that significant percentage of domestic resources are diverted from development in long term and in the short term there is the unfavorable trade-off between vital expenditures on health and education and debt services. It goes without saying that the level of debt that many Caribbean nations are carrying, even after multiple debt restructurings, continues to undermine development and threatens increasing hardship and deprivation of countless thousands of men, women, boys and girls in these countries.

Instruments and mechanism to release the stranglehold of debt on Caribbean economic and social development must be a key outcome of the FFD-3. There are multiple complementary alternatives already on the board for dealing with future debt spiraling event, including the need for orderly debt work out mechanism. But there must also be urgent attention paid to creating instruments and process for drastically reducing debt stock and debt services, beyond current focus on debt restructuring for low and middle income countries such as those in the Caribbean.

B. The harsh reality of Climate change for the Caribbean

The IPCC's fifth Assessment report re-affirmed SIDS' high vulnerability to sea level rise, increasing air and sea surface temperatures and changing rainfall, threatening the sustainability of all the islands. The impacts and risks of physical hazards are increasing. Jamaica, for example suffered from hurricane in 2004(Ivan), three in 2005, 2007 (Dean), 2008, 2010 (Nicole) and 2012, 2013 (Sandy) which damaged agriculture, housing, mining, electricity, transport, telecommunications and tourism cost it over Jamaican dollar 113 billion (PIOJ). One hurricane can reduced GDP anywhere from 1% to multiple of that percentage[2]. This was the case with Grenada (where hurricane Ivan accounted for about 1-3% of its GDP) and Jamaica (8% of GDP).

The Caribbean faces impacts of persistent drought, sea level rise, coastal erosion and ocean acidification as well as more well-known impacts of extreme weather events. Wherever and whenever possible, adaptive capacity must be increased. Every opportunity to reduce vulnerability must be taken now, not in some far distant future. Addressing these factors through adaptation and mitigation has serious cost implications. Adaptation and loss and damages (when adaptation fails) create added burden to the development projects and budgets of developing countries. Adapting to climate change and dealing with the aftermath of droughts, hurricanes, and floods are additional extra budgetary expenses[3] which contributes o of the debt burden that Caribbean countries carry.

Reducing disaster risks and impacts on lives and property requires preparedness, good management of land and other resources. Some climate-induced hazards - like sea level rise and ocean acidification - require longer term planning: others - such as extreme events – need immediate and urgent disaster responses and adaptation projects and programs. Actions on disaster risk reduction (DRR) and climate change adaptation (CCA) can reinforce each other through seeking both to reduce exposure to extreme weather events and to address slow onset events and other aspects of climate change adaptation. There are clear opportunities for using scarce resources and synergetic interactions to advance development, reduce the impacts of disaster and adapt and build resilience.

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[2] The channel from hurricane to GDP occurs via disruption of production, commerce and supply chains etc. In addition, there are indirect and tertiary effects: Insurance costs, reassessment of risk for investments and the flow of tourisms. In the region there are also longer term effects on the coral reefs and beach erosion.

[3] In terms of increased capital expenditure for rebuilding damaged infrastructures (reconstruction process) and increased current expenditures on emergency relief operation and humanitarian assistance, plus medium and long term—readiness, response and resilience expenditures.

Additionally, the Caribbean as with other developing countries, have the imperative of undertaking low carbon climate resilient development which are consistent with climate management strategies of promoting clean and renewable and energy efficient development across all sectors.

Addressing climate change through adaptation and mitigation imposes serious costs on Caribbean countries. Ideally, these costs should be covered primarily by grants of climate finance flows from developed countries to developing countries as agreed under the UNFCCC.

III. **The Special and specific nature of climate finance is of central importance to Caribbean SIDS**

Climate finance is global public good to facilitate addressing and accounting for the negative impact of a global public bad: anthropogenic climate change. The loin share over 70% of accumulated Greenhouse gases, the identified culprit behind global warming and climate variability and change is due to the historical growth path of developed countries. Developing countries have very little responsibility for this problem. Yet these countries are facing the challenges posed by global warming. All countries have the common responsibility to work to address the climate challenge but not all countries bare the same responsibility for its causes. This was acknowledged in the UNFCCC with the acceptance of the principle so equity and common but differentiated responsibility. The UNFCCC also set in process a financing framework for developed countries to support the adaptation and mitigation actions of developing countries. These are the legally binding commitments of rich developed countries under article 4 of the UNFCCC of which the specific financing obligations are to be facilitated by the financial mechanism of the convention and the financial flows are to meet set criteria of ‘primarily grant’ and, new, additional, adequate, predictable and to flow from Annex II Parties (the rich industrialized countries to Non Annex I parties (all developing countries).

Article 4 Commitments with regard to the provision of finance

4.3. The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1. They shall also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures that are covered by paragraph 1 of this Article and that are agreed between a developing country Party and the international entity or entities referred to in Article 11, in accordance with that Article. The implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties.

4.4. The developed country Parties and other developed Parties included in Annex II shall also assist the developing country Parties that are particularly vulnerable to the adverse effects of climate change in meeting costs of adaptation to those adverse effects.

4.5. The developed country Parties and other developed Parties included in Annex II shall take all practicable steps to promote, facilitate and finance, as appropriate, the transfer of, or access to, environmentally sound technologies and knowhow to other Parties, particularly developing country Parties, to enable them to implement the provisions of the Convention.

In this process, the developed country Parties shall support the development and enhancement of endogenous capacities and technologies of developing country Parties. Other Parties and organizations in a position to do so may also assist in facilitating the transfer of such technologies.

4 . 7. The extent to which developing country Parties will effectively implement their commitments under the Convention will depend on the effective implementation by developed country Parties of their commitments under the Convention related to **financial resources and transfer of technology and will take fully into account that economic and social development and poverty eradication are the first and overriding priorities of the developing country Parties.**

4.8 . In the implementation of the commitments in this Article, the Parties shall give full consideration to what actions are necessary under the Convention, including actions related to funding, insurance and the transfer of technology, to meet the specific needs and concerns of developing country Parties arising from the adverse effects of climate change and/or the impact of the implementation of response measures, especially on:

(a) **Small island countries**; (b) Countries with low-lying coastal areas; (c) Countries with arid and semi-arid areas, forested areas and areas liable to forest decay; (d) Countries with areas prone to natural disasters; (e) Countries with areas liable to drought and desertification;

(f) Countries with areas of high urban atmospheric pollution; (g) Countries with areas with fragile ecosystems, including mountainous ecosystems; (h) Countries whose economies are highly dependent on income generated from the production, processing and export, and/or on consumption of fossil fuels and associated energy-intensive products; and (i) Land-locked and transit countries.

ARTICLE 11 FINANCIAL MECHANISM

1. A mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology, is hereby defined. It shall function under the guidance of and be accountable to the Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria related to this Convention. Its operation shall be entrusted to one or more existing international entities.

2. The financial mechanism shall have an equitable and balanced representation of all Parties within a transparent system of governance.

Climate finance is hence a separate flow of funds from developed countries to developing countries so that these countries are enabled to meet their adaptation and mitigation projects and programme, including technology development and transfer, needs and more recently discussion around loss and damage due to climate change. It should hence not be subsumed under the broader 'development' finance; unless effort is taking to ensure and promote its special character and to avoid substitution of development flows for climate finance flows and vice versa.

Ultimately, the widely anticipated Paris 2015 Agreement on climate change is the context and location for discussing enhance flows of climate finance—its quantum, scale scope and timely disbursal.

ARTICLE 2 OBJECTIVES
The ultimate objective of this Convention and any related legal instruments that the Conference of the Parties may adopt is to achieve, in accordance with the relevant provisions of the Convention, **stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system.** Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, **to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner**.]

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II. Towards a truly development outcome at FFD3

There have been various CSO position papers on this issue, most notably *UN Financing for Development negotiations: What outcomes should be agreed in Addis Ababa in 2015?* [4], which has been endorsed by a number of Caribbean CSOs. But given the set of challenges cited above, it is important to offer a much sharper Caribbean focus. The starting point of this tentative think piece there is that in order for the FFD3 to deliver outcome that supports development in the Caribbean it must ensure strong commitments and effective delivery on the means of implementation (finance, technology, capacity building) in the context of country ownership, harmonization, the right to development and the global common good. This will enable access by developing countries to long-term finance for development and technology transfer.

It must also effectively address the issues of:

- **Increase funding sources and mechanisms for promoting sustainable development—as well as the quantum and quality of funds**

Seek to ensure much broader distribution of all aspect of development financing especially low concessional financing and ODA. This would require revision of allocation criteria to

[4] Written by African Forum and Network on Debt and Development, European Network on Debt and Development Jubilee South – Asia Pacific Movement on Debt and Development, Latin American Network on Debt, Development and Rights, and Third World Network.

include factors that take into account the general and structural weakness, structural gaps and specificities of the Caribbean region 'the allocation criteria', both for ODA and public and private funding flows. These criteria generally rank countries according to average income, but are not appropriate for Caribbean SIDS as they do not grasp the 'natural complexity' of development. There is therefore need for new approach grounded in multiple criteria and adequate variables that offer to deal with Caribbean countries' development realities, needs and priorities in a more comprehensive manner.

- **Debt relief and Debt restructuring**

  The principle of 'fresh start' was long recognised as far back as the Bible and the idea of 'fresh start' is an enduring feature of most religions. Jubilee Scotland and its networks of NGOs have also long recognised call for the global community to systemically address the inequity and injustice behind the preservation of debts that should have been long ago discharged.

  - **There should be consideration of a further round of debt cancellation** and enhance concessional lending facilities that operates during period of debt stress, that extends to middle income countries such as SIDS.

- Support for and development of a fair and transparent debt workout process such as is explicit in called as a Statutory Sovereign Debt Resolution Mechanism as against the current ad hoc restructuring approach approved
- Strong unambiguous statement and legal provisions against the actions of vulture funds
- Strong support for the recent UNGA Resolution A/RES/68/304 (sept 9, 2014) 'Towards the establishment of a multilateral legal framework for sovereign Debt restructuring process" and future work around this resolution
- Strong support and advocacy around the utilization of UNCTAD Responsible lending and borrowing Principles
- Automatic standstill (moratorium= on the official and commercial debt servicing for countries facing severe shocks, including for severe external shocks (food price hikes and other global events) and from natural disasters and extreme weather events. This can also be seen as a complementary compensation for loss and damage.

- **A more robust plan for the discharge on the part of development partners of existing commitments** such as the ODA targets adopted at the Ministerial Conference on Financing for Development held in Monterrey, Mexico in 2002. Such targets should be clear, mandatory and subject to measurement, reporting and verification mechanisms.

- **Mechanism, framework and process to reduce the transfer costs related to remittances and support the international targets set by the UN System regarding remittances.**

- **Mechanism framework and process to ensure more balance and equitable flow of funds to Caribbean and all SIDS countries** including access to concessional finance and the re-examination of income based criteria for debt relief in favour of more comprehensive assessment that takes into account the structural gaps and other factors of countries in debt distressed.

- **Pathway for $250 billion in new SDRs annually** with the majority going to developing countries.