Caribbean SIDS Regional Preparatory Meeting
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Kingstown, St. Vincent & The Grenadines

Session 1

Strategic Responses to External Shocks Impacting Caribbean SIDS

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Background Note

Introduction

Caribbean Small Island Developing States (SIDS) possess a distinct identity, yet they face similar vulnerabilities arising from their small size, inadequate institutional capacities, limited economic diversification, high indebtedness, and dependence on fragile ecosystems. These inherent structural challenges leave Caribbean SIDS exposed to external shocks that jeopardize their development progress. Notably, they grapple with economic shocks, fluctuations in imported commodity prices (including food and energy), and health-related crises, exemplified by the impact of the COVID-19 pandemic. Furthermore, the region is prone to various natural hazards, both geophysical and those exacerbated by climate change. These vulnerabilities create a complex network of ongoing challenges that affect Caribbean SIDS.

Challenges

Economic Shocks

Common regional economic vulnerabilities encompass the constrained size of individual markets, inadequate economic diversification and digitalization, high deficits, and limited fiscal space. High reliance on imported fossil fuels (over 80-90%) and imported food also renders the countries exposed to commodity price fluctuations. [1,2] The Caribbean countries are among the most indebted regions in the world. Prior to the pandemic, most countries

[1] The World Bank 2022, "Clean energy in the Caribbean: a triple win", available from https://blogs.worldbank.org/latinamerica/clean-energy-caribbean-triple-win#:~:text=Out%20of%2011%20Caribbean%20countries,Caribbean%20will%20hike%20even%20further.
[2] The World Bank 2022, "The Fight against Food Insecurity in the Caribbean", available from https://www.worldbank.org/en/news/feature/2022/06/28/food-insecurity-caribbean

were already coping with an extended period of economic stagnation, rising poverty, inequality and high debt. The pandemic resulted in significant economic contraction in the region, threatened food security, disrupted supply chains, increased unemployment (especially for women) and caused the closure of many businesses.

Food insecurity

According to the Regional Overview of Food Security and Nutrition – Latin America and the Caribbean 2022, the prevalence of food insecurity is greater, with 40.6% of the population experiencing moderate or severe food insecurity in 2021, surpassing the global average of over 29.3%. In the Caribbean, approximately 52% of the population cannot afford a nutritious diet.[3] COVID-19 coupled with rising commodity prices resulting from the war in Ukraine is directly impacting people's daily food consumption and nutrition. For example, food price increased each month by more than 5% in Dominican Republic, Guyana, Haiti, and Suriname from March 2021-2022.[4] With the region's population expected to grow, there is an urgent need to redesign food production and supply systems. The Caribbean Community's (CARICOM) vision to reduce the region's food import bill by 25% by 2025 becomes even more urgent.

Health-related Shocks

COVID-19 has amplified the existing structural deficiencies in countries, including in the health sector. For Latin America and the Caribbean, non-communicable disease (NCD) mortality and morbidity is highest in the Caribbean with diabetes, cardiovascular disease and cancer consistently ranked among the top 5 causes of death. This high vulnerability to NCDs is exacerbated by the region's limited health sector capacity (both human and infrastructure). The OECD/The World Bank report (2020) noted that the total health expenditure across Latin America and the Caribbean countries is 6.6% of GDP, lower than

[3] FAO, IFAD, PAHO, UNICEF and WFP. 2023. Regional Overview of Food Security and Nutrition – Latin America and the Caribbean 2022: towards improving affordability of healthy diets. Santiago. https://doi.org/10.4060/cc3859en
[4] The World Bank 2022, "The Fight against Food Insecurity in the Caribbean", available from https://www.worldbank.org/en/news/feature/2022/06/28/food-insecurity-caribbean

the 8.8% in OECD countries.[5] The pandemic worsened the crisis by increasing risk factors for NCDs, fueling economic hardships, and crippling the healthcare services in the Caribbean. Additionally, the small size and remoteness of SIDS make them highly vulnerable to supply chain disruptions in the health sector and cause people to seek out-of-country specialized care services which is often costly. The need to strengthen health systems, early warning mechanisms and better preventative care is critical at the national and regional levels. Mechanisms for regional health response are important such as collective procurement of goods and services when necessary.

Natural Hazards including those amplified by climate change

Natural disasters have massive economic and human costs and hamper development efforts. The IMF estimated that average disaster damage as a ratio to GDP was 4.5 times greater for small states than for larger ones, but six times higher for Caribbean countries.[6] SIDS continue to grapple with more frequent and severe hydrometeorological events (storms, hurricanes, floods, drought, heatwaves) amplified by climate change as well as geophysical events such as earthquakes (Haiti) and volcanoes (St. Vincent and the Grenadines). UNDP's Post Disaster Needs Assessments between 2017-2022 further illustrate the severe effects of different natural hazards in the Caribbean, measured in terms of Loss and Damage. For instance, in 2017 the toll of Hurricanes Irma and Maria on Dominica's GDP was 192% of the previous year.

Recommendations for Action: What's Needed to accelerate action and progress?

1. Create evidence-based and risk informed approaches and policies that focus on the Three I's. - investment, insurance and innovation (UNDP HDR 2020/2021). Encourage tailored **investments** by the international community to help SIDS invest in reducing risks to multiple hazards and threats and build resilience to shocks; Build

[5] OECD/The World Bank (2020), Health at a Glance: Latin America and the Caribbean 2020, OECD Publishing, Paris, https://doi.org/10.1787/6089164f-en
[6] International Monetary Fund, "Three Days at Camp David: How a Secret Meeting in 1971 Transformed the Global Economy", available from https://www.imf.org/en/Publications/fandd/issues/2018/03/otker

robust, inclusive **insurance** systems to help persons and countries recover from catastrophes and safeguard livelihoods; Use cutting-edge research to fuel **innovation**, technologies and solutions to bolster shock response.

2. Enhance sustainable public debt management and promote economic diversification, particularly in the green, blue, and orange economies, by tackling regulatory bottlenecks, fostering regional trade, and mobilizing new capital, including sustainable finance.
3. Strengthen resilience to climate change through well-coordinated multi-hazard strategies and the implementation of climate change adaptation measures, while addressing capacity gaps for accessing climate and disaster risk reduction finance.
4. Invest in nature based-solutions to tackle overexploitation and address pollution and waste management with specific attention to food and water security.
5. Promote intra-regional trade to improve food security while improving food value chains, food production and sustainable energy generation.

Proposed Guiding Questions for the Discussions

1. What are the top three interventions you would recommend to enhance resilience to external shocks and address the vulnerabilities effectively?
2. How should the financial architecture be reformed to helps Caribbean SIDS build resilience in the context of multiple vulnerabilities and shocks?
3. What instruments are available or should be created to enable SIDS to build resilience beyond reforms to the international financial architecture?
4. How can we strengthen intra-regional cooperation and international partnerships to respond to the external shocks?