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ECLAC SUBREGIONAL HEADQUARTERS FOR THE CARIBBEAN

FOCUS

Magazine of the Caribbean Development and Cooperation Committee (CDCC)

ABOUT ECLAC and the CDCC

The Economic Commission for Latin America and the Caribbean (ECLAC) is one of five regional commissions of the United Nations Economic and Social Council (ECOSOC). It was established in 1948 to support Latin American governments in the economic and social development of that region. Subsequently, in 1966, the Commission (ECLA, at that time) established the subregional headquarters for the Caribbean in Port of Spain to serve all countries of the insular Caribbean, as well as Belize, Guyana and Suriname, making it the largest United Nations body in the subregion.

At its sixteenth session in 1975, the Commission agreed to create the Caribbean Development and Cooperation Committee (CDCC) as a permanent subsidiary body, which would function within the ECLA structure to promote development cooperation among Caribbean countries. Secretariat services to the CDCC would be provided by the subregional headquarters for the Caribbean. Nine years later, the Commission's widened role was officially acknowledged when the Economic Commission for Latin America (ECLA) modified its title to the Economic Commission for Latin America and the Caribbean (ECLAC).

Key Areas of Activity

The ECLAC subregional headquarters for the Caribbean (ECLAC/CDCC secretariat) functions as a subregional think-tank and facilitates increased contact and cooperation among its membership. Complementing the ECLAC/CDCC work programme framework, are the broader directives issued by the United Nations General Assembly when in session, which constitute the Organisation's mandate. At present, the overarching articulation of this mandate is the United Nations Sustainable Development Goals.

Towards meeting these objectives, the Secretariat conducts research; provides technical advice to governments upon request; organizes intergovernmental and expert group meetings; helps to formulate and articulate a regional perspective within global forums; and introduces global concerns at the regional and subregional levels.

Areas of specialization include trade, statistics, social development, science and technology, and sustainable development, while actual operational activities extend to economic and development planning, demography, economic surveys, assessment of the socio-economic impacts of natural disasters, climate change, data collection and analysis, training, and assistance with the management of national economies.

The ECLAC subregional headquarters for the Caribbean also functions as the Secretariat for coordinating the implementation of the Programme of Action for the Sustainable Development of Small Island Developing States. The scope of ECLAC/CDCC activities is documented in the wide range of publications produced by the subregional headquarters in Port of Spain.

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CONTENTS

FOCUS: ECLAC in the Caribbean is a publication of the Economic Commission for Latin America and the Caribbean (ECLAC) subregional headquarters for the Caribbean/Caribbean Development and Cooperation Committee (CDCC).

EDITORIAL TEAM:

Director	Diane Quarless
Editor	Jabari Fraser
Copy Editor	Rachael Amanda Espinet
Coordinator	Sheldon McLean
Design and Layout	Liseanne Martin-Subero

CONNECT WITH US FOR MORE:

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CONTACT INFORMATION

ECLAC Subregional Headquarters for the Caribbean
PO Box 1113, Port of Spain, Trinidad and Tobago
Tel: (868) 224-8000
E-mail: spou-pos@eclac.org
Website: www.eclac.org/portofspain

RESILIENT GROWTH, DEVELOPMENT AND STRUCTURAL CHANGE IN THE CARIBBEAN: EXISTENTIAL THREATS AND POLICY PRESCRIPTIONS

While we have weathered the decline in economic activity incurred during the height of the pandemic and rebounded to pre-COVID GDP levels and growth averages in 2024, other significant headwinds and existential threats continue to impede economic development in the Caribbean.

Following the pandemic-induced economic contraction of 13.0% (excluding Guyana) in 2020, the subregion surged with remarkable resilience, achieving an impressive average growth rate of 4.8% over the following three years. The countries of the Caribbean subregion are now making every effort to refashion and restructure their economies, so as to preserve the modest economic growth achieved and to build a resilient macroeconomic foundation for sustainable, green growth. This pursuit of resilience and sustainable development, however, has been fraught with challenges that have threatened to derail progress.

Structural challenges continue to plague the Caribbean's small island developing states (SIDS), including high vulnerability to climate change and limited economic diversification. These challenges, compounded by limited access to concessional finance and resistance from developed countries, have worsened existing issues like high trade deficits, public debt, and fiscal deficits, restricting the fiscal space available for structural change. Debt servicing, for example, consumes a significant portion of fiscal revenue, curtailing resources needed for long-term development, productivity and competitiveness improvements, emergency response, early warning systems, and climate resilience building. Debt servicing costs account for around 40% of government revenue in the Caribbean.

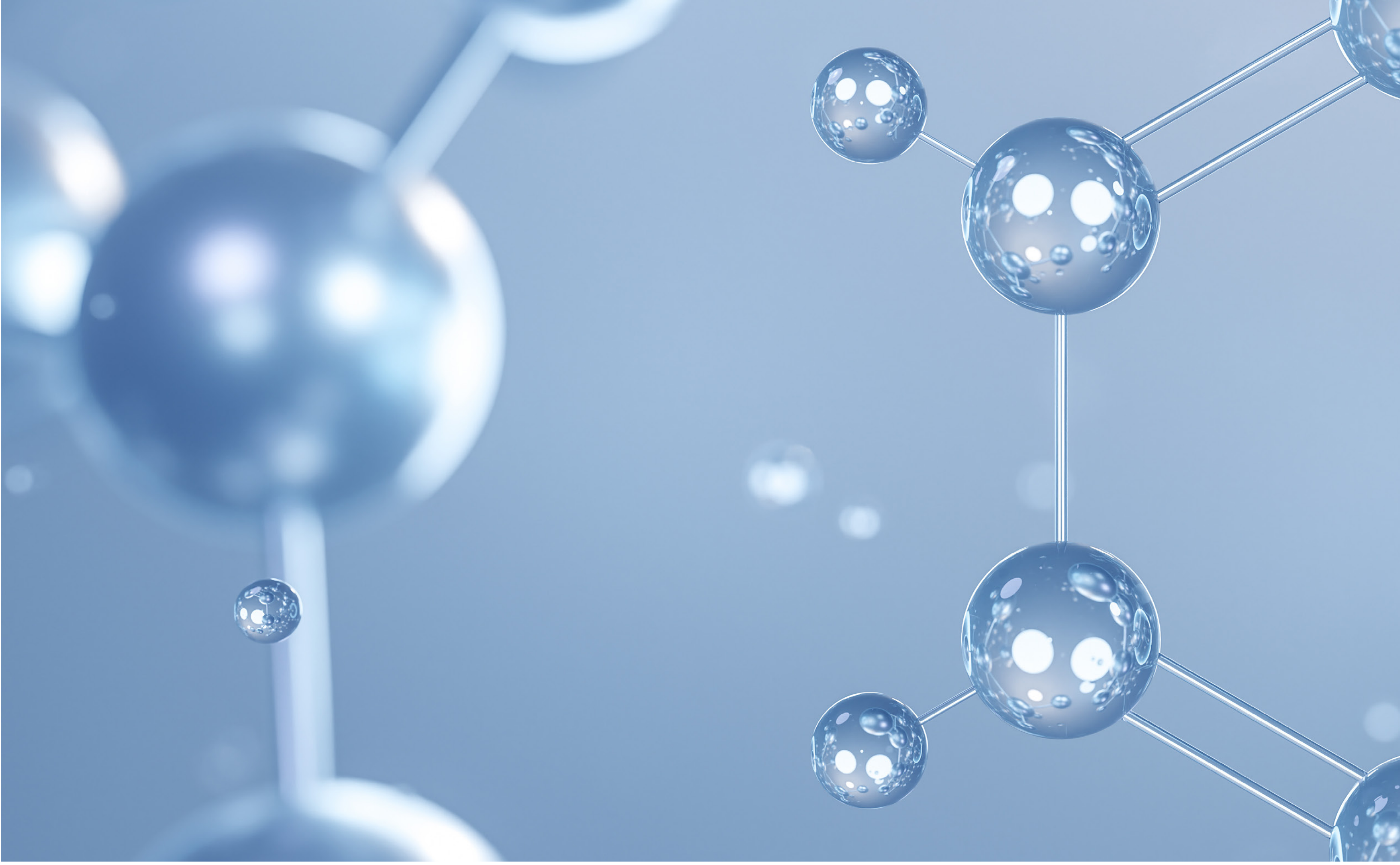
The subregion's inability to readily access climate financing, concessional loans, and grants for resilience-building and economic restructuring further exacerbates its development challenges. These deterrents to the region's economic development and resilience leave it vulnerable to political and economic instability, thus jeopardizing recent gains and hindering efforts toward structural transformation and sustainable growth. Nonetheless, the subregion remains determined to confront these obstacles.

The United Nations Economic Commission for Latin America and the Caribbean (ECLAC) continues to work with regional entities to ensure that emphasis is given to these priority initiatives as we approach 2030. We are committed to ensuring that our member states take proactive steps to bridge the gap between discussion and implementation of resilience methods, thereby advancing progress toward the achievement of the Sustainable Development Goals (SDGs).

Mindful of this, ECLAC has hosted several regional discussions towards resilience building as part of a sustainable recovery post-COVID-19. At the biennial Caribbean Development Roundtable held in September 2024, the central theme was "Confronting the challenges to resilient growth and sustainable development in the Caribbean: from dialogue to action post the Fourth International Conference on Smal Island Developing States". The dialogue of the Roundtable was grounded on the premise that, although the Caribbean's ability to meet its development needs has been seriously constrained, new emerging opportunities, both international and regional in scope, may bolster the subregion's efforts toward a robust recovery and greater resilience. In this context, global partnership remains vital.

The member states explored emerging strategies to advance more effective advocacy by harnessing enablers such as a multidimensional vulnerability index, aiming to leverage global concessional and domestic sources of finance while exploring ways to scale up such programs for maximum effectiveness. The member states must collaborate harmoniously to realize this objective.

It is against this backdrop that this edition of the FOCUS is dedicated to exploring emerging key strategies, including innovative financing disaster risk reduction, energy transition, local content policies in the hydrocarbon sector, and regional integration. Each of these strategies, however, comes with its own set of challenges.



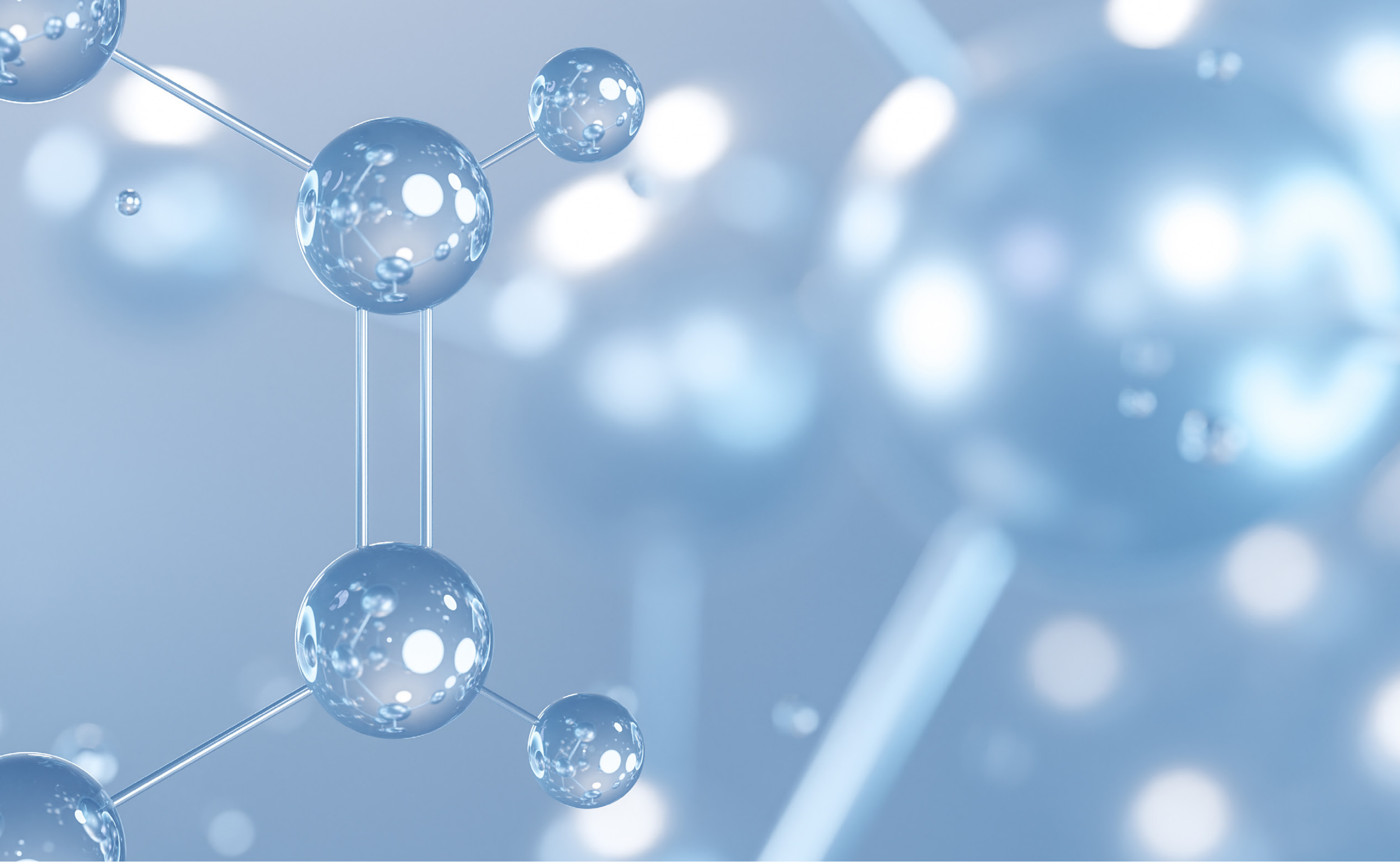
To bolster resilience in the face of disaster risks emerging from Climate change, a key solution is prioritizing investment in resilience-building, particularly in critical sectors such as health, education, and productive activities, all of which are vital for long-term stability.

Another key avenue for enhancing economic resilience against political pressures is the Caribbean's energy transition, which increasingly depends on natural gas as a cleaner alternative to carbon-intensive fuels like diesel. Liquefied Natural Gas (LNG) and Small-Scale LNG (SSLNG) have emerged as promising solutions to the region's energy challenges, offering low-carbon alternatives that can provide backup during disruptions.

Further crucial sustainable growth and development-centered strategies include enhancing local participation in the hydrocarbon sector through Local Content Policies (LCPs) and Local Content Requirements (LCRs), which mandate the use of local labor, goods, and services. These policies can help build local technical capacity and improve the economic benefits derived from hydrocarbon resources.

Across all these innovative strategies, a common binding constraint that emerges is the difficulty in securing adequate funding. Whether it is disaster risk reduction, LNG energy transition, or enhancing local content policies, financial constraints remain a significant hurdle. In addition, institutional capacity limitations and the need for robust policy enforcement exacerbate the situation, particularly in navigating complex mechanisms. Political and economic instability, which systemically affects all these areas of concern, further complicates the effective implementation of solutions, while reliance on external suppliers and geopolitical risks undermines long-term planning.

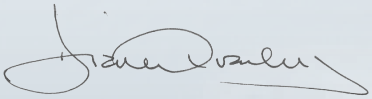
Addressing these interconnected challenges demands coordinated efforts, strong government support, and innovative financing mechanisms, such as debt-for-climate swaps, to



foster sustainable development and resilience. Overcoming these hurdles necessitates careful planning, regional cooperation, and the mobilization of both public and private sector investments. The Caribbean must balance short-term solutions with long-term sustainability goals, ensuring effective implementation while navigating the underlying challenges.

Through innovation, regional collaboration, and strategic investments, Caribbean SIDS can begin to fortify their foundation for a more resilient future.

Yours in focus,



Diane Quarless

GLOBAL CONFLICTS, CLIMATE CHANGE AND CLIMATE FINANCE: THE CARIBBEAN'S THREE STRANGE BEDFELLOWS

Sheldon Mc Lean

Caribbean member states are increasingly attentive to refashioning and restructuring their economies to build resilience, safeguarding modest economic growth achieved during the post-pandemic era and creating a strong macro-economic platform for robust growth in the medium to long-term.

Following the pandemic-induced average economic contraction of 13.0% (excluding Guyana) in 2020, the subregion saw economic growth of 4.8% on average over the following three years. GDP growth in the Caribbean is forecast to be 2.5% in 2024, marginally rising to 2.6% in 2025, outstripping Latin America[1] (2.3%).

This notwithstanding, Caribbean economies continue to face significant headwinds and existential threats which have the potential to derail any gains accrued during the past four years (2021-2024), further constraining efforts at structural transformation. This article will cursorily assess the relative import of global conflicts, climate change and climate finance on these efforts to achieve growth and economic transformation in the subregion.

THE WARS IN UKRAINE AND PALESTINE

On February 24 2022, Russia launched a full-scale invasion of Ukraine, escalating years of tense relations.

Since 2014, following Ukraine's Revolution of Dignity and the ousting of pro-Russian President Yanukovych, Russia had annexed Crimea and thwarted Ukraine's moves toward NATO and the EU (Averianova and Voropaieva 2020; Cimbala 2014). In 2019, Ukraine amended its constitution to renew its efforts to join the EU and NATO, prompting Russia to amass military forces along the border in late 2021. The war, now into 2024, has caused nearly 500,000 military casualties and tens of thousands of civilian deaths. This is exacerbated by attacks on infrastructure, such as energy facilities and housing, leaving millions without access to basic services. By mid-2024, Russia had reportedly lost over 315,000 soldiers and 2,200 tanks, while Ukraine, dependent on western aid, faced critical shortages. After over two years, the conflict remains entrenched, with fighting intensifying and no resolution in sight.

By contrast, the war between Israel and Hamas-led Palestinian militant groups which began on October 7, 2023, was sparked by a surprise attack by Hamas and other militant groups on Israel, across the Gaza-Israel barrier (Tukura and Tukura 2024; Bordas 2024). Targeted attacks on civilian and military personnel resulted in the deaths of over 1,195 individuals, including Israelis and foreign nationals, mostly civilians, and the abduction of 250 hostages (UN News 2024). This is the fifth and deadliest major clash in the broader Gaza–Israel conflict since 2008, with unprecedented destruction and loss of lives on both sides. Israel's military response, including a Gaza invasion on October 27, is being described as one of the most destructive bombing campaigns in recent history, having caused widespread devastation and over 43,000 Palestinian deaths as of November 2024. Internationally, Israel faces charges of genocide, with arrest warrants issued for its leaders. The U.S. has provided extensive military aid, while regional tensions escalated, prompting an Israeli invasion of Lebanon in October 2024, followed by a ceasefire agreement on 27 November 2024.

IMPACT ON COMMODITY PRICES

Initially, the Russia-Ukraine war sparked substantial spikes in the global price of grain, as both Russia and Ukraine are significant exporters of the product. However, these price hikes were short-lived and were accompanied by sharp contractions. Grain prices, for example, spiked as a response to the war but have now stabilized to below pre-invasion levels (as of November 2024) (World Bank 2024).

[1] Official data collected by the Economic Commission for Latin America and the Caribbean; aggregates are weighted averages.

Figure 1: Variation in Commodity Prices

West Texas Intermediate (WTI) Oil Prices (2022-2024)

Corn Prices (2022–2024)

Brent Oil Prices (2022-2024)

Wheat Prices (2022–2024)

Source: Tradingview (2024)

The current process is a decentralised market regime, which in some cases Caribbean economies are largely dependent on imported fossil fuels for energy, and as such increased oil prices impact negatively on their fiscal and balance of trade performance as well as trade competitiveness and inflation. The Russia–Ukraine war had an initial impact on global oil prices. Immediately following the onset of the war (on February 24, 2022), sanctions from the U.S. and European nations against Russian energy exports quickly led to supply constraints, which in turn temporarily drove oil prices upwards.

Brent crude prices spiked from an opening of US$96.76 per barrel (bbl.) to an intraday high of US$105.81/ bbl. However, by the end of the trading day, prices settled lower at US$99.17/ bbl., exhibiting a classic "whipsaw" pattern (Tradingview 2024). This volatility highlights how quickly market sentiment can shift in response to geopolitical events, with initial panic-driven price surges often followed by corrections as markets recalibrate expectations.

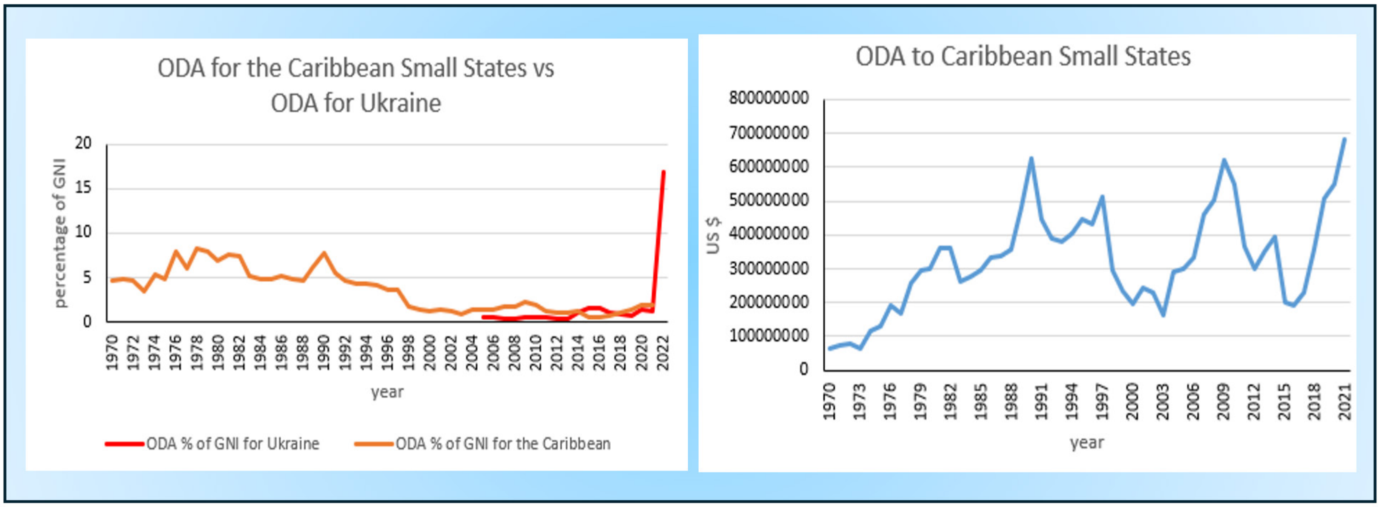
Moreover, there was some continued bullish movement causing the West Texas Intermediate (WTI) crude oil futures to reach US$133.46/ bbl., and Brent crude to reach US$139.13/ bbl., on March 7, 2022[2]. These were the highest prices since 2008. The steep rise in oil prices was primarily due to fears of an energy supply crisis, as Russian oil exports play a critical role in the global market, especially for European countries heavily dependent on Russian energy supplies. This notwithstanding, policy-responses later that year such as the United States Federal Reserve implementing several interest rate hikes to cool inflation, placed significant downward pressures on oil prices. For instance, there was a 25 basis points increase in March, followed by more aggressive hikes in May, June, July, and September. The strengthening of the US dollar, partly a result of these hikes, made oil relatively cheaper in dollar terms, which contributed to a partial decline in oil prices toward the end of 2022. By September 27, 2022, WTI crude fell to US$76.31/ bbl., and Brent to US$83.65/ bbl. As such, the initial upward price shock has subsided. Brent is currently trading at US$72.34/bbl, and WTI at US$68.73/bbl (Figure 1).

While the Israel-Palestine conflict has also had no discernible protracted impact on commodity prices thus far, it has contributed to an increase in shipping costs which invariably impacts inflation in the Caribbean, which is a substantive net food and energy importer. However, through, inter alia, astute monetary policy interventions, the Caribbean has largely brought inflation under control, with average inflation (excluding Suriname) just over 2% (June 2024)[3]. Given that Israel has thus far refrained from attacking energy infrastructure in Iran, amidst the subsequent deal to end fighting between Israel and Hezbollah, the immediate prospects of a significant upward shock on oil prices is cooling.

The Caribbean Community (CARICOM) remains largely unaffected by the Russia-Ukraine and Israel-Palestine conflicts due to its geographic distance from the war zones. CARICOM faces no immediate military threat or direct involvement, and is unlikely to see significant numbers of refugees, as Europe and neighbouring regions are the main destinations for displaced people. Additionally, CARICOM nations are neither heavily dependent on imports of grain nor energy from Russia or

[2]Note, WTI is the benchmark oil price for the Western Hemisphere, and Brent is the benchmark oil price for the Eastern Hemisphere.
[3]Official data collected by the Economic Commission for Latin America and the Caribbean.

Figure 2: ODA for the Caribbean Small States vs Ukraine



Source: Tradingview (2024)

Ukraine, unlike parts of Europe, Africa, and Asia, which have faced disruptions in food and energy supplies due to the war. Thus, these limited economic ties with Russia and Ukraine mean that trade disruptions, energy shortages, and food security issues have had minimal effect on the region. Despite the tepid direct impact, the Russia-Ukraine and Israel-Palestine wars remain important geopolitical events. CARICOM must still monitor these conflicts, as their broader global consequences—such as rising commodity prices, inflation, and supply chain disruptions—could eventually affect the region.

IMPACT OF THE GLOBAL CONFLICTS ON CARIBBEAN COUNTRIES – ODA AND CLIMATE FINANCE

Whereas these conflicts have had no lingering pernicious impact on inflation or food security in the Caribbean, by contrast, the Russia–Ukraine and the Israel-Palestine wars have substantially impacted Official Development Assistance (ODA), reshaping its composition, distribution, and overall priorities.

As the conflicts intensified, they have pushed ODA to its highest levels in history, primarily due to the significant financial, military, and humanitarian support provided to Ukraine in particular. The reallocation of resources in support of Ukraine has invariably reduced the available aid for many low-and middle-income countries that rely heavily on these resources to address their systemic development challenges.

In 2022, extraordinary support to Ukraine pushed ODA to a record high of USD 204 billion. Over USD 16 billion was provided by Development Assistance Committee (DAC) countries, with EU institutions contributing an additional USD 10 billion in humanitarian, financial, and military aid. As a result, Ukraine became the second-largest single-country recipient of ODA in history, only exceeded by Iraq in 2005(OECD 2023).

This has strained resources available for traditional ODA beneficiaries, particularly low and middle-income countries, which rely on such assistance for critical development projects in health, education, and infrastructure. The diversion of aid exacerbates vulnerabilities in countries already facing poverty, inequality, and economic instability, potentially stalling progress on the Sustainable Development Goals (SDGs). Additionally, the increased military spending in countries geographically closer to Russia, such as Finland, Germany, and Poland, has further diminished the pool of funds available for global development priorities, including those of climate-vulnerable SIDS.

To this end, perennial shifts in global development priorities, increasingly away from the evolving peculiar needs of small vulnerable economies, has seen ODA to

[4]The main drivers of Caribbean debt have been large primary and current account deficits, resulting from low growth; high financing costs that small States face in capital markets; climate change effects; and frequent disasters that reduce both output and government revenue, and that demand high levels of expenditures on disaster

the Caribbean fall from over 8% of GNI (Gross National Income) in 1979 to under 2% of GNI in 2021. By contrast, ODA to Ukraine increased from 2% of GNI in 2021 to 17% of GNI in 2022 (World Bank 2024). It should also be noted that during the pandemic, developed countries made available upwards of US$400 billion to meet their own country needs through an historic approval of SDR allocations (Figure2).

CLIMATE FINANCE

Caribbean SIDS face high vulnerability to the impacts of climate change and natural disasters which serve as major drivers of rising public debt and debt servicing costs. This is further exacerbated by the subregion's limited access to development resources, including ODA and other sources of concessional finance, and by their ineligibility for debt relief mechanisms, given the disqualification of higher income Caribbean economies for such consideration based on GDP per capita income levels. While demonstrating little empathy to the plight of Caribbean countries, the international donor community increasingly allocates substantial aid to the ongoing conflicts.

Caribbean Small Island Developing States (SIDS) therefore continue to advocate that similar levels of support are essential if SIDS are to meaningfully pursue resilience building initiatives critical for climate-related loss and damage response. Caribbean nations require international financial assistance to cope with the increasing costs of climate change impacts. Indeed, at the recently concluded COP29 climate summit held in Baku, Azerbaijan, Prime Minister Gaston Browne of Antigua and Barbuda suggested that climate change is the single greatest existential threat of our time and recalled that for decades, wealthy nations have pledged $100 billion annually to support vulnerable countries, promises which have largely gone unfulfilled. He sought a consensus on a clear, substantial climate finance target at COP29, with adequate funding to help small island developing states adapt and build resilience (Government of Antigua and Barbuda 2024).

Going into the negotiations, the figure set by climate vulnerable developing countries for this funding was US$1.3 trillion annually. However, when the dust had settled and a collapse of the climate talks averted in the final hour, COP29 ended with an agreement for developed countries to provide US$300 billion annually by 2035 to developing


Source: Office of The Prime Minister Antigua and Barbuda

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nations to address the impact of climate change; these funds to be sourced from both private and public sector finance. This amounts to less than 25% of the initial sum sought by climate vulnerable developing countries and 4% of global fossil fuel subsidies (Sky News 2024).

The wedge between what was realistically expected at the beginning of the recently concluded climate talks in Baku and what was eventually offered, will undoubtedly ensure that climate vulnerable developing countries like those of the Caribbean will perennially continue to grapple with funding their adaptation and resilience building needs through accrual of additional public debt. This contrasts strikingly with Prime Minster Browne's call at the 79th UN General Assembly for direct investments, in the form of compensatory grants to build back more resilient infrastructure damaged repeatedly by catastrophic climate events, and not new borrowings. He went on to suggest that wealthy polluting countries were seeking to shift responsibility onto illusive private capital, instead of disincentivizing emissions, by introducing a global carbon tax, to fund the clean energy revolution that is quintessential to saving our planet (Browne 2024).

This speaks to the importance of integrating bespoke innovative mechanisms into the global climate finance architecture, such as using debt for climate swaps, debt relief, repurposing of SDRs, state-contingent debt instruments, catastrophe bonds and carbon pricing funding to help small states slacken the noose of unsustainably high debt burdens and debt servicing costs that currently tightens around their fiscal necks.

Debt-for-climate adaptation swaps and low-interest Liability Management Operations (LMOs), for example, provide a promising route to alleviating debt burdens and creating fiscal space, all while advancing, as well as securing much needed liquidity for financing, climate change mitigation and adaptation efforts. By conducting negotiations with creditor nations or international financial institutions, SIDS can exchange portions of their debt for investments in climate-resilient infrastructure, renewable energy projects, water systems, and ecosystem restoration etc. These innovative instruments provide a means of circumventing the reluctance of developed countries to contribute to SIDS' climate resilience efforts. By capitalizing on such instruments to address the debt-climate resilience nexus, countries can reduce their debt service obligations while building a more sustainable future.

Underwriting parametric insurance and disaster trust funds can also play a crucial role in conjunction with debt-for-climate swaps, further enhancing the financial resilience of SIDS by providing a safety net for climate-related risks while alleviating debt burdens.

A proposed novel feature of these two (2) innovative financing instruments would be the requirement for a predetermined proportion (e.g. at least 50%) of the liquidity (of fiscal space) gained to be allocated to financing pre-approved climate adaptation projects.

This proposed mechanism is predicated on targeting Caribbean SIDS with high public debt ratios as part of a larger SIDS-wide development strategy. Essential modality here, is the buying-back of high-interest, short-term public debt through the issuance of low interest, longer-term (20 years) green bonds. Other built-in features would include loan guarantees and parametric insurance, with coverage equaling at least one annual loan payment, in the event of an agreed upon trigger(s) in the magnitude of a climate event(s) being met. The intuition is that a default guarantee, parametric insurance and a commitment of at least 50% of the extra fiscal space created would be directed to pre-agreed climate-resilient activities, would place significant downward pressures on the applicable interest rate.

Concomitantly, an integrated framework at the international level, as first proposed by the Bridgetown Initiative, may also be needed to address the liquidity and solvency challenges in Caribbean SIDS, inclusive of quickening debt relief and extending the Common Framework to highly indebted middle-income SIDS, reducing the high-risk premia on SIDS borrowing by providing substantial foreign exchange guarantees to boost investment in the green transition. The international community must also undertake robust reform of the climate finance system to make it friction-free and more amenable to catering to the peculiar needs of Caribbean SIDS.

CONCLUSION

For the Caribbean, its climate vulnerability, increasing climate impact recovery spending-fueled debt, limited access to climate finance, and decreasing development assistance conundrum represent the most acute existential threat to their continued existence. Cracking this puzzle, as it were, should engage the immediate attention of the global community, even as it grapples with containing and ultimately resolving expanding regional conflicts. This would ensure that history does not record the accelerated marginalization of climate-vulnerable Caribbean SIDS as an unintended legacy, veritable

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collateral damage, of the current global wars. ■

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DISASTER RISK FINANCING FOR SUSTAINABLE PROSPERITY IN THE CARIBBEAN: KEY OPTIONS

Michael Hendrickson

Caribbean SIDS are among the countries most vulnerable to the impacts of natural hazards including natural disasters. From 1970 to 2020, disasters resulted in damage and losses of more than US$153 billion, representing a significant US$2.4 million per person in SIDS.

This means that using a median working life of 40 years and median lifetime earnings of $600,000 in middle-income SIDS, the per capita losses are of the order of 4 times the lifetime earnings of a citizen in SIDS (UNECLAC). It is expected that the pattern in the Caribbean is similar for SIDS as a group.

There are various binding constraints to disaster resilience in the Caribbean. Critical among these are geographical location which situates the Caribbean in the hurricane belt and an area subject to earthquakes and volcanic eruptions. This is compounded by infrastructure issues such as inadequately constructed public and private buildings, often due to poorly enforced building codes and standards, and the location of important economic and public infrastructure, including hotels and administrative buildings in coastal zones where they are prone to storm surge, and inadequate early warning systems. However, governments and private businesses have consistently indicated that inadequate financing is a major binding constraint to reducing pre and post-disaster risk and building resilience.

There are several reasons for the constraint on disaster financing. Governments have faced relatively weak fiscal positions marked by high public debt, which has averaged over 69% of GDP during the last five years. Moreover, over 30 cents of every dollar of government revenue are used to service public debt. Hence, debt and debt service have severely constrained the ability of governments to save for contingencies, including disasters. Secondly, the middle-income countries of the Caribbean face an adverse international financial system with limited access to concessional funding despite their high vulnerability and risk profiles, circumstances similar to those of low-income countries. Thirdly, despite being a long-established instrument, insurance coverage/penetration in the Caribbean remains relatively low, especially among lower-income households. Further, where insurance is held, there is often significant under-insurance, which leads to lower payouts after a disaster.

Following is an examination of a few traditional and innovative financing instruments and mechanisms for funding disaster risk reduction and climate change adaptation in the Caribbean to help put the region on a path to sustainable prosperity.

FINANCIAL INSTRUMENTS FOR DISASTER RISK REDUCTION: TRADITIONAL AND INNOVATIVE INSTRUMENTS

There are three broad categories of financial instruments which are used to reduce disaster risk and build resilience. These are risk retention instruments, which entail the government or private sector absorbing the risks themselves through self-financing using savings, borrowing or shifting resources from one budget line to another. The second vehicle is risk transfer systems, which entails shifting the risk to third parties, including insurance companies and the use of catastrophe bonds and similar types of instruments. Thirdly, risk reduction approaches focus on investment in activities that limit risk and impacts from disasters.

Despite their challenging financial situation, Caribbean countries need to explore how they can optimize the use of risk retention instruments for disaster risk management. Both governments and private businesses should set up disaster contingency funds where feasible. Resources should be earmarked continuously to capitalize these funds, with an increase in allocation during economic booms or when businesses make higher-than-average profits. Although these funds face an opportunity cost in that the resources could be invested in other activities, they could provide a net benefit to the region. This stems from the fact, as UNDRR (2021) has highlighted, that every $1 invested in disaster resilience and prevention saves $15 in post-disaster recovery, and every $1 invested in making infrastructure resilient saves $4 in reconstruction costs. These sobering statistics illustrate that investment in disaster risk reduction and resilience is a vital public good that our governments and private sector cannot ignore.

The high and unsustainable debt for many countries in the Caribbean means they are reluctant to borrow for disaster risk reduction and post-disaster recovery and reconstruction. Nevertheless, given the trend in more frequent and severe hurricanes, owing in part to the impacts of climate change, it might be necessary to secure debt financing after major hurricanes and other disasters. Given the region's middle-income status, this highlights the critical need for prior planning to secure and lock in debt financing on the most favourable terms possible. It is vital for Caribbean countries to lock in interest rates and long-maturity loan facilities with the World Bank and other institutions before disasters to ensure they do not have secure high-interest loans after a disaster (Linnerooth-Bayer and Hochrainer-Stigler 2015).

An important innovation has been the adoption of hurricane clauses in Grenada and Barbados. These clauses allow both countries to postpone debt repayments after a major disaster that triggers the clause. Indeed, earlier this year, Grenada became the first country in the world to use its clause to defer payments on its debt after Hurricane Beryl impacted the island (Jones 2024). Grenada has rescheduled $12.5 million of repayments.

The repeated impacts of hurricanes and other disasters have led Caribbean governments, households and businesses to access more disaster risk insurance as a risk transfer mechanism. The Caribbean Catastrophic Risk Insurance Facility (CCRIF) SPC has been the main vehicle for parametric risk insurance for governments, utilities and other regional entities. The CCRIF SPC has been a welcomed innovation in the region. It has key advantages, including timely payouts after a trigger event, providing vital liquidity support for governments and other entities to undertake timely recovery and rehabilitation work, and payouts reduce the need for governments to borrow for recovery and reconstruction. Since its start-up in 2007, CCRIF SPC has made payouts above US$350 million; representing over US$20 million per year, which is significant liquidity support (CCRIF SPC 2024). Undoubtedly, the CCRIF will remain an important parametric insurance vehicle for the Caribbean. However, member countries should consider increasing their insurance coverage under the CCRIF. This involves a tradeoff, but the higher payouts after a disaster should offset the increased premiums. The government of Grenada, for instance, received a significant payout of over US$44 million after Hurricane Beryl, the single largest payout ever by the CCRIF SPC, while the electric utility GRENLEC received a payout of US$9.3 million.

Besides parametric insurance, Caribbean households and businesses need to increase their indemnity insurance coverage to protect their homes and businesses. Moreover, the Association of Trinidad and Tobago Insurance Companies (ATTIC) indicated after the active 2017 hurricane season that a high percentage of properties and valuable assets in the Caribbean were underinsured. This has been a general pattern over the years, partly due to the relatively high cost of insurance and the perception among many citizens that insurance is an inconvenient burden on finances that could be used for other purposes. However, with disaster impacts set to intensify due to climate change, citizens should ensure their properties are

fully insured as far as possible. This could mean the difference between timely and long-drawn-out repairs.

Even as Caribbean SIDS optimize traditional disaster risk financing, they must explore innovative instruments to help them scale up and tailor financing to their special needs. Catastrophe bonds are one innovative instrument that should be explored by more countries. However, Jamaica's Cat bond was not triggered by Hurricane Beryl; hence, the country did not get a payout (Ritchie and Naik 2024). This has led analysts to caution governments to negotiate better terms, including lower thresholds for triggering a payment on cat bonds. However, there is a tradeoff, as a lower trigger will likely lead to higher premiums. Nevertheless, there is concern that the interest rates on some cat bonds are too high and defeat the purpose of helping developing countries affordably finance climate adaptation.

Caribbean countries can also explore the use of special contingent credit lines. These can lock in favourable interest rates and terms and provide quick liquidity for cash-strapped countries after a disaster. Importantly, as is the case for the Inter-American Development Bank's contingent loan facility to Jamaica, a portion of the credit line could be used for disaster risk reduction, preparedness and response. By integrating both short-term liquidity needs with long-term improved disaster risk management these loans can help to reduce future vulnerability and build resilience in the region.

Given the importance of remittances for many Caribbean countries, governments should explore structuring remittance resilience bonds linking remittances to disaster risk reduction and resilience. The World Bank has indicated that remittances tend to increase after economic shocks such as disasters and are relatively stable compared with ODA and FDI (Ratha 2023). Remittance-resilience bonds can provide the Caribbean with long-term instruments for raising funding for investment in disaster-resilient housing, infrastructure, green energy and other industries. However, to be successful, these bonds must be well-structured with competitive and affordable interest rates, ensure transparency in the management of investment projects and avoid currency mismatches that could lead to losses for investors. Importantly, governments and multilateral development banks could be encouraged to provide guarantees for these bonds as part of climate assistance to the region, thereby reducing risks and lowering interest rates on the bonds.

Blended financing can also help to mobilize more finance for resilient infrastructure and productive projects in green energy and other sectors. By incentivizing public and philanthropic capital blending can mobilize significant amounts of private finance for otherwise risky projects. The World Bank notes that roughly 10% of blended finance infrastructure deals mobilized $2 or more for every $1 of public or philanthropic money invested. If Caribbean governments were to catalyze $1.50 of private funding for each $1 of public financing, this could help to scale important investments in green energy, the blue economy and other sectors. Nevertheless, for blending to work well, countries must provide political risk guarantees to a stable policy and regulatory framework. In addition, robust assessments of the potential revenue streams from the investment projects will be required, for instance, tolls for highways and electricity rates for renewable energy. This will help to convince investors of the viability of their investment. Crucially, the undertaking of regional projects can help to achieve greater scale and reduce overall investment costs.

CONCLUSION

With climate change, natural disasters will remain an inescapable development challenge in the Caribbean. Therefore, investing in disaster risk reduction and resilience building will remain critical public goods, which should be considered as important as expenditure on health, education and investment in productive activities. Indeed, these other sectors and activities will not be viable without investment in risk reduction.

Nevertheless, the challenge for the region is to find the appropriate financing at the scale needed to disaster-proof its economy and society. In this regard, the region must combine the most creative mix of traditional and innovative financing instruments for cost-effective resilience building. Traditional indemnity insurance must be better mixed with parametric insurance to cover a wider range of exposed assets. This will benefit from regional approaches that integrate the market across the region to benefit from economies of scale to lower costs. Contingent credit lines and blended finance options can also help to scale finance for the green transition and diversification into blue economic activities. Nevertheless, the region must structure proper financing mechanisms that benefit both the private and public sectors and citizens at large.

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THE ROLE OF NATURAL GAS IN THE CARIBBEAN'S ENERGY TRANSITION

Machel Pantin

In recent years, to deal with the growing threat of climate change, there has been a global shift toward reducing carbon emissions in an effort to slow global temperature increase. Countries that have signed the Paris Agreement, including those in the Caribbean, have been producing national climate action plans, known as nationally determined contributions (NDCs).

One of the main paths to reducing carbon emissions is to shift the source of energy production from fossil fuels to renewable energy. In reality, for most Caribbean countries achieving 100% renewable energy in the short-to-medium-term is not realistic given the large-scale investments that are needed to facilitate the conversion.

While the region continues on the path to renewable energy, there is a role for another fuel source that can lower carbon emissions while still providing energy security in the short to medium term. Thanks to recent technological advancements, natural gas can be the fuel source that provides the "missing link" in the Caribbean's shift to renewables. This article examines the role of natural gas as a step in the Caribbean energy transition and the potential for expanding natural gas imports from regional and international suppliers.

CHALLENGES OF RENEWABLE ENERGY

While some nations have begun to invest in renewables, it will take time to fully develop these systems and integrate them into existing electrical grids. Older electrical grids and utility structures need to be upgraded in order to integrate renewable energy sources. The variable nature of solar and wind power means that power generation systems will need to incorporate battery storage to stabilize electricity supply.

This modernization process will take significant investment over the next decade or two; given the subregion's limited access to affordable finance, the energy transition will not be immediate. There are other challenges to renewable energy adoption, including:

Small size and economies of scale – Caribbean countries have small land masses and populations which limit both the viable space for utility-scale solar energy projects or wind farms and the demand for energy generation. With such small demand project developers find it difficult to achieve returns to scale (Goldwyn et al 2023).

Utility provider constraints – many Caribbean utilities are state-owned and generate tax revenue for the government. The introduction of new renewable sources of energy can mean increased costs to the utility, reduced revenue to the government and increased prices for the consumer. These changes can be politically challenging to introduce and may increase the reluctance of state-owned enterprises to adopt new technologies.

Vulnerability to natural disasters – the location of most Caribbean countries in the path of Atlantic Ocean hurricanes places them at risk of natural disasters and damage to renewable energy infrastructure. The additional risks and the need to develop climate resilient projects raise the costs for developers.

POTENTIAL FOR NATURAL GAS

As a result of these challenges, a balanced and practical approach is needed for the region's energy transition. Currently, most Caribbean countries use diesel and other heavy fuels as the main source of energy production. These fuels are carbon intensive; Natural gas on the other hand, while still a fossil fuel, provides a low-carbon alternative for energy production. Even when countries convert completely to renewable energy, natural gas energy can be used as a backup during periods of maintenance or if energy infrastructure is damaged in a tropical storm.

Currently in the Caribbean, domestic natural gas is only used in Barbados and Trinidad and Tobago, the latter being a major LNG exporter (Gomes and Lambert 2017). Guyana is presently implementing a "Gas to Energy" project, which will provide domestic energy production from natural gas mined offshore. The government has partnered with ExxonMobil, which will develop the 200km subsea pipeline to carry the gas to shore. The natural gas will be extracted and processed offshore, then transported to a facility on the West Bank of Demerara where it will be treated and used in a 300-megawatt power plant to generate electricity (King 2023). The government's aim with this project is to improve local infrastructure and lower energy costs, thus allowing for the development of the country's manufacturing and other productive sectors (OilNow 2022). While Guyana is fairly unique among the Caribbean states as a producer of hydrocarbons, natural gas can still provide an opportunity for energy importing countries.

Liquified Natural Gas (LNG) is natural gas that has been cooled to its liquid state, which is approximately 600 times smaller than its gaseous state, to allow for transport over long distances. Traditionally, the production of LNG required significant capital investment into the necessary plant and machinery. Also, in order to achieve economies of scale for the importer, LNG would have to be purchased in very large quantities, making it uneconomical for smaller destinations with lower demand such as most Caribbean states. However, recent advancements in "small-scale" LNG (SSLNG) have lowered the investment needed to begin exporting and have created an opportunity for the introduction of LNG as a fuel source in smaller markets. Small-scale plants require significantly less space than large-scale plants (which should be thirty to fifty times larger) along with less equipment and risk management measures (Stern 2021). The reduced investment means that SSLNG producers can negotiate shorter sales and purchase agreement contracts with buyers. This then means that buyers have more flexible options than with large-scale LNG which requires long-term contracts. In addition, regasification of LNG at the destination can be done at a land-based facility or on a floating, storage and regasification unit (FSRU) which is anchored off the coast. The FSRUs can be constructed more quickly and are by definition mobile, which contributes to the flexibility of SSLNG as a fuel source.

Currently, there are a few Caribbean Member States which utilize SSLNG imports. Antigua and Barbuda, Barbados, The Bahamas, Haiti and Jamaica all import SSLNG from the United States, beginning with Barbados in 2016 (Office of Fossil Energy and Carbon Management 2022). While the United States is currently the main supplier to the region, over the medium-to-long-term, Caribbean producers—Guyana and Trinidad and Tobago— can also contribute to regional supply (Goldwyn et al 2023). In 2023, The National Gas Company of Trinidad and Tobago Limited (NGC) signed a Memorandum of Understanding with several energy companies to explore the development of SSLNG projects (NGC 2023). The prospective project will involve the construction of a plant along with a jetty to accommodate vessels with capacities between 5,000 m3 and 30,000 m3 (Energy Chamber of Trinidad and Tobago 2023). This project is intended to supply new markets in the Caribbean and Central America. In addition to the English-speaking Caribbean markets, there are SSLNG facilities in the Dominican Republic, Puerto Rico and Nicaragua, and a facility under development in Aruba.

CONCLUSION

While the ultimate goal remains achieving net zero emissions and close to 100% renewable energy production, it may be unrealistic to expect this in the short-to-medium term. Caribbean countries can practice a phased approach to the energy transition that balances sustainability with practical energy needs. Natural gas can provide a flexible alternative fuel source that supports increased adoption of renewable energy by compensating for their high variability and gradual uptake. The development of these SSLNG markets can open up opportunities for regional cooperation and economic advancement in the Caribbean, while also contributing to global climate ambitions.

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PATHWAY TO INCLUSIVE GROWTH AND PROSPERITY – THE IMPORTANCE OF LOCAL CONTENT POLICY FOR HYDROCARBON-RICH CARICOM ECONOMIES

Don Charles and Sheldon Mc Lean

While there are countries in the Caribbean that possess significant commercial reserves of hydrocarbon resources, they often face challenges such as limited physical and financial capital and insufficient technical expertise to fully monetize these resources independently.

As a result, they tend to rely on multinational energy companies for the necessary support. Although this partnership enables these hydrocarbon-rich countries to generate revenue, their capacity constraints often lead to a substantial portion of the potential value being captured by multinational energy companies rather than local stakeholders. Consequently, the domestic hydrocarbon industry is often dominated by multinational companies, leaving national stakeholders as tangential beneficiaries rather than active controllers of their natural resource wealth.

CHALLENGES OF LOCAL VALUE RETENTION IN HYDROCARBON INDUSTRIES

A significant proportion of hydrocarbon rents is often diverted to foreign firms for upstream services, including Fabrication, Engineering Procurement Construction (EPC), Front-End Engineering Design (FEED), conceptual designs, and seismic studies.

This outflow of hydrocarbon rents has been likened by many to a form of capital flight, as the profits generated by these foreign firms are invariably repatriated to developed countries. Multinational corporations frequently justify this outflow by arguing that hydrocarbon-rich developing countries often lack the necessary skills, technical expertise, manpower, and production capacity within their local firms (Aneke 2002; Ariweriokuma 2009).

UNLOCKING LOCAL OPPORTUNITIES

Despite these challenges, the hydrocarbon industry needs not exclude domestic stakeholders nor must the flow of rents disproportionately accrue to the multinational energy companies. These structural gaps, which restrict domestic participation and value capture can be addressed through the implementation of local content requirements (LCRs) and local content policies (LCPs). Admirably, Guyana, from the outset, explored this path.

LCRs refer to the specific mandates set by governments requiring firms operating in the domestic hydrocarbon industry to utilize a minimum level of local inputs, including both goods, services and labor. These measures aim to mitigate the inherent disadvantages faced by domestic producers when competing with foreign suppliers for goods, services and labor. LCRs allow local stakeholders to secure contracts, build capacity, gain knowledge and technical expertise, and foster stronger inter-sectoral linkages (OECD 2016).

LCP refers to the comprehensive policy framework designed to promote the use of local inputs in the hydrocarbon industry. It aims to enable national stakeholders to capture a larger share of local hydrocarbon rents and increase their participation in the sector. LCPs often incorporate Local Content Requirements (LCRs), mandating foreign firms operating in the local hydrocarbon industry to use a specified percentage of local inputs (Tordo et al. 2013).

There are different interpretations of local content. For example, Ghana's Petroleum (Local-content and Local Participation) Regulations define local content as "the quantum/percentage of locally produced materials, personnel, financing, goods and services rendered to the oil industry, and which can be measured in monetary terms." (GORG 2013 p. 27). By contrast, Ackah & Mohammed (2018) state that "Local content refers to jobs or value-added that are created anywhere in the domestic economy as a result of the actions of an oil and gas company. It can also refer more narrowly to jobs that are created in the neighbourhood of the oil production plant. Local content may even refer to the provision, by the oil company, of infrastructure (schools, medical facilities) that is not an input into its own production but intended for the benefit of the local population—either of the nation generally or the neighbourhood of the installations." (Ackah & Mohammed 2018 p. 3).

Acheampong et al. (2016) on the other hand notes that LCPs are part of a broader category of strategies known as "industrial policies" or "productive development policies" (PDPs). When applied to the hydrocarbon industry, these policies can enhance the local participation in the hydrocarbon value chain by increasing employment, service provision, manufacturing contributions, and the domestic capture of value.

Furthermore, local content can also be defined as the value added to the national economy through the procurement of domestically produced goods and services. This definition encompasses government measures, regulations, and requirements aimed at ensuring that a specific portion of a product or good is manufactured within a designated geographical area. Such measures are designed to encourage businesses to prioritize locally produced components and inputs over imported ones (Arthur & Arthur 2014).

In this context, many developing countries have adopted local content policies to capture greater value by integrating the hydrocarbon sector with other areas of the economy. This approach aims to strengthen the domestic industrial base, generate employment, and enhance the productive capacity of local entrepreneurs. Such efforts are expected to have a multiplier effect, yielding additional benefits such as infrastructure development, technology transfer, and the promotion of innovation (Arthur & Arthur 2014).

Within the Caribbean Community (CARICOM), Trinidad and Tobago, Guyana, and Suriname stand out as nations with significant hydrocarbon industries at various stages of development. Trinidad and Tobago has a well-established industry dating back over a century, while Guyana commenced commercial production and export in 2020 following its 2015 discovery of oil. Similarly, Suriname has recently identified commercial reserves and is preparing for production. Hydrocarbons hold the potential to generate substantial economic rents capable of transforming entire economies. However, to realize this potential, CARICOM countries must institute, monitor and maintain strong and practical LCPs to ensure that a fair share of hydrocarbon rents is captured domestically. Without such policies, these nations risk becoming effective spectators in the development of their hydrocarbon sectors, forfeiting opportunities to build local capacity, stimulate economic diversification, and maximize the welfare gains attendant to the monetization of their natural resources.

Presently, T&T and Guyana both have LCPs in place. Updated and practical LCPs are essential for the countries to maximize the economic benefits of their hydrocarbon industries. Indeed, by mandating the use of local goods, services, and labor, LCP can help hydrocarbon-rich CARICOM Member States capture greater value added from their natural resources. This fosters the development of local capacity by creating opportunities for knowledge transfer, technical skill acquisition, and technology adoption. Moreover, LCPs can serve to stimulate entrepreneurship by enabling local businesses to participate in the hydrocarbon value chain, generating income-earning opportunities.

REQUIREMENTS FOR EFFECTIVE LOCAL CONTENT POLICIES AND CAPACITY BUILDING

There are several requirements to facilitate effective LCP.

First, the new entrant (countries) to the hydrocarbon industry must recognize that at the inception of its hydrocarbon industry, it is likely to lack the technical and financial capacity to handle much of the specialized work in the industry. However, non-technical tasks can be effectively managed by local entrepreneurs. In light of this, the government can seek to capture more value from the hydrocarbon value chain by encouraging the multinational operators to assign the majority, if not all, of the non-technical work to local businesses. This approach can help maximize local involvement and economic benefit while the country builds its technical capacity over time.

Although this request may seem reasonable, multinational companies often possess the capacity to handle all functions across the entire hydrocarbon value chain. Furthermore, they may be more cost-effective in performing these tasks compared to local stakeholders. As a result, multinational energy companies may be hesitant to allocate non-technical contracts to local entrepreneurs, firms and professionals. The government may first seek to address this challenge through moral persuasion. If this approach proves ineffective, the next logical step would be to implement LCRs that mandate operators to assign these non-technical functions to local businesses.

To ensure compliance, the government can require multinational operators to report on the local content achieved in their operations. Multinational operators should be encouraged to provide accurate and detailed reports on the extent of local involvement in their projects. To verify the accuracy of these reports, the government, which typically awards blocks to multinational operations to conduct exploration and production activity, can periodically hire independent consultants to audit, conduct assessments, and validate the information. The LCRs can include penalties to ensure compliance.

Building local technical capacity in the hydrocarbon industry necessitates the investment in education and training at the tertiary level. Specialized programs which are essential for the hydrocarbon industry can be introduced in the local university to help build local capacity. Alternatively, the necessary domestic capital can be built through collaboration with regional universities in key technical areas.

Another strategy for building local capacity is the design and implementation of "proper" on-the-job training programs, i.e. training that matches the educational-level and/or technical skill of the expatriate worker. This is crucial for allowing graduates to gain practical experience that complements their academic knowledge, thereby helping them bridge the gap between theory and practice. This can help local professionals gain critical technical skills and competencies and help the hydrocarbon-rich countries build a more skilled local labor force.

Furthermore, to address the capacity gaps, the LCRs can mandate that specific technical jobs require a minimum level of local equity participation. This would ensure that local entrepreneurs are not only involved in the work but also have a financial stake in the projects, promoting a sense of ownership and long-term commitment to developing their businesses. By making joint ventures a requirement for winning certain technical contracts, the LCRs can help local entrepreneurs gain valuable experience, build capacity, and strengthen their ability to handle larger projects in the future.

Additionally, a strategy to build an effective LCP framework and promote capacity development can involve encouraging the spillover of physical capital and equipment to local entrepreneurs. One way to achieve this is through trade-related policy, which introduces regulations that restrict the re-export of specialized equipment after projects are completed, ensuring that these assets remain within the local economy. This would allow local entrepreneurs to access and utilize the equipment for future projects, reducing reliance on foreign firms.

Multinationals can also encourage the development of local capacity if they offer discounts to local entrepreneurs to purchase the used capital equipment. This approach not only helps build the technical capacity of local businesses but also facilitates the transfer of knowledge and skills, as local entrepreneurs become more familiar with the tools and technologies used in the hydrocarbon sector.

OPTIMIZING DEVELOPMENT FINANCE AND AID PROVIDING AGENCIES

Concomitantly, it is crucial that international development finance and aid providing agencies have cognizance of the important role that the production and export of domestic capital plays in the economic development of these developing economies. As such, it is necessary for development cooperation initiatives to ensure alignment with the national development priorities of hydrocarbon-rich Caribbean economies, which are tied to local content policy objectives, thereby optimizing the contribution to their sustainable development.

Equally important here is ensuring that development finance, aid and cooperation initiatives also focus on building institutional capacity and promoting coordination. By adopting such an approach to development projects, the international community can work collectively with these economies to ensure development finance, aid and human capacity development centered activities substantively impact economic development. This would allow for more holistic and inclusive resilience building in these Caribbean economies.

Moreover, development finance partners and IFIs should seek to establish collaborative partnerships, which support the establishment of regional centres of excellence in education and skills development or world-class vocational learning centres, similar to those found in Brazil and India. These facilities should serve as hubs for knowledge exchange, training, and capacity building, catering to the specific needs of SIDS and promoting inter-regional cooperation and integration in education, which can optimize local participation in the energy sector (Horan 2022).

Fostering collaboration between public and private sectors can enhance the quality and relevance of education and training programs, promote innovation and entrepreneurship, and address emerging skills gaps. Additionally, development cooperation initiatives should focus on identifying skills gaps, competencies, and training needs, and utilizing a range of capacity building tools and techniques, such as technical advisers, training courses, work attachments, and mentoring approaches, tailored to meet the specific development needs of energy-rich Caribbean SIDS (PIF 2005). These efforts are critical for preparing local industries to fully capitalize on the opportunities presented by hydrocarbon resources.

CONCLUSION

Indeed, hydrocarbon resources have the potential to generate significant rents that can drive the economic development of a country, as has been the case in Trinidad and Tobago and as is currently being witnessed at a phenomenal pace in Guyana. However, without a solid policy framework, much of the value generated by these resources can be siphoned off by multinational operators. Through well-crafted LCPs, countries can stimulate local industries, reduce their reliance on foreign imports, and increase the value added within the domestic economy. Local content policies can support the development of local businesses by fostering technology transfer, which enhances the capacity of local firms to operate in more technical areas of the hydrocarbon sector.

In the case of CARICOM Member States, some are fortunate to have abundant hydrocarbon resources, which, if properly managed, could catalyze substantial economic growth. To capture the true benefits of their hydrocarbon industries, a crucial step in the right direction is the implementation of strong local content policies. By doing so, they can ensure that local businesses and workers are better integrated into the industry, thereby improving domestic employment opportunities, building technical expertise, and fostering entrepreneurship. A robust LCP can also ensure that more of the economic value created by hydrocarbon activities remains within the country, helping to drive broader socio-economic development. For hydrocarbon rich CARICOM nations, this means developing policies that not only encourage local participation but also provide the necessary support and incentives for local firms to build their capacity and become key players in the hydrocarbon industry.

A recalibrated development finance architecture which is supportive of the unique needs of small developing country economies is central to enabling local businesses to capitalize on hydrocarbon resources by fostering both technical and non-technical capacities. Without this, local content policies (LCPs) and local content requirements (LCRs) may be rendered ineffective, as local firms would lack the capabilities to perform the technical and non-technical tasks necessary for meaningful participation in the hydrocarbon sector. This can undermine efforts to achieve the desired structural transformation.

[7] It is worth noting that the group of countries that voted "no" are primarily OECD or G7 countries. As indicated the political economy aspect of this issue is beyond the scope of the current brief.

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