FINANCING SUSTAINABLE DEVELOPMENT IN THE ORGANISATION OF EASTERN CARIBBEAN STATES: A TRANSITION FINANCE DIAGNOSTIC

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Abstract

This paper gives an overview of all development finance sources available to countries of the Organisation of Eastern-Caribbean States (OECS) for enhancing their economic and climate resilience, and progress towards their Sustainable Development Goals (SDGs). After reviewing political and macroeconomic contexts, it examines some of the specific challenges and opportunities they meet in financing their development, including the mobilisation of private finance and domestic resources; public debt sustainability; and the alignment of official development finance (ODF) with their evolving needs. It stresses the risks of inadequately preparing for the end of eligibility to official development assistance (ODA), when countries reach high-income status while remaining highly vulnerable. Finally, it presents recommendations for the OECD Development Assistance Committee (DAC) members to better support and accompany OECS countries as they transition to higher-income status.
This report is one of several studies conducted since 2016 by the OECD on the responses of the international community to the sustainable development and financing challenges faced by small island developing states (SIDS).


All those reports provided substantial evidence that, while most SIDS are upper-middle income countries, they remain most vulnerable to the impacts of climate change, due to their small size, remoteness, and vulnerability.

Taking a regional perspective of the Eastern Caribbean, this paper contributes to the Development Assistance Committee’s reflections on the most appropriate responses to the financing challenges of SIDS approaching graduation from ODA-eligibility.
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Abbreviations and acronyms

AOSIS  Alliance of Small Island States
CARICOM  Caribbean Community
CBI  Citizenship by Investment
CDB  Caribbean Development Bank
CTP  Centre of Tax Policy
DAC  Development Assistance Committee
DRM  Domestic Resource Mobilisation
ECCB  Eastern Caribbean Central Bank
EU  European Union
FDI  Foreign direct investment
GCF  Global Finance Crisis
GDP  Gross domestic product
GNI  Gross national income
HDI  Human Development Indicator
HIC  High income country
IMF  International Monetary Fund
ODA  Official development assistance
ODF  Official development finance
OECS  Organisation of Eastern Caribbean States
OOF  Other official flows
PPG  Private and Public Guaranteed
SIDS  Small Island Developing States
TF  Transition Finance
UMIC  Upper-middle income country
UNDP  United Nations Development
Members of the Organisation of Eastern Caribbean States (OECS), along with other Small Island Developing States (SIDS), have been hard hit by the COVID-19 crisis economic effects, and face important challenges to recover, in a context of inflationary tensions and high interest rates. This macroeconomic situation magnifies pre-existing vulnerabilities: OECS members are highly exposed to natural disasters, climate change, and global economic shocks, with limited economic diversification, small or unstable domestic revenues, and limited borrowing opportunities.

The COVID-19 crisis, Russia’s war of aggression against Ukraine, and their macroeconomic consequences also shed new light on the challenges OECS members are facing as they transition to high-income status and lose eligibility to official development assistance (ODA). All OECS members are upper-middle or high-income countries. Three of them graduated from the Development Assistance Committee (DAC) list of ODA eligible countries in the last decade. Of the remaining five still eligible for ODA, one may graduate in 2026 (Montserrat), and two are expected to graduate before 2030 (Grenada and Saint Lucia).

However, evidence collected in this report reveals serious gaps in the management of the ODA graduation process. Neither the OECS or DAC members have sufficiently anticipated graduation by focusing on challenges and needs faced by the OECS countries (competitiveness of their economies, domestic resource mobilisation, further investments on resilient infrastructure, etc.). Therefore, OECS countries seem ill-prepared to face graduation. Moreover, DAC members do not co-ordinate sufficiently (or do not make sufficient use of co-ordinating institutions/mechanisms, such as the OECS and the Caribbean Community, CARICOM) nor are they adequately focused on the countries’ significant needs for capacity development.

One of the main findings of the report is the lack of suitable financing sources that would enable OECS countries to remain on a sustainable growth and financing path after graduation. Systems are often biased by the (often high-end) tourism industry that generates sufficient income to forgo or delay the introduction of efficient domestic taxation systems. Tax exemptions also contribute to a race to the bottom and have increasingly contested development results. The void left by the exit of DAC members after ODA graduation is also readily filled by other lenders, including the People’s Republic of China, for whom the geographic position of OECS countries and support in global fora are of strategic value. Already highly indebted, the lending practices and terms of these partners, often characterised by lack of transparency, could have harmful impacts on the sustainability of the growth and financial performance of OECS countries.

This report concludes that, to help OECS countries successfully prepare for graduation, DAC members could:

- Adopt a Roadmap for graduation, considerate of specific vulnerabilities of developing country partners, including SIDS. Such Roadmap would include a plan for the DAC and graduating country of administrative and other steps leading to graduation; an analysis of the consequences for the country’s access to certain types of finance of its graduation; awareness
building in government of the process and its consequences; co-ordination and dialogue among donors and with the local government to ensure a smooth transition and post-graduation financial sustainability.

- **Focus their efforts on supporting domestic resources mobilisation (DRM) to ensure a smooth transition of OECS countries without creating financing gaps or traps.** This includes the i) phasing out of ineffective tax cuts to attract foreign investors in the tourism sector that can turn into a race to the bottom and deprive governments of significant tax returns; ii) the promotion of private sector development, including through backward and forward linkages in the tourism industry or regional shoring and shortening of value chains in North America, to expand the tax base; iii) if appropriate, progressively phase-out Citizenship by Investment schemes (CBI) that contribute to higher volatility and windfall effects when additional sources of tax income are put in place.

- **Place greater focus on capacity development including through regional multilateral organisations.** Using regional approaches targeting common objectives across OECS countries DAC members could promote i) business-friendly environment; ii) help adapt regulation to stimulate entrepreneurship and competition; iii) help enhance the value-added in the tourism sector; iv) promote knowledge exchange and help create robust statistical systems to better evaluate policy results; v) help better access and use climate finance. This could especially allow continuity of support to countries that have already graduated but still need particular attention.

- **Look beyond the GNI per capita indicator to assess OECS countries’ needs,** complementing this indicator with other measures of vulnerability and resilience to appropriately assess partner countries’ needs. This would inform and guide Official Development Finance (ODF) allocations and priorities.

- **Establish a pipeline of projects to identify and facilitate business opportunities and diversify OECS economies,** including green transition projects. Such a pipeline of projects could be shared with potential international investors looking for business opportunities and would help close the information gap that inhibits the investment accomplishment. A prioritisation of their execution could also be considered, aligned with some already well identified regional policy objectives. Furthermore, technical co-operation/capacity building could target access to innovative finance mechanisms such as debt management in relation to climate vulnerability or valuation of natural assets.
1 Organisation of Eastern Caribbean States and its development financing mix: Vulnerability on the edge of ODA-graduation

This section briefly introduces the Organisation of Eastern Caribbean States (OECS) and its membership from geopolitical, development, and macroeconomic perspectives. It shows that while middle-income OECS countries are all relatively advanced in their social development and close to reaching high-income status, a number of specific vulnerabilities expose them to quick economic turnovers. Looking at their development financing mix, they are still highly dependent on official development assistance (ODA) compared to other countries with comparable GNI per capita levels, adding to their vulnerability on the eve of their access to high-income status and removal from the List of ODA-eligible countries.

1.1. The Organisation of Eastern Caribbean States: institutional and political context

The OECS and its membership

Created in 1981, the Organisation of Eastern Caribbean States (OECS) is a group of eleven islands spread across the Eastern Caribbean, seven of which are founding members and four associate members (Figure 1.1). Five of the OECS members are overseas territories – and six independent states. Currently, five out the eleven members are ODA-eligible countries: Dominica, Grenada, Montserrat, Saint Lucia, and Saint Vincent and the Grenadines. This study mainly focuses on ODA-eligible countries, and the analysis in the following sections mainly refers to trends and findings specific to these countries.
The objective of the OECS is to promote economic and trade co-operation and integration. It allows for the free movement of goods, people, and capital among its member states. Eight members share a single currency, the Eastern Caribbean Dollar (and are subordinated to the Eastern Caribbean Central Bank that is in charge of the monetary policy). The OECS also includes two other institutions: the Eastern Caribbean Supreme Court and the Eastern Caribbean Civil Aviation Authority. In addition, the Eastern Caribbean Telecommunications Authority is the regulatory body that oversees the telecommunications sector in the region.

The geographic location of OECS members puts them in a strategic position of geopolitical importance. OECS countries are all micro-states situated in a curved chain of volcanic islands along the Eastern margin of the Caribbean Sea, which lies between North America and the Panama Canal. See Figure 1.2. As a key logistical hub and transit area for traded goods, it is strategically positioned as a key access point to the United States (U.S), Canada and the Atlantic side of Central and South America. Even more importantly, the Caribbean is situated in the proximity to a number of important U.S. ports and military facilities, such as Jacksonville, Florida; Savannah and Kings Bay, Georgia; Charleston, South Carolina; and Norfolk, Virginia. Not only are these facilities critical to U.S. international maritime commerce, but some of them play important roles in the deployment and sustainment of forces in a range of potential conflicts in Africa, Europe, or Asia (Center for Strategic and International Studies (CSIS), 2022[1]).
Some geopolitical considerations

The People’s Republic of China (hereafter ‘China’) shows a particular interest in the region, both, because of the multilateral influence the country can get through international fora votes, and because it may mirror the US influence in the South China Sea. The voting power of Caribbean Small Island Developing States (SIDS) in the UN and other international organisations makes them useful political allies. Thirty-seven SIDS make up twenty-five percent of the membership of the UN, and SIDS representatives are sometimes elected to important UN chairmanships (Bernal, 2012[2]). China’s bilateral trade with the Caribbean region as a whole increased eightfold, from USD 788 million in 2002 to USD 7.1 billion in 2020. With respect to investment, China has focused on tourism and infrastructure projects. Frequently, China sponsors public infrastructure projects such as stadiums, roads, and clinics. These projects come at the price of changing diplomatic relations from Chinese Taipei to China, as it has been the case in the Caribbean for Bahamas (1997), Dominica (2004), Grenada (2005) and Dominican Republic (2018) (Maggiorelli, 2019[3]). Among OECS countries, Saint Lucia, St. Kitts and Nevis and St. Vincent and the Grenadines have maintained diplomatic relationships with Chinese Taipei, which is the largest bilateral donor to Saint Lucia.
1.2. Key OECS development and macroeconomic features

OECS countries are relatively advanced in their social development

All ODA-eligible OECS countries are classified as high human development countries (UNDP, 2023[4]), reflecting high levels of education and health. The average life expectancy at birth in OECS countries is 73.4 years, higher than in other ODA-eligible CARICOM (68.8) and Pacific SIDS (68.0) and similar to the level in high-income regional peers (73.6). The expected years of schooling amount to 14.7 years in OECS countries, compared to 14.7 in aspirational peers (Barbados, St. Kitts and Nevis and the Bahamas), 12.7 in ODA-eligible CARICOM and 12.3 in Pacific SIDS.

Figure 1.3. OECS countries rank high in their human development

Human Development Index (HDI) values, 2021


In spite of their income levels, OECS countries remain vulnerable and exposed to shocks

OECS countries are small economies, service-centred5, and highly dependent on tourism and financial services-related activities (see Figure 1.3, left). Many of the structural limitations and challenges faced by OECS countries are representative of the vulnerabilities of small island developing countries (SIDS), as detailed in Box 1.2. With an average 77%6 debt to GDP ratio, they are highly indebted (see Figure 1.3, right).7
OECS countries are mostly service-based economies… …highly indebted

Note: OECS countries refer to ODA-eligible OECS countries up to 2021

Box 1.1. Small Island Developing States particular vulnerabilities

Small Island Developing States (SIDS) include some of the world’s smallest and most remote states in the world. Although SIDS may differ in population size, geographical spread and development progress, they share common challenges and vulnerabilities: high exposure to natural disasters, climate change, and global economic shocks, as well as small or unstable domestic revenues and limited borrowing opportunities.

The special challenges of SIDS were first recognised in the Rio Declaration, issued by the 1992 UN Conference on Environment and Development (also known as the Earth Summit). Then, during the first UN Global Conference on Sustainable Development in Barbados in 1994, SIDS endorsed the Barbados Programme of Action, which served as the main policy framework addressing the economic, social and environmental vulnerabilities facing SIDS. In 2005, the Mauritius Strategy for the Further Implementation of the SIDS Programme of Action reiterated the concern of the international community about the vulnerability of SIDS. The UN Third International Conference on Small Island Developing States held in 2014 in Apia, Samoa, provided additional international impetus to the SIDS agenda. In 2015, the Addis Ababa Action Agenda recognised the development constraints and vulnerability of SIDS and acknowledged the need to look beyond GNI per capita income as a criterion determining eligibility for concessional finance. The same year, the Sendai Framework for Disaster Risk Reduction also recognised the acute exposure of SIDS to natural disasters, and the need for greater investments in preparedness and risk reduction. (OECD, 2018[7])

Most recently, in June and August 2020, with the onset of the global COVID-19 pandemic, Belize, the then-Chair of the Alliance of Small Island States (AOSIS), wrote to the UN Secretary-General reiterating the need to advance work on a multi-dimensional vulnerability index (MVI). The UN Secretary General responded with dedicated work on an MVI. (UN, 2022[8])

Finally, in 2022 the DAC/OECD together with AOSIS and other international partnerships has produced new principles to improve development impact and effectiveness of development co-operation efforts in SIDS. These principles identify a number of priority areas for intervention and focus on areas of
collective action that can have an accelerator effect on development across sectors and regions. It also explores how development co-operation can ensure results and maximise the impact of every dollar spent. See (OECD/AOSIS, 2022[9])

The DAC community also seems to be responding to repeated calls from SIDS for more and more expeditious resources to fight climate change. The DAC has not only committed under its October 2021 declaration, Declaration on a new approach to align development co-operation with the goals of the Paris Agreement on Climate Change (OECD, 2021[10]), to use development co-operation to support national climate action efforts, but has also recently increased its climate-related official development finance (ODF) flows to OECS countries, and more broadly, to all SIDS (Piemonte, 2022[11])


Global economic crises have had a lasting impact on OECS countries’ growth. Between 1985 and 2021, ODA-eligible OECS countries have seen their GDP increase by 210% on average. However, annual growth rates that exceeded 5% on average in the middle 1980’s have since continuously declined. See Figure 1.5. Among the major causes of this slowdown, the 2007-08 financial crisis had long-lasting effects.

Figure 1.5. From seeing rates of growth over 5% on average per year in the middle of the ‘80s, growth in ODA-eligible OECS countries has since slowed

Average GDP growth

Note: Includes Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, and Saint Vincent and the Grenadines.

The COVID-19 pandemic hit the region hard with a 13.6% drop in GDP (average 2020). This compares to a 3.5% and 1.2% drop, respectively, in Pacific SIDS and in other CARICOM countries. (See Box 1.3). Longer-term effects are still to be measured after a quick rebound in 2021. The magnitude of the initial negative impact of the pandemic on OECS countries could be explained by the relatively better trade integration of OECS countries compared to most other SIDS, hence higher dependence on trade, and transport and tourism in that were particularly affected by the COVID-19 crisis and lockdowns. In 2018, the latest year with available data, the trade-to-GDP ratio in Antigua and Barbuda and in Dominica were 135%...
and 107%, respectively. This compares to an average of 79% in ODA-eligible CARICOM countries and 104% in Pacific SIDS.

### Box 1.2. The choice of benchmarking peers

Throughout this report, OECS countries’ level of socioeconomic development and financing mix will be explored in comparison with benchmarked peers, to gain a better understanding of the relative performance of OECS countries and identify areas for improvement. For the purpose of this benchmarking, we identify three groups of peers: geographical peers, structural peers, and aspirational peers.

1. Geographic peers consist of ODA-eligible Caribbean countries. These countries include a set of highly diverse members such as Jamaica, Guyana, Belize, Trinidad and Tobago, Suriname, and Haiti. Despite variation in the size of their economies and level of development, these countries offer some level of comparability by way of geographic proximity and their CARICOM membership, which has the objective to promote economic integration and co-operation as well as the co-ordination of foreign policies. Many donors manage their programmes in these countries in close co-ordination with activities in OECS countries.

2. Pacific SIDS are used as structural peers. These countries share some structural vulnerabilities that are common to SIDS – such as a high dependence on international trade and tourism, the small size of their economies, as well a high exposure to natural disasters aggravated by climate change. However, their geographic distance from OECS countries explains that strategic interests and the composition of main donors are different. Moreover, Pacific SIDS generally belong to a lower income category than their OECS counterparts.

3. Aspirational peers are countries with a higher level of income that are in the geographic proximity of OECS countries. They have experienced ODA graduation and offer an example of how the pitfalls and bottlenecks that are characteristic of this stage of development can be handled. These include Barbados, St. Kitts and Nevis and the Bahamas.

OECS countries are included in the grouping of ‘countries most in need’ that will take longer to recover from the COVID-19 global recession. (See Figure 1.5, upper quadrant, left). World Bank and IMF estimates suggest that ODA-eligible OECS countries will not return to pre-COVID-19 growth trends before 2025. (See Figure 1.5, upper quadrant, right). Reasons for long-lasting effects of the COVID-19 crisis include: longer school closures during the pandemic shutdowns, and weather events that could annihilate efforts to recover. (see Figure 1.5, lower quadrant, right). Also see Box 1.4. Moreover, a key reason for the sharp recession in OECS countries is the lack of economic diversification and dependence on tourism, a sector highly vulnerable to global shocks. The challenges related to this concentration risk will be explored in greater detail in section 2.
Figure 1.6. OECS countries must overcome several obstacles to return to a path of sustainable and resilient growth

Note: OECS countries refer to ODA-eligible OECS countries up to 2021; the dotted line at the top-right chart shows pre-COVID-19 trends.
Box 1.3. OECS economies show convergence in growth rates, and higher income countries were more impacted by the COVID-19 crisis

Anguilla and St. Kitts and Nevis, who both graduated from the DAC List of ODA Recipients in 2014, experienced on average higher growth rates than other OECS countries in the 1990’s and 2000’s. See Figure 1.7 trend lines.

Figure 1.7. After reaching HIC level, the growth rates of Anguilla and St. Kitts and Nevis declined

Average GDP growth

Note: ODA-eligible OECS countries until 2021 include Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia and Saint Vincent and the Grenadines. Dotted lines show trend lines.
Source: ECCB database (2023)

However, all OECS countries now seem to be converging in 2020, Anguilla showed a GDP loss of 30% and St. Kitts and Nevis a loss of 14%. Adverse weather events also play a major role in shifting trends in the region, e.g., with Hurricane Erika that mainly hit Dominica in 2015, and Hurricane Maria hit Anguilla, Antigua and Barbuda, Dominica, and St. Kitts and Nevis in 2017. Currently, both High-income countries (HIC) present worse prospects than their Upper-middle-income countries (UMIC) peers.

1.3. The transition finance mix of middle-income OECS countries shows an excessive reliance on ODA

The OECD transition finance lens

Finance for sustainable development is a mix of different resources that evolves as countries transition, considering specific country contexts. To better understand this mix and provide policy advice, the OECD has developed the “transition finance” methodology (Piemonte et al., 2019). At any given point on its transition journey, a country can expect to have access to different types of resources. The challenge will be to ensure a smooth transition with no major financing gaps (i.e., substitution of one resource with another as the former declines) or socio-economic setbacks (i.e., ensuring the resilience of any resource’s development impact as the resource is phased out). Two major trends are observed: first, a substitution of
external with domestic resources; second, a substitution of public with private resources. Highly dependent on public external support (mainly ODA) in early stages of transition, countries progressively move towards a private financing of their economy. Public financing itself evolves, with a progressive substitution of ODA with other official flows (OOF), corresponding to a decline in the concessionality as countries transition – the role of OOF being essential to mobilise private resources.

This study looks at the financing mix of OECS countries, with a focus on low- and middle-income countries that are still eligible for ODA but are nearing the end of their ODA-eligibility.

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<td>In the communiqué issued at its 2017 High Level Meeting (OECD, 2017[17]) the DAC set an objective for itself “to better understand the broad catalytic effect of official support and other resources by understanding the interlinkages among ODA, partner countries’ domestic resources, private investment, remittances, philanthropy, trade finance and export credits, and other sources of finance”, and to “continue to collaborate with other experts within the OECD and beyond in order to have a global overview and outlook on financing for development” (para 15). Responding to this call, the OECD Development Co-operation Directorate (DCD) developed a new work stream on transition finance and set the scene with the publication of a working paper that outlined the analytical basis of this new framework. The paper set out the methodology for transition finance diagnostics, which involves: Assessing the transition context in the country; benchmarking the substitution effects between public, private, domestic and international resources based on the experience of peer countries; and counselling on how development partners can help phase out ODA and secure the progressive growth of other sources of finance.</td>
</tr>
<tr>
<td>The DCD has to date carried out seven pilot studies on countries facing different transition challenges: Cabo Verde, Chile, Lebanon, Solomon Islands, Uganda, Viet Nam and Zambia. Conclusions were subsequently compiled in the Transition Finance Compendium. This report constitutes the eighth pilot study on countries from a transition finance perspective and explores the financial challenges of countries graduating from eligibility for ODA, complementing the lessons learnt from an earlier case study on Chile. For the first time in the series of transition finance pilots, this case study deals with a group of countries sharing geographic and socio-economic commonalities, showcasing that solutions to financing development could also be found at the regional level. The focus of this study is on ODA-eligible OECS member countries, with a view to help them address the challenges they face in preparing ODA graduation.</td>
</tr>
</tbody>
</table>

**The OECS low- and middle-income countries’ financing mix**

Most OECS members have already or will soon graduate from ODA eligibility. Currently, five OECS members are ODA-eligible countries (Dominica, Grenada, Montserrat, Saint Lucia, and Saint Vincent and the Grenadines), all of them upper-middle income (UMIC) (see Figure 1.1, in bold). Montserrat, expected to graduate in 2024, has seen its graduation decision delayed by the DAC until 202516 (Box 1.5). Other OECD forecasts expect Grenada and Saint Lucia to graduate before the end of this decade.17 (Table 1.1).
Box 1.5. The case of Montserrat

With 4 480 inhabitants in 2022, Montserrat is the smallest OECS member. Recent forecasts estimate that it should graduate from the DAC list of ODA recipient in 2024. However, updated statistics on GNI per capita are expected for Montserrat to better reflect its economic situation and its decision of graduation was recently delayed.

Furthermore, more than 55% of its GNI derives directly from ODA allocations, mainly from the UK government. In fact, in 2021, each inhabitant of Montserrat received USD 9 160 in ODA transfers, while its GNI per capita was estimated at USD 16 491 the same year. The case of Montserrat, a country extremely ODA dependent, shows the stress the smallest SIDS face around graduation.

Source: (Eastern Caribbean Central Bank data, 2023[18], (UNdata, 2023[19])

Table 1.1. Development indicators

<table>
<thead>
<tr>
<th>Country</th>
<th>GNI per capita, 2022*</th>
<th>ODA graduation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>15 780</td>
<td>Graduated in 2022</td>
</tr>
<tr>
<td>Dominica</td>
<td>7 790</td>
<td>2036, expected</td>
</tr>
<tr>
<td>Grenada</td>
<td>6 590</td>
<td>2030, expected</td>
</tr>
<tr>
<td>Montserrat</td>
<td>13 523</td>
<td>2024, delayed</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>9 520</td>
<td>2030, expected</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>8 720</td>
<td>2040, expected</td>
</tr>
</tbody>
</table>

Note: ODA graduation, OECD forecasts, Scenario 1 (2022) https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/small-island-developing-states.htm; * or last year available; Currently, sixty-six countries are classified as having a very high HDI (scores between 0.962 and 0.8), forty-nine as having a High human development index (0.8<HDI<=0.703), forty-four as having a Medium human development score (0.7<HDI<=0.55), and thirty-two as having a Low human development score (HDI<0.55).


Given this relatively advanced stage in their transition, using the Transition Finance framework one would anticipate a decline in ODA, growth in OOF, and progressive substitution of public by private finance as the countries grow and reach HIC status (Box 1.1).

Using the GNI per capita classification (Figure 1.8) ODA-eligible OECS countries and their benchmarking peers appear in a relative advanced stage in the transition finance continuum. Still, compared to all ODA-eligible countries which are marked by the blue curve in Figure 1.8, ODA-eligible OECS countries seem highly dependent on ODA. ODA-eligible OECS countries face challenges that are common to SIDS: higher than normal dependence on ODA, poor mobilisation of OOF, private finance and domestic resources, and longer-lasting importance of remittances. But the comparison between ODA-eligible OECS and their peers, which are also SIDS, shows that some these features are particularly prominent in ODA-eligible OECS countries.

For example, the share of OOF in ODA-eligible OECS is low compared ODA-eligible peers (CARICOM and Pacific). Private flows play a larger role in ODA-eligible OECS countries than in Pacific SIDS, but they are even more significant in ODA-eligible CARICOM countries. Remittances are more significant sources of finance for ODA-eligible OECS and other Caribbean peers than in Pacific SIDS. This is counter intuitive as the share of remittances in the GDP of some Pacific SIDS such as Samoa or Kiribati...
is very high. However, this could be explained by an even higher dependence on ODA of Pacific SIDS, making all other sources relatively less important.

**Figure 1.8. OECS countries have a relatively high reliance on ODA but receive little OOF**

DAC, non-DAC reporting to the OECD/DAC and multilateral net disbursements, 2014-19, 2020 prices

Note: The OECS group includes Antigua and Barbuda, Grenada, Dominica, Saint Lucia and St. Vincent and the Grenadines.
Source: Author’s calculations based on CRS database (2023) for ODF and DAC4 Table for private flows OECD (2023); World Bank (2022) for remittances.

A striking feature when comparing ODA-eligible OECS countries among each other, are the highly unequal performances in attracting private finance. While Dominica can get high levels of private financing compared to the average of developing countries at a similar stage of development, and Saint Lucia and Antigua and Barbuda get private financing at the same relative level than peers, Grenada, and St. Vincent and the Grenadines show difficulties in getting private financing (see green line and dots, Figure 1.9).
Figure 1.9. ODA-eligible OECS countries are highly unequal in their ability to attract private flows

DAC, non-DAC reporting to the OECD/DAC and multilateral net disbursements, 2014-19, 2020 prices

Source: Author’s calculations based on CRS database CRS database (2023[21]) for ODF and DAC4 Table for private flows OECD (2023[22]); World Bank (2022[23]) for remittances and UNU-WIDER (2022[24]) for tax revenues.
2 Overcoming development financing challenges in middle-income OECS countries

This sector analyses the particular development financing challenges and opportunities of OECS countries when they transition towards high-income status and graduation from the ODA-eligibility list. It focuses on several objectives to achieve sustainable development financing: private finance mobilisation, domestic resource mobilisation, debt sustainability, and transition from ODA to OOF including the shifting priorities in sectoral allocations of both sources. It also sheds light on new opportunities that arise from the growing momentum for climate action. In each of these areas, the analysis highlights how DAC donors could help overcome transition finance gaps (i.e., financing shortages) and avoid potential traps (i.e., financing quality issues).

2.1. Mobilising private investment while preserving quality and stability of financing

While a steadily growing source of financing, remittances have a limited importance in the overall financing mix of OECS countries, compared to other SIDS.

Remittances steadily grew over the last twenty-five years: +7.6% on average per year between 1996-2021 for ODA-eligible OECS countries. In comparison to benchmarking peers, however, remittances have only limited importance in OECS countries as a source of financing. Although the share has grown from 3.4% in 2018 to 5.4% in 2020, it remains below the share in Pacific SIDS (16.4%) and ODA-eligible CARICOM countries (10.8%).

The sustainable development potential of remittances remains largely untapped. Remittances are often used to finance households’ expenditures in health and education, and they can provide financial resources for trade and investment, which helps boost the country’s growth. While remittances are inherently private flows, public initiatives targeting the use of remittances to further a country’s sustainable development generally aim at encouraging people to save. For example, the Mexican 3x1 is a programme whereby the Mexican Government matches each dollar sent by the diaspora with three dollars, thus promoting the building of public infrastructure. In OECS countries, however, there is room to better leverage and channel remittances as a tool to bridge the financing for sustainable development gap.

Moreover, remittances may not be sufficient to counter the negative effects of migration on the growth potential of OECS countries. Emigration that gives rise to these remittances, can induce brain drain. In Caribbean countries, especially, migrants are often young and high-skilled (such as doctors, nurses, or engineers), and their departure reduces the country’s economic potential. The IMF estimated that the negative impact on growth from emigration is not fully compensated by the money migrants send home (IMF, 2017[25]).
Figure 2.1. Remittances are less important in OECS countries than in peer countries

Remittance inflows as a share of GDP (%)

Note: OECS refers to Eastern Caribbean countries; SIDS to Small Island developing states; ODA to official development assistance; CARICOM to Caribbean Community; HIC to High-income countries
Source: Authors’ calculations based on Global Knowledge Partnership on Migration and Development (KNOMAD), https://www.knomad.org/data/remittances.

Foreign direct investment and portfolio investment flows are limited in size and highly volatile

Foreign direct investment (FDI) and portfolio investment are the largest external source of financing to OECS countries, but they are highly volatile. In the years leading to the pandemic, OECS countries had higher reliance on foreign investment than their peers. Although the inflows themselves are small by comparison, they constitute a higher share of GDP. However, the FDI to GDP ratio dropped consecutively between 2017 to 2020 from 10.4% in 2017 to 6.0% in 2020. The decline has been especially steep in 2020, falling by 3.2 percentage points. The same year, the FDI-to-GDP ratio in peer groups dropped less (-0.5 percentage point for ODA-eligible CARICOM countries) or even increased (by 3.1 percentage points in high-income CARICOM and 0.2 percentage points in Pacific SIDS). The fact that FDI flows have been hit particularly severely by the pandemic suggests that FDI is less resilient and more volatile in OECS countries than in peer countries.
Citizenship by Investment (CBI) is an important driver of FDI flows. Among OECS countries, the FDI-to-GDP ratio is especially high for countries that run successful CBI schemes such as Grenada, Dominica and Antigua and Barbuda. Whereas OECS countries offer different options to obtain citizenship in the form of either donations or real estate investment, the investment options tend to be more popular. Grenada, for example, requires a minimum of USD 220 000 to be invested in government approved hotels, villas, or resorts. The investment must be held for at least five years following the grant of citizenship.

FDI flows have been volatile, displaying peaks in 2007, 2015-16, and 2018-19. The first peak in 2007 corresponded to extraordinary FDI inflows in Antigua and Barbuda and Saint Lucia. In Antigua and Barbuda, a USD 1.1 billion investment project was announced by an American Texan investor, Mr. R. Allen Stanford. The project was only partially completed. Saint Lucia prepared the Cricket World Cup 2007 with extra hotel capacity in the same period (OECD, 2006[27]). The second peak (2015-16) mainly affected Saint Lucia and Grenada. In Saint Lucia, investments into hotels and resorts, namely the Royalton Saint Lucia Resort & Spa, the Harbor Club, Unicomer and Coconut Bay contributed 65% of total direct investment flows into Saint Lucia (Invest Saint Lucia, 2016[28]). Grenada announced a series of tourism projects, after JetBlue increased the number of direct flights from New York. The third and last peak (2018-19) affected Antigua and Barbuda, Dominica, Grenada, and Saint Lucia, which received large investments related to infrastructure projects in the tourism sector: in Antigua and Barbuda, the construction of the Yida residential complex, first announced in 2014, gained momentum; in Dominica, infrastructure investment was ensured by FDIs and the CBI programme after the Maria and Erika hurricanes; in Grenada “[o]ne of the largest investment projects is being undertaken by Canada’s Sunwing Travel Group, which owns tourism operators, air transportation services and a number of hotel chains and has built a Royalton luxury resort in the country that is to come on stream in 2019” (ECLAC, 2019[29]); in Saint Lucia, the Royalton Saint Lucia Resort and Spa announced an investment, of US$ 250 million; and, in addition, the Chinese company Desert Star Holdings announced the development in the south of the island of a mega resort, Pearl of the Caribbean, valued at US$ 2.6 billion. (ECLAC, 2019[29]) (Figure 2.3).
Lack of diversification is a major impediment to private investment

One reason for the high volatility of FDI flows is the lack of economic diversification in OECS countries. Most of the FDI peaks mentioned above relate to investment in the tourism sector, many of them made through CBI schemes. Tourism in OECS countries contributes on average to 14.4% (directly) and 22% (indirectly) of GDP (Table 2.1).
Table 2.1. In 2019 direct and indirect tourism contributions to GDP amounted on average to 36.4% in OECS countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Direct</th>
<th>Indirect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominica</td>
<td>14.6</td>
<td>22.3</td>
</tr>
<tr>
<td>Grenada</td>
<td>16.8</td>
<td>23.7</td>
</tr>
<tr>
<td>Montserrat</td>
<td>n.a.</td>
<td>n.a.</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>17.1</td>
<td>23.7</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>10.6</td>
<td>17.9</td>
</tr>
<tr>
<td>Anguilla</td>
<td>15.8</td>
<td>21.3</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>15.4</td>
<td>27.3</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>10.7</td>
<td>17.5</td>
</tr>
<tr>
<td>Average OECS</td>
<td>14.4</td>
<td>22.0</td>
</tr>
</tbody>
</table>


With limited access to finance, the domestic private sector remains relatively weak, intensifying a reliance on volatile foreign investment flows. One measure of access to finance is the outstanding commercial bank loans as a share of GDP. This measure indicates that the loans-to-GDP ratio in OECS countries had been declining for years until it rapidly rose again during the pandemic. This was in line with trends in the aspirational peers, Barbados and the Bahamas, and can be largely explained by the drop in GDP rather than the increase in outstanding loans. The trend stands in sharp contrast to developments in Pacific SIDS that have seen a continuous increase in the loans to GDP ratio. The high cost of credit derives from poor transmission of easing monetary policies in the U.S., deposit rate floors, information asymmetries due to the absence of credit bureaux and lengthy credit recovery processes due to judicial procedures (IMF, 2013[31]). Prohibitive collateral requirements and the complexity of loan applications are among the most reported challenges to firm productivity and performance. These impediments tend to be more acute for smaller firms (Beck and Mooney, 2021[32]).

Figure 2.4. Access to finance in OECS countries is an impediment to private sector development

![Graph showing access to finance in OECS countries](https://data.imf.org/)

Furthermore, regulatory barriers often hamper private sector development. For example, Antigua and Barbuda lacks an enabling business environment to cement a pathway for private sector development. The development of Antigua and Barbuda’s private sector is constrained by a large public sector that acts as both producer and regulator, and whose actions result in sub-optimal decisions, inefficiencies, high social costs for its population, and ultimately poor private sector development. A better business environment, including regulatory measures to promote, for example, sustainable energy, thereby lowering excessively high local production costs, could help breed the conditions to diversify Antigua and Barbuda’s economy by fostering profitable new industries such as aquaculture and ocean-based technological sectors. Additionally, they case of fishery, and its regulation concern, is highlighted in Box 2.1.

Box 2.1. OECS countries are disproportionately affected by international subsidies to fisheries

The six OECS states represented at the WTO (Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines) provide 0.9% (around USD 9.7 million) of the total subsidies (USD 22 billion) that governments spend collectively to support global fisheries. Such subsidies have “the potential to provoke overfishing, to lead to fish stocks being overfished, to encourage illegal, unreported or unregulated (IUU) fishing and to increase fleet capacity” (Martini and Innes, 2018[34]). These harmful effects disproportionately accrue to OECS countries, damaging the long-term sustainability of the region’s marine resources including their revenue and job-generating potential.

OECS countries would therefore benefit from the implementation of the WTO Agreement on Fisheries Subsidies, adopted at the 12th Ministerial Conference (MC12) on 17 June 2022. The Agreement is the first WTO agreement to focus on the environment, and the first broad, binding, multilateral agreement on ocean sustainability (Brown et al., 2022[35]).


High labour and energy costs present bottlenecks to investment. A high degree of unionisation drives up labour costs, which have grown faster than productivity. The energy sector is highly inefficient in the OECS, characterised by monopolies in power generation and distribution, and lack of investments. Consequently, electricity costs are among the highest in the world (IMF, 2013[31]), due to the high reliance on imported fuels for electricity generation. These high energy costs lower the economies’ productivity and hinder their growth prospects. OECS countries’ energy production is highly disruptive to the environment, heavily dependent on imported fossil fuels. Figure 2.5 shows the energy sources in some OECS countries. However, small-scale generators and new green technologies are profitable solutions which, with the appropriate legal frameworks, could remedy some of these problems. Capacity development to reform the regulatory framework concerning the production and distribution of energy, alongside initiatives to facilitate access for finance, could reduce prices and help quickly meet net-zero goals (OECD, 2022[36]).
Figure 2.5. OECS countries depend heavily on fossil fuels as a source of electricity

Despite relatively high levels of education and training, the skills of the workforce are not always compatible with private sector needs. Several interviews during the fact-finding mission for this report highlighted the high quality of human resources as a major strength of OECS countries. However, interviewees remarked at the same time that the private sector fails to sufficiently tap into this potential. Some mentioned that one potential reason for this mismatch may be that current education in OECS countries is not oriented towards fostering an entrepreneurial and business skills and risk-taking attitude. Although there are initiatives, including from the EU and the IDB, to support SME financing and upskilling, these areas could benefit from more donor support. Another way of contributing to skill enhancement is to partner with universities and vocational training institutes to provide training in business and IT skills as well as start-up incubation programmes.

Donors could help smoothen the transition towards greater reliance on private sector financing

The progressive substitution of other official flows (OOF) for ODA is often an intermediary step as countries transition towards private sector-led financing. OOF are official finance flows that do not meet official development assistance (ODA) criteria. OOF include transactions intended to promote development mainly refer of non-concessional loans. OOF is traditionally used to invest in infrastructure projects that set the foundations of private investment and economic diversification. Securing such a transition path (from ODA to OOF and private flows) would naturally trigger more and more private finance (as well as domestic resource mobilisation).

However, in OECS countries such as Dominica, Grenada, and St Lucia the external financing mix moves quickly from ODA to private sources, largely bypassing the use of OOF. This is in sharp contrast with what happens in other developing countries. See Figure 1.8. (The same phenomenon is highlighted in Box 2.2, which showcases the graduation case of St. Kitts and Nevis). This phenomenon could be explained by the presence of CBI schemes that trigger investment inflows and distract countries away from investment in infrastructure and economic diversification. Indeed, this unusual transition path is observed in the three countries that have CBI programmes. The only country that does not have a CBI scheme, Saint Vincent and the Grenadines, does not show such a pattern, experiencing more difficulties in attracting private flows.
Box 2.2. The case of St. Kitts and Nevis through the Transition Finance lens

Even if the experience of a sole country cannot be extrapolated to other Caribbean realities (Anguilla’s information is not available prior to 2014), the case of St. Kitts and Nevis, which graduated from ODA in 2014, shows that the increase in FDI and Portfolio Investment has not fully compensated the loss of ODF. Total external finance (ODF, FDI and Portfolio Investment) amounted to USD 127 million on average per year in 2007-13, compared to USD 122 million in 2014-20\textsuperscript{22}. The country also experienced significant volatility in financing.

Figure 2.6. St. Kitts and Nevis has seen FDI and Portfolio Investment slightly increase after its ODA graduation

Net disbursements, USD million, 2020 prices

![Net disbursements graph](image)

Note: In Saint Kitts and Nevis, FDIs and Portfolio Investment volumes have on average slightly increased after its ODA graduation (comparing n+7 and n-7 years from graduation, amounting to USD 121 million and USD 110 million on average per year, respectively). The 2018 peak of FDIs in St. Kitts and Nevis corresponds to significant investments in the tourism sector channelled through the Citizenship by Investment Programme. (ECLAC, 2019\textsuperscript{29}).


Furthermore, OOF to OECS countries is channelled almost exclusively through multilateral actors rather than bilateral donors. The main providers of OOF to OECS countries are the Inter-American Development Bank (46%) and the Caribbean Development Bank (39%). Bilateral donors are less present in OECS than in other developing countries with similar levels of income. Comparable countries, which are also categorised as SIDS, tend to benefit more from bilateral official loans to finance infrastructure projects. For example, Korea extended significant loans to the Marshall Islands, Papua New Guinea, and Micronesia to finance energy plants and water transport projects; France extended loans to Mauritius, Jamaica, Haiti, etc. also to finance infrastructure projects; Germany committed significant loans to develop energy plants and agroindustry projects in Mauritius and the Dominican Republic, etc. (Table 2.2).
Table 2.2. The Inter-American and the Caribbean Development Banks provide eighty-five per cent of total non-concessional flows to ODA-eligible OECS

<table>
<thead>
<tr>
<th>Source</th>
<th>USD million</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inter-American Development Bank</td>
<td>543.4</td>
<td>46</td>
</tr>
<tr>
<td>Caribbean Development Bank</td>
<td>456.3</td>
<td>39</td>
</tr>
<tr>
<td>United States</td>
<td>100.0</td>
<td>9</td>
</tr>
<tr>
<td>International Finance Corporation</td>
<td>35.3</td>
<td>3</td>
</tr>
<tr>
<td>International Bank for Reconstruction and Development</td>
<td>25.2</td>
<td>2</td>
</tr>
<tr>
<td>EU institutions</td>
<td>8.8</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>1 170.1</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Note: Includes OOF committed to Antigua and Barbuda, Dominica, Grenada, Saint Lucia, and St. Vincent and the Grenadines. Italy and Australia have provided small amounts that do not figure in the table (USD 153 K and USD 8K respectively).

Source: CRS database (2023) [38].

OECS countries provide untapped investment opportunities for bilateral donors that are traditionally involved in infrastructure, in particular with regards the potential of the green transition. With a view to supplement actions of multilateral development banks, bilateral donors could engage in profitable projects and fill the financing needs that OECS countries face (and have difficulties in meeting). Filling financing gaps in infrastructure projects, for example, through DAC members’ non-concessional lending, could help OECS countries build resilient economies and prepare them for ODA graduation. It is noteworthy that the share of the energy sector in ODA commitments decreased from 12.4% between 2016-18 to 4.9% in the most recent period from 2019 to 21. Moreover, while the transport and storage and communication sectors weigh heavily in terms of ODA commitments, representing 9.4% and 8.6% of total ODA in 2019-21, the implementation of projects seems to lag behind, as the sectors represent only 5.2% and 1.5% of ODA disbursements. Scaling up support for economic sectors would also revamp international relations and avoid geo-political impasses. Given the small size of OECS economies, financing volumes would not need to be large for DAC members to have a visible impact.

2.2. Mobilising domestic resources while avoiding negative impacts in neighbour countries

OECS countries struggle to mobilise domestic resources. OECS countries lag behind their peer countries in terms of tax revenues. The average tax-to-GDP ratio stands at 21.6% in 2020, below 25.7% in other ODA-eligible CARICOM countries and 26.6% in aspirational CARICOM peers. Tax administrations are generally small, many with less than 100 employees. Their efficiency is often hampered by out-of-date processes, low capacity, and operational ineffectiveness. Moreover, the collection authorities do not receive the political support they deserve. In some cases, collection enforcement may be subject to political interference, and in others, the tax administrations are not given sufficient power to carry out their mission. Periodic amnesties are an example of damaging policy decisions that may ruin tax administrations’ efforts to recover arrears (Schlotterbeck, 2017).
Tax incentives, especially with a view to attracting tourism-related investment, contribute to relatively low tax revenues in the region and have triggered a competitive race to the bottom in the region. They spread over multiple taxes and result in substantial forgone tax revenue. Recent studies estimate that the revenue forgone for the main taxes (value added tax (VAT), import duties, excises, and the corporate income tax (CIT)) represents about 4.0 to 6.5 percent of GDP in Antigua and Barbuda, as well as Dominica and St. Kitts and Nevis, and above 7 percent of GDP in Grenada, Saint Lucia, and St. Vincent and the Grenadines (Schlotterbeck, 2017[38]).

The rationale of attracting investment through favourable tax regimes to increase tax revenues in the long term might appear deceitful. Evidence suggests that a favourable investment climate and public goods are actually much more important for attracting investment than tax incentives. Moreover, the scope to benefit from such measures has significantly narrowed recently with the introduction of international tax rules to subject multinational enterprises (MNEs) to a 15% effective minimum tax rate. Future OECS countries graduates will no longer be able to replicate the paths of earlier graduates such as Barbados (Box 2.3), who were able to smoothen transition finance gaps through tax revenues reaped from lowering international business tax rates. It has therefore become even more important than in the past to support countries in preparation for graduation by strengthening their domestic revenue base.
Box 2.3. Barbados’ change in tax policies in response to evolving international tax rules

Throughout the 2010’s and into this decade, Barbados has maintained a high tax-to-GDP ratio of around 30%. This owes to Barbados’ success in attracting international businesses. International businesses, who were given a more favourable tax treatment compared to local businesses, were responsible for 70% of corporate income tax revenues. In 2019, Barbados harmonised the tax rates applied to domestic and international businesses to meet OECD requirements against Base Erosion and Profit Shifting (BEPS). This led to a lowering of tax rates for domestic businesses, which are now charged a rate on a scale from 5.5% to 1% – alongside international corporations. In 2021, Barbados joined the OECD two-pillar plan to reform the international taxation rules to harmonise global corporate minimum tax rates at 15 percent. Although this move is welcome in that it aims to enhance international co-operation and co-ordination, it will necessitate measures to identify and strengthen financing sources to equalise a potential loss in revenues.

Using Citizenship by Investment schemes as an alternative to raising domestic revenues can bring significant risks to OECS countries’ financing mix

Citizenship by Investment (CBI) schemes can present a buffer to exogenous shocks. CBI is a method of obtaining citizenship of a country through investment in specific sectors approved by the government, including real estate and economic contribution through donation. The main advantage of the CBI schemes for OECS countries is to mobilise additional revenues and build resilience against exogenous shocks. These include adverse weather shocks: ‘the Eastern Caribbean Currency Union (ECCU) countries are among the most vulnerable to natural disasters in the world, with an imputed fiscal cost of natural disasters ranging from ½ to 1 ½ percent of GDP’ (IMF, 2020[40]). Furthermore, the adoption of CBI schemes are perceived as less politically costly compared to the introduction of other forms of broader-based taxation.

CBI schemes have served as an important source of financing post-ODA graduation for some OECS countries (e.g. Saint Kitts and Nevis). CBI schemes are present in most24 of the OECS countries and sometime represent a large share of domestic revenues. After losing access to concessional finance, Saint Kitts and Nevis has used CBI revenues to self-finance its participation in some donor-funded regional initiatives to benefit from the technical assistance provided by multilateral organisations such as IDA. The country has also heavily relied on CBI sources to finance its policy response to recent crises. In light of the considerable revenues it raises, the CBI scheme of St. Kitts and Nevis is seen by other OECS countries as a successful precedent to benchmark. A report from the East Caribbean Central Bank suggests that the OECS nations offering CBI schemes generated almost USD 185 million in 2019 alone (Dempsey, 2022[41]). In the case of Dominica, CBI schemes represented almost 30% of GDP in 2021, and 3% in the case of Antigua and Barbuda. See Figure 2.8.
However, CBI programmes present a number of challenges, which are depicted in Box 2.4. Moreover, these schemes are undergoing regulatory scrutiny from the international community, calling for rigorous due diligence processes and other measures to ensure integrity. For example, following Russia’s war of aggression against Ukraine, five Caribbean jurisdictions implemented suspensions on citizenship applications from Russian and Belarusian nationals due to political instability (Personal Wealth Management, 2022[43]). There are also concerns that CBI programmes interfere with good governance, resulting in corruption of public officials, scandals, money laundering, or tampering with elections (Džankić, 2022[44]), as highlighted in OECD guidelines and recommendations²⁵. Excessive reliance on CBI revenues can create delays or avoidance of tax reforms that are much needed for domestic resource mobilisation (DRM) and long-term sustainable self-financing of the country.

Box 2.4. Despite the positive role CBI schemes can play, relying on them can involve significant risks

1. **CBI-related inflows, also related to FDI flows, are not predictable and appear volatile** (see Figure 2.8) They are subject to significant uncertainty and may heavily affect fiscal revenues (while fiscal revenues should be as much as possible a countercyclical/steady flow).

2. **They can result in improper fiscal management**: in good economic times government consumption rises, while in bad times social and political pressures make it downward inflexible. As a result, over-the-cycle, public investment falls, with an adverse impact on growth and resilience-building (IMF, 2020[45]).

3. **They can be source of lack of transparency on the collection and use of the revenues**¹, and/or discomfort among the population.²

4. **They can inspire a race to the bottom among countries**.

5. **There is a risk that their functionality ends through other countries’ foreign policy**: recently, the United States have threatened to end visa-waiver arrangements for CBI countries, especially for individuals originally from Russia and Belarus, who seek to bypass US entry
sanctions. EU members, meanwhile, have given OECS until 2025 to abolish their CBI schemes or risk losing visa-free access to the EU (Searchlight, 2022[46]).

CBI programs can be misused to hide offshore assets not reported to the OECD/G20 Common Reporting Standard and/or to misrepresent an individual’s jurisdiction(s) of tax residence. Some high-risk CBI schemes give access to a low personal income tax rate on offshore financial assets and do not require an individual to spend a significant amount of time in the location offering the scheme (OECD, 2022[47]).

Notes:
1. “In some countries contributions to certain funds are not reported as part of the budget and managed at the discretion of cabinet. The CBI revenues from the real estate option, as in Dominica, are regarded as “non-fiscal”, held in commercial bank accounts and transferred to the budget when convenient.” (Caribbean Investigative Journalism Network, 2022[48]).


**Strengthening capacities for domestic resource mobilisation is a key priority**

Donors could support governments to better manage CBI schemes, including to assist compliance with international monitoring and transparency standards. At times OECS countries prepare for ODA graduation, technical assistance from donors could help to understand and manage the risks associated with some unsustainable sources of financing and identify an optimal financing mix. For example, donors could help governments put into place safeguards and control mechanisms to mitigate political risks, and to ensure that the revenues are used in a way to maximise gains for sustainable development. They could also help to introduce sovereign wealth funds to smoothly manage the revenues from CBI schemes and invest them in projects with sustainable development returns.

Donors could also step-up efforts to strengthen capacities for domestic resource mobilisation and reduce OECS countries’ reliance on CBI revenues. The Caribbean Regional Technical Assistance Centre (CARTAC) of the IMF, supported by donors such as Canada, Spain, the UK, among others, and in collaboration with other organisations such as the Inter-American Development Bank, serves as the central platform to provide capacity development in public financial management and tax administration. CARTAC focuses on improving compliance management through capacity development in areas such as registration, filing, payment, audit, and arrears management. Antigua and Barbuda received assistance to implement a new Performance Management System for Inland Revenue Department (IRD) staff, while Saint Lucia benefitted from the Administration Diagnostic Assessment Tool (TADAT) assessment, which reviewed the relative strengths and weaknesses of the tax system setting a baseline for reform programme prioritisation and facilitating support for reform efforts.

Capacity development efforts need to ensure local absorption and long-term sustainability. Despite the possibility to receive technical assistance, the lack of human resources and absorptive capacities can limit countries’ ability to tap into and effectively benefit from available resources. While technical assistance programmes are often demand-driven and need to be requested by the partner countries, smaller and more capacity-constrained SIDS are unable to tap into existing opportunities to receive the support that is available. Moreover, the lack of resources and high staff turnover often make it difficult for countries to retain, further develop and internally pass on skills.
2.3. Addressing the debt sustainability challenge in a context of financing crunch

Rising public debt levels narrow fiscal space to cope with the transition

OECS economies have been in a high debt–low growth trap for the past two decades. The Caribbean region has traditionally been plagued with a high debt burden, which results from low growth and persistent current account deficits in the region. One of the main reasons for this is the region’s dependence on consumer commodity imports, which started in the early 1990s, is the suppression of quotas and phasing out of trade preferences at a time countries had not developed a comparative advantage yet. This was accompanied by a “deterioration of the terms of trade, reduced fiscal space, and demographic trends, including emigration of skilled labour” (IMF, 2013[31]). The global financial crisis (GFC, 2008-09) worsened the already high debt burdens in OECS countries. After the global financial crisis, Jamaica’s debt to GDP ratio reached an unsustainable 140%, owed mainly to domestic creditors. The service of the debt, i.e. interest payments, averaged 52% of fiscal revenues between 2005 and 2008, severely squeezing fiscal space and leaving too few resources for addressing important social and infrastructure needs.

Furthermore, OECS face high risks of natural disasters, frequently enduring extreme weather events that make them turn towards creditors with whom they engage in new debt for reconstruction. Some studies have shown that the debt-to-GDP ratio grows faster, by almost 5 percentage points the year a storm strikes in SIDS, with a cumulative debt increase of 5% of GDP a few years later. And even if vertical funds and emergency facilities do exist, SIDS’ capacity constraints prevent them from accessing them easily (Piemonte, 2021[49]).

A decade after the GFC, the COVID-19 pandemic prompted a new debt shock in the region. See Figure 2.9. In OECS countries, the average government debt to GDP ratio increased from 58% in 2019 to 77% in 2021. According to the World Bank debt sustainability analyses (DSA), Grenada is in debt distress, Dominica and St. Vincent and the Grenadines are at high-risk of debt distress, and Antigua and Barbuda have unsustainable debt. Observed debt spikes are linked to increased public spending to counteract declining trade performance (and trade preferences loss), rebuilding costs after frequent natural disasters, and responses to the GFC and COVID-19 crises (IMF, 2013[31]).
**Figure 2.9. In 2021 OECS-eligible countries’ public debt represents on average 77% of GDP**

Public debt as a share of GDP, %

<table>
<thead>
<tr>
<th>DEBT TO GDP RATIOS - TOTAL PUBLIC SECTOR, %</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>97</td>
</tr>
<tr>
<td>Dominica</td>
<td>111</td>
</tr>
<tr>
<td>Grenada</td>
<td>72</td>
</tr>
<tr>
<td>Montserrat</td>
<td>5</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>92</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>88</td>
</tr>
<tr>
<td><strong>Simple average</strong></td>
<td>77</td>
</tr>
<tr>
<td>Anguilla</td>
<td>54</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>68</td>
</tr>
</tbody>
</table>

Note: In 2007, both Antigua and Barbuda and St. Vincent and the Grenadines benefitted from an Italian debt write-off initiative (USD 56 million); in 2017 Grenada received USD 58.6 million in principal reduction on external debt. Source: Author’s design based on Eastern Caribbean Central Bank ECCB (2023) [6] https://www.eccb-centralbank.org/statistics/dashboard-datas/

High public debt levels impose high costs on OECS economies. This includes increased tax pressure to service the debt and resulting rigidities and lack of fiscal space for reforms, as well as a vicious circle of increasing borrowing costs (degrading risk ratings and then the possibilities of incurring new debt). In 2021, external debt service obligations over exports for ODA-eligible OECS countries amounted to 70%. Furthermore, high levels of public debt inhibit new investment because of increasing uncertainty (e.g., investors may believe that their profits will be taxed away to service the debt). Figure 2.10.
Figure 2.10. Antigua and Barbuda present unsustainable public debt levels and Grenada is in debt-distress

External debt service as % of exports

<table>
<thead>
<tr>
<th>External Debt service as a % of Exports</th>
<th>2019</th>
<th>2021</th>
</tr>
</thead>
<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>103%</td>
<td>260%</td>
</tr>
<tr>
<td>Dominica</td>
<td>48%</td>
<td>38%</td>
</tr>
<tr>
<td>Grenada</td>
<td>59%</td>
<td>59%</td>
</tr>
<tr>
<td>Montserrat</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>St. Lucia</td>
<td>25%</td>
<td>34%</td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>38%</td>
<td>28%</td>
</tr>
<tr>
<td>Simple average ODA-eligible</td>
<td>46%</td>
<td>70%</td>
</tr>
<tr>
<td>Anguilla</td>
<td>23%</td>
<td>48%</td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td>7%</td>
<td>10%</td>
</tr>
<tr>
<td>Simple average OECS</td>
<td>38%</td>
<td>60%</td>
</tr>
</tbody>
</table>


By contrast with other countries, all long-term external debt in OECS countries is guaranteed by the public sector, both private and public – the so-called public and publicly guaranteed debt, or PPG debt [32]. Figure 2.11. This contrasts with debt in other UMIC-SIDS (tourism-based economies), for which this share stands at 64% on average [33] (Piemonte, 2021[49]). This could be explained by the fact that most OECS countries do not enjoy up-to-date investment grade credit ratings, which makes it difficult, and more expensive, to access traded lending. Furthermore, bonds’ benchmark sizes – e.g., USD 500 million is the JPMorgan Emerging Market Bond Index (EMBI) minimum [34], might be too high for their economies. Table 2.3 shows last available credit ratings for some OECS countries. (UNECCLAC, 2018[50])
Figure 2.11. Public and publicly guaranteed debt represents more than half of total domestic debt

Total public debt composition, stocks, USD million, 2020 prices

Note: Detailed composition of debt was unavailable for other OECS countries.

Table 2.3. The few OECS countries with sovereign credit ratings are considered to be low investment grade or below

<table>
<thead>
<tr>
<th></th>
<th>Standard and Poor’s</th>
<th>Moody’s</th>
<th>CariCris</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dominica</td>
<td></td>
<td></td>
<td>BB (2019)</td>
</tr>
<tr>
<td>Grenada</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Saint Lucia</td>
<td></td>
<td>BBB- (2019)</td>
<td></td>
</tr>
<tr>
<td>St. Vincent and the Grenadines</td>
<td>B3 (2019)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anguilla</td>
<td></td>
<td>BBB+ (2019)</td>
<td></td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>St. Kitts and Nevis</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: BBB-, BBB and BBB+ are associated with a ‘lower investment grade’; B3 is associated with a ‘lower non-investment grade’; BB is associated with a ‘non-investment grade’ (UNECLAC, 2018).
Source: Last rating available https://www.eccb-centralbank.org/statistics/dashboard-data/
The strategic use of official development finance (ODF) could help to mitigate the risk of debt distress

ODA acts as a shock absorber by providing a fiscal buffer in times of heightened pressures on public debt levels. As shown in Figure 2.12, ODA commitments increased in all ODA-eligible peers and OECS countries between 2019 and 2020. This increase, in absolute terms, was sharpest in the Pacific region, where ODA commitments rose from USD 2.2 billion to USD 2.9 billion. This corresponded to 36% and 63% of GDP, respectively in 2019 and 2020. This countercyclical role of ODA could explain in part why the impact of the pandemic on Pacific SIDS’ public debt levels could be dampened. A majority of ODA is given in the form of grants, constituting 91% of ODA to the Pacific SIDS in 2019 and 74% in 2021. (Figure 2.12) Accounting for a sizable portion of GDP in Pacific SIDS, ODA could be used effectively to absorb negative impacts on countries’ public debt levels.

Figure 2.12. ODA to OECS peaked throughout the pandemic before returning to pre-crisis levels in 2021

Note: ODA commitments include commitments from DAC members and multilateral providers.

In 2020, ODA commitments to OECS countries increased sharply in response to COVID-19. Saint Lucia benefited from the steepest increase in 2020 including through emergency financial assistance from the IMF to address the challenges of the COVID-19 pandemic. While the absolute increase in the level of ODA was smaller in OECS countries than in peer groups, they increased by 144% between 2019 and 2020, which represents the largest increase in relative terms. However, whereas in 2021, ODA commitments continued to increase in Pacific SIDS, they fell back to pre-crisis levels (USD 268 million) in OECS countries. Moreover, ODA represents a much smaller share of GDP in OECS countries, compared to Pacific SIDS. In 2020 and 2021, ODA accounted for 10.4% and 5.8% of GDP in ODA-eligible OECS countries. This represented a sharp increase from 6% and 4.8%, respectively in 2018 and 2019. However, given the overall smaller size of ODA relative to GDP, the effect of the increase of ODA on OECS economies (e.g. the public debt dampening effect) remained smaller than in Pacific SIDS.

At the same time, the share of loans (v. grants) in ODA received by OECS countries has kept increasing. The increase in ODA between 2019 and 2020 was mainly driven by an increase in loans, which rose from USD 143 million to USD 487 million. In 2020, loans represented 82% of all ODA commitments. But even after ODA decreased to pre-crisis levels in 2021, there was a clear shift towards more loans, with the share of loans increasing from 59% in 2019 to 68% in 2021. Figure 2.13.
The hardening of ODA terms could reflect OECS countries’ transition towards graduation. For example, Saint Lucia’s government has approved a record-level of public sector investment projects to promote the recovery from the pandemic-induced crisis. Interviews with the Ministry of Finance found that the financing conditions to raise the necessary resources have started to significantly harden. Figure 2.14 illustrates that, in order to finance public investment in 2022-23, the government has intensified its reliance on concessional loans, including from Chinese Taipei and the IMF, as opposed to grants.

Figure 2.14. Saint Lucia’s government faces a hardening of financing conditions to meet public investment needs

As a result of experienced difficulties in accessing new debt, many OECS countries now turn to less risk-adverse emerging creditors such as China to get new credit. Yet Chinese lending is both an opportunity and a risk. First, most of Chinese lending goes under the radar of international accountability standards, sometimes distorting the real macroeconomic picture of a country (Box 2.5., showing the example of Dominica. This can lead the country to contract excessive levels of debt, and/or collateralise debt with strategic infrastructure. Quality aspects are also important to consider. Countries must ensure that new infrastructure projects are compliant with environmental and social standards. IMF studies have shown that OECS countries’ investment in resilient and sustainable infrastructure could generate higher growth rates, increasing long-term output, consumption, and labour income. (IMF, 2020[45])
Box 2.5. Incorporating the ‘off-the-radar’ Chinese debt

Not all foreign debt is reported to the IMF, and a share of it remains ‘off-the-radar’. External debt stocks are periodically reported by IMF/WB countries. While China reports on debt stocks and flows, some of its debt might only be partially reflected in official IMF/WB data. In “China’s overseas lending”, Horn, Reinhart and Trebesch (2019[52]), explain that this is because Chinese official creditors often lend to state-owned enterprises or special-purpose vehicles and their liabilities are usually outside of the standard perimeters of public debt statistics and do not therefore get reported. However, these transactions still represent an obligation from the debtor country to an official Chinese entity.

Even if five of the OECS countries maintain ties with China (Anguilla, Antigua and Barbuda, Dominica, Grenada, and Montserrat), data on the ‘off-the-radar’ Chinese debt is only available for one of them, Dominica (Figure 2.15).

In 2020[35] (latest data available), off-the-radar Chinese debt to Dominica is estimated to add an extra USD 71.4 million to the country’s total external debt (an increase of 24% of total external debt). In other words, Dominica’s total external debt ratio to GDP would go from 65% to 79%.[36]

Figure 2.15. Including off-the-radar Chinese debt, Dominica’s external debt could reach close to 80% of GDP

USD billion, current prices

Note: The chart does not include domestic debt.
Source: Author’s calculations based on World Bank Debt Statistics (2022[23]), and (Horn, Reinhart and Trebesch, 2019[52]) data. Horn data are based in turn on AidData’s Chinese Official Finance database (Dreher et al., 2017[53]), which encompasses more than 1 200 loans and 2 300 grants to 140 recipient countries during 2000-2014 (it is based on hundreds of primary sources such as creditor and debtor annual reports, embassy press releases, news sources, debtor aid management systems and the academic literature to identify Chinese foreign loans and grants to 140 recipient countries between 2000 and 2014). Transactions only enter the final dataset after an extensive data triangulation. Horn complements and crosschecks it with a rich source of various region- and sector-specific databases that have good coverage for subsets of China’s foreign lending. Piemonte (2021[49]) The Impact of COVID-19 crisis on External Debt in SIDS, https://www.oecd.org/dac/financing-sustainable-development/External-debt-in-small-island-developing-states(SIDS).pdf.
2.4. Responding to the OECS countries’ transition challenges with a more effective use of official development finance

**ODF to OECS countries is on the rise**

ODF to ODA-eligible OECS countries has been constantly growing in the past thirty-five years. On average, ODF amounted to USD 245 million per year during the 2010-19 decade and reached USD 794 million during the COVID-19 crisis period (2020-21). See Figure 2.16, left. This represents an average annual growth rate of 13% during the 2010-19 decade (+17% per year if considering the 2012-21 decade).

**Figure 2.16. ODF to OECS countries amounted to USD 794 million on average per year in 2020-21**

Bilateral flows and multilateral outflows, 2-year averages, USD million commitments, 2020 prices

![Graph showing ODF to OECS countries](image)

Note: As Antigua and Barbuda graduated in 2022, the current data (showing information until 2021) include this country in order not to ignore information valuable to this study. Excludes regional projects. Source: Author’s design based on CRS database (2023) [https://stats.oecd.org/Index.aspx?DataSetCode=crs1](https://stats.oecd.org/Index.aspx?DataSetCode=crs1)

This growth was fed by an increase in both concessional and non-concessional loans: the share of non-concessional flows has constantly grown from 4% of total ODF thirty-five years ago, to almost half (46%) of total ODF to ODA-eligible OECS countries today. See Figure 2.16, right. ODF to ODA-eligible OECS countries represented 37% of the total financing mix in 2020-21, compared to 22% and 23% in previous decades (2010-19 and 2000-2009, respectively). In the last couple of years, the share of ODF in the total external financing mix increased in all five ODA-eligible countries, that is, in Antigua and Barbuda, Dominica, Grenada, Saint Lucia, and St. Vincent and the Grenadines. See Figure 2.17. Excluding COVID-19-related disbursements, ODF to OECS countries increased by 81% between 2016-19 and 2020-21, mainly due to extraordinary increases in support to the infrastructure sector, especially for energy and transport and storage-related projects.
Figure 2.17. Recent trends show a regular increase of ODF to OECS countries

Net disbursements, USD million, 2020 prices

With a total of USD 885 million committed in the last decade (2012-21), the United Kingdom (32% of total ODF), the EU Institutions (28%), the United States (14%), Japan (13%), and Canada (6%) are the top five bilateral donors (among DAC members) to OECS ODA-eligible countries. Table 2.4. Among multilateral agencies (for a total of USD 2.8 billion committed in the same period), IDA (32%), the Caribbean Development Bank (26%), the IDB (20%), the IMF (6%), and the OPEC Fund and the Green Climate Fund (3% each) are the most active multilateral actors.
Table 2.4. Multilateral organisations are the leading donors in terms of volumes

<table>
<thead>
<tr>
<th>Donor</th>
<th>ODF commitments</th>
</tr>
</thead>
<tbody>
<tr>
<td>International Development Association</td>
<td>190.2</td>
</tr>
<tr>
<td>IMF (Concessional Trust Funds)</td>
<td>39.8</td>
</tr>
<tr>
<td>Caribbean Development Bank</td>
<td>33.5</td>
</tr>
<tr>
<td>Green Climate Fund</td>
<td>27.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>24.3</td>
</tr>
<tr>
<td>EU Institutions</td>
<td>20.8</td>
</tr>
<tr>
<td>Japan</td>
<td>11.7</td>
</tr>
<tr>
<td>Global Environment Facility</td>
<td>7.3</td>
</tr>
<tr>
<td>OPEC Fund for International Development</td>
<td>3.3</td>
</tr>
<tr>
<td>France</td>
<td>1.5</td>
</tr>
</tbody>
</table>


Among non-DAC members reporting to the DAC/OECD, the United Arab Emirates and Kuwait are also active partners of ODA-eligible OECS countries. During 2012-21 their ODF commitments amounted respectively to USD 47 million and USD 44 million. Alternative sources (Dreher et al., 2017[53]) show that China, meanwhile, committed a total of USD 882 million to Antigua and Barbuda, Dominica, Grenada, and Saint Lucia during 2008-2017 (last data available), i.e. an amount almost as large as DAC members’ commitments to six OECS countries during 2012-21. Finally, Chinese Taipei is a prominent donor in St Lucia.(Box 2.6).

Box 2.6. Despite being the largest donor in Saint Lucia, Chinese Taipei faces challenges in co-operating with other donors

Chinese Taipei’s sizable support for Saint Lucia has proven critically important for the country’s COVID-19 recovery. For the 2022/23 fiscal year, the government budgeted 80 percent of financing needs to be raised in the form of concessionary loans, which provided an alternative source of financing to shorter term/higher-cost bonds and treasury bills financing. A major part of these concessional loans, or 37% local currency, Eastern Caribbean dollars, ECD 191.82 million, came from the Chinese Taipei Export-Import Bank. The loans were provided in addition to ECD 52.623 million in grant funding, and ECD 28.5 million in financing for the Constituency Development Programme (CDP), which allows parliamentarians to fund small projects of their choice in their constituencies.

During its long-standing support to Saint Lucia, Chinese Taipei launched initiatives, among others, to strengthen the information technology infrastructure and IT skills in the island, improve the agricultural productivity and diversification, and raise the skill levels of the health workforce. One key strength of Chinese Taipei’s development co-operation is the combination of financial support with technical assistance, whereby Chinese Taipei scientists and experts are dispatched to the field to provide intensive on-the-job training and develop local capacities.

Despite the importance and success of many of the programmes, Chinese Taipei faces difficulties in co-ordinating efforts with like-minded donors. The use of multilateral channels and platforms is constrained, as Chinese Taipei is not a member of many of the international organisations operating in the region. In the absence of diplomatic ties, there are also difficulties in exchanging information and joining forces with other bilateral donors.
This situation poses several limitations on the effectiveness of development co-operation in Saint Lucia. By way of greater co-ordination with Chinese Taipei, DAC members would be able to benefit from synergies in the form of greater collective presence and impact, efficiency gains through division of labour and the sharing of local knowledge and experience.

China is often perceived by OECS countries as being more responsive to their demands and better aligned with their priorities than DAC donors. Interviews with government officials in the OECS countries found a high level of appreciation not only for the substantial volumes of Chinese aid, but also for the ease of access and expeditiousness. Compared to other bilateral and multilateral donors, the lack of bureaucratic procedures and safeguards makes Chinese aid appealing. This points to the need for better co-ordination and alignment between donors and partner countries (Box 2.7).

Box 2.7. Fostering alignment and co-ordination to maximise the collective impact of development efforts

Despite rising official development finance to Small Island Developing States (SIDS), these countries continue to face numerous escalating challenges related to the consequences of the COVID-19 pandemic, an increasing fiscal and socio-economic crisis as well as the impacts of climate change, to which they are particularly vulnerable. In this context, it becomes even more essential to strengthen the co-operation and effectiveness of all development partners. Yet co-ordination among development partners and alignment with government priorities remain a significant challenge for SIDS and continue to represent an obstacle to development effectiveness.

Recent OECD analysis of Saint Lucia’s development co-operation dynamics identifies the obstacles that have prevented effective development co-operation and hindered collective impact. For instance, while national strategic planning in Saint Lucia has vastly improved over the years, and the prioritisation process has helped all development actors broadly align to the country’s chosen development path, development partners’ use of the country’s results frameworks and indicators in designing new programmes and projects is limited and well below the average for SIDS at only 47%. This leads to fragmented approaches and multiple individual reporting requirements that become highly onerous for such small public administration. The analysis also revealed that most development partners establish parallel monitoring and data-collection processes, with limited convergence of efforts around a shared pool of country data. Also, joint evaluation processes involving Saint Lucia’s government officials only represent 29% of all evaluations (58% on average across SIDS). Co-ordination between the government and development partners as a group is limited and most issues are discussed bilaterally.

The analysis was validated through an inclusive dialogue with the government of Saint Lucia and its regional and international development partners. The discussion confirmed that a few specific actions could help address the above-stated challenges. First, fragmented approaches can be addressed by identifying joint strategic results to guide development co-operation and by better aligning development partners’ programmes and results frameworks with national strategies. Governments should take the lead by steering partners and communicating clearly on national priorities. Second, reporting requirements can be made less onerous by exploring joint monitoring and reporting practices. Third, data collection can be made more sustainable through active engagement with the Central Statistics Office and by identifying capacity-building initiatives and technical assistance for strengthened national statistics. Finally, joint co-ordination spaces could be established to foster better cross-partner co-ordination, strategic planning and enhanced division of labour between partners. By adopting these actions, government and development partners in Saint Lucia are taking important steps towards maximising their collective impact and fostering the sustainability of their actions. Interviewees and
dialogue participants confirmed that similar challenges are faced elsewhere across the Eastern Caribbean SIDS, and the suggested actions apply more broadly throughout the region. The OECD Toolkit *Impact by Design: Effective Results Frameworks for Sustainable Development* provides further guidance on how to implement these actions and foster better overall alignment of collective efforts.


Failure by the donor community to adequately support ODA graduation and the resentment it creates can only reinforce these perceptions and accelerate the related shift in the diplomatic relations of countries in the region, which will affect the military, political, and commercial interests of DAC members.

**ODF sectoral priorities have accompanied changes in OECS economies**

During the 1986-2021 period, sectoral allocations of ODF have evolved in line with the changing economic needs of OECS countries. Budget support and aid to social sectors have been constant. Agriculture, on the other hand, after being one of the international community’s priorities in OECS countries in the 1990s, has been gradually replaced by the financing of projects in transport and storage (infrastructure, more globally) and environment sectors (Figure 2.18). Such an evolution seems in line with OECS economies’ transformation (decline of agriculture as a component of OECS’ GDP) and pressing need to face the consequences of climate change. However, compared with other countries in transition, the scaling up of ODF in infrastructure appears late in the development continuum for UMIC-OECS countries.
Figure 2.18. Agriculture has phased out as a common focus of international assistance to OECS countries, replaced by infrastructure and, in most recent years, environment-centred projects

USD commitments, 2020 prices

Note: The top focused sectors are shown in the bar charts. 2020-21 are shown separately as they represent the particular COVID-19 years. Source: Author’s design based on CRS database (2023) [21] https://stats.oecd.org/Index.aspx? DataSetCode=crs1

ODF channelled through regional programmes is slowly growing

Even if volatile, ODF assistance channelled through regional organisations has gained a clear impetus in the last decade: from a linear average of 5.4% in 2002-11, ODF through regional organisations as a share of total ODF targeting OECS countries has raised to 6.8% in the last decade (2012-21). In 2020-21, ODF to OECS countries channelled through regional programmes/projects represented on average USD 38.8 million per year of additional commitments. Overall, between the years 2002-21, a total of USD 532.1 million (USD 26.6 million on average per year) were additionally channelled through regional projects to OECS countries. Figure 2.19, left. This increase in regional ODF can be partially explained by increasing donor efforts to create regional umbrella initiatives to include countries graduating from ODA. As a matter of fact, some donors have continued to provide support to ODA graduates in the OECS through multilateral channels such as the IADB and CDEMA.
In the last two decades, the OECS received two-thirds of total regional co-operation commitments in the Caribbean. This share has been slowly growing, and in 2020-21, the OECS concentrates most of the total ODF that is channelled through regional institutions. Government and civil society and trade and tourism are the priority of regional institutions, representing respectively 22% and 20% of the amounts spent on OECS regional projects during the 2002-21 decades. They are followed by projects in the energy and environment sectors, with similar prioritisation (11% each), and banking/business and the health sectors (representing respectively 7% and 6% of the total regional projects of the period). See Figure 2.19, right. In recent years, commitments to support the trade sector through CARICOM has mainly focused on the advancement of the CARICOM Single Market and Economy (sector classification corresponds to ‘trade and tourism’). In the case of the OECS, they basically support the Organisation in its efforts towards integration (activities classified under ‘government and civil society’).

Going forward, regional organisations could play an important role to continue channelling assistance to countries that have/will graduate(d) from the DAC list of ODA recipients. Despite the recent growth in regional ODF (from 5.4% to 6.8%), there is room to further strengthen the role of regional channels. Globally, 16% of contributions earmarked through the multilateral development system are directed at cross-country or regional activities (OECD, 2020[55]). Such assistance could help them deal with specific SIDS vulnerabilities, in particular linked to climate. Box 2.8. Regional ODF could also foster more regional collaboration in the provision of public goods, which has many advantages in the OECS region by allowing individual countries, which are very small in size, to generate economies of scale. Donors could also step-up efforts to ensure that OECS countries receive more support for infrastructure investment, for example through greater engagement of multilateral development banks. Greater use of multilateral channels would also allow for greater flexibility in supporting countries that have graduated from ODA eligibility but without which no coherent or sustainable promotion of regional public goods could be achieved.

In anticipation of the graduation of several countries in the OECS region, the EU is increasing its support to regional organisations, thereby allowing continuity of support beyond graduation. Such
a change in channels of support also has the benefit of scaling-up projects that might have a greater effectiveness and impact if conducted at regional instead of individual country level. It also allows for the design of common and co-ordinated solutions to regional challenges. However, recently, regional organisations observe a greater insistence from donors to make their funding exclusively available to ODA-eligible recipients, which tends to limit the scope and effectiveness of their operations.

Box 2.8. Tightening donor principles require a rethinking of multilateral initiatives and approaches

The Compete Caribbean Partnership Facility (CCPF) is a partnership between the Inter-American Development Bank (IDB), the Foreign, Commonwealth & Development Office (FCDO), the Caribbean Development Bank (CDB), and the Government of Canada. Launched in 2012, the CCPF is a Private Sector Development Program that delivers innovative and practical solutions to stimulate economic growth and increase productivity in 13 countries across the Caribbean region. The beneficiaries include ODA graduates such as Barbados, St Kitts and Nevis and Antigua and Barbuda. During the first two phases of the programme, donors agreed that part of the programme would benefit countries no longer eligible for ODA. But fundraising for the third phase of the programme is expected to involve some challenges, as tightening conditions around donor funding requires IDB as one of the administrating organisations to rethink the programme structure and approach.

Caribbean Disaster Emergency Management Agency (CDEMA) is a regional inter-governmental agency for disaster management in the Caribbean Community (CARICOM). It acts as the central regional body to facilitate, drive, and co-ordinate the promotion and engineering of Comprehensive Disaster Management (CDM) in all of the 19 participating states. All of CDEMA’s programme funding is sponsored by donors, while member states pay annual contributions to cover the administrative costs of the organisations. While at the beginning of CDEMA’s operations in the 1990’s all members were eligible for ODA, this is no longer the case. The ongoing and impending graduation of an increasing number of member states increasingly constraints the room for manoeuvre for financing CDEMA’s operations. CDEMA has traditionally used regional umbrellas to extend its operations to countries that are not eligible for donor funding, but an increasing number of donors are now applying rules of differentiation for their contributions. The narrowing of the financing scope of the organisation is worrying in light of the evolving nature of disasters, which increasingly shift from single hazard events to complex and multiple hazard events (e.g. involving volcanic eruptions, hurricanes and floods at same time) that take on a cross-regional dimension. CDEMA is responding to the new financing challenges by diversifying its donor base to include philanthropic foundations and other non-governmental donors.


Strengthening the focus on technical co-operation and capacity building could smoothen OECS countries transition

Strengthening technical co-operation could help to assist OECS countries approaching graduation: such assistance could focus on domestic resources mobilisation and building high-performance tax systems, as well as access to other external sources of financing, such as green funds, and ensure self-reliance.

However, technical assistance to ODA-eligible OECS countries remains limited. In 2018-19, it amounted at most44 to USD 12.6 million per year.45 Bilateral and multilateral technical co-operation (TC) does not play a fundamental role in the case of ODA-eligible OECS, all of them UMICs/HICs. In 2018-1946
it only represented 2.5% of their total ODF commitments (or USD 9.3 million commitments on average per year). Figure 2.20, charts above. Technical co-operation through regional channels is even lower: in 2018-19 it represented or USD 3.3 million on average per year (or 7% of total regional ODF to OECS countries). Figure 2.20, charts below.

Figure 2.20. At most, technical assistance to ODA-eligible OECS countries could have reached USD 6.1 million per year in 2018-19

ODF commitments, 2020 prices

Note: Technical assistance includes earmarked funding to CARTAC
Source: Author’s design based on CRS database (2023) [21]
https://stats.oecd.org/Index.aspx?DataSetCode=crs1

Technical assistance was not prioritised before graduation. This is reflected in the cases of Anguilla, Antigua and Barbuda, and Saint Kitts and Nevis. As for other OECS countries, project type interventions, followed by budget support are the most focused typologies by which ODF assistance is targeted. See Figure 2.21.
Figure 2.21. Technical assistance was not prioritised before ODA graduation

ODF commitments, 2020 prices

Antigua and Barbuda

Source: Author's design based on CRS database (2023) [21] https://stats.oecd.org/Index.aspx?DataSetCode=crs1

Note: Antigua and Barbuda graduated in 2021; Anguilla and St. Kitts and Nevis in 2014.
2.5. Harnessing the potential of green transition to mobilise additional resources aligned with OECS countries’ national priorities

**ODF is increasingly focused on addressing the effects of climate change**

**OECS countries are highly vulnerable to climate change.** Natural events that have hit OECS from 1985 onwards have produced higher amounts of damages and affected a greater number of people than in other regions. See Figure 2.22.

**Figure 2.22. Climate-related events have produced higher amounts of damages in recent decades**

Damages, amounts (USD million) and people affected (thousands)

Note: Includes eight OECS members: Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Kitts and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

Source: Author’s design based on EMDAT database (2022) [https://www.emdat.be/database](https://www.emdat.be/database)

**ODA to OECS countries is highly responsive to natural disasters and climate change.** OECS countries experienced a rise in ODA in 2018, mainly as a response to natural disasters and external shocks. Commitments increased from USD 235 million in 2017 to USD 310 million in 2018, before decreasing again in 2019 to USD 243 million. The increase in 2018 was mainly driven by multilateral support for reconstruction in Dominica, which was hit by Hurricane Maria, and in Saint Vincent and the Grenadines, which experienced severe meteorological events such as heavy rainfall in 2016 and 2017. In 2019-20, 31% of total ODF commitments to ODA-eligible OECS countries and regional-related projects (or USD 189.5 million on average per year) were climate-related (compared to 25% in all SIDS and 28% in non-SIDS developing countries) (Figure 2.23, left).
Figure 2.23. In 2019-20, seventy-four per cent of climate-related assistance to ODA-eligible OECS countries targeted adaptation

DAC members and multilateral outflows, USD million commitments, 2020 prices

Note: ODA-eligible OECS countries in 2020 include Antigua and Barbuda, Dominica, Grenada, Montserrat, Saint Lucia, and St. Vincent and the Grenadines; Reporting on Rio markers by DAC members and MDB’s joint approach for multilateral agencies.
Source: Author’s design based on development climate statistics (2022) https://oe.cd/development-climate

Box 2.9. SIDS face challenges in accessing green funds

SIDS struggle to access Green Funds. Low “return” rates on mitigation projects in SIDS that typically have low levels of carbon emissions could prevent key financiers from further dedicating large amounts of resources to them. This raises the question of the measurement of “return” on climate-mitigation projects in countries with low absolute emissions but still in need of funding to transition to net-zero and aid to heighten resilience.

Capacity development (i.e., technical assistance and capacity building) could support OECS countries in accessing green funds. Targeted technical assistance and capacity building could help SIDS better demonstrate their adaptation and biodiversity preservation needs and trigger more funds. Furthermore, technical assistance and capacity building in support of project governance and implementation could reduce disbursement delays. Finally, enhanced flexibility and adapted conditions for SIDS’ access to climate mitigation funds could help them fund productive and pro-diversifying sectors.


Climate-related development finance (CRDF) offers an opportunity for OECS countries to receive international finance. Total CRDF to OECS countries more than tripled from USD 162 million in 2015-17 to USD 549 million in 2018-20. By comparison, total climate-related development finance in the same time period increased, but to a lesser extent, doubling from USD 68 billion to USD 135 billion. As shown in Figure 2.24, OECD countries have also benefited from climate funds such as the Green Climate Fund and the Adaptation Fund, although many interviewees deplored the challenges and rigidities of processes to access these funds. Box 2.9. The greater flexibility of these funds, which allow access to non-ODA
eligible countries, can provide a window of finance for countries beyond ODA graduation. Donors are actively facilitating access to climate finance, by providing capacity development support (Box 2.10).

Figure 2.24. Although OECS countries have been relatively successful in accessing climate finance, it is heavily focused on adaptation

<table>
<thead>
<tr>
<th>CRDF commitments, 2020 USD '000</th>
<th>Commitments from climate funds, 2020 USD '000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Climate-related</td>
<td>Adaptation</td>
</tr>
<tr>
<td>2012-14</td>
<td>5,000,000</td>
</tr>
<tr>
<td>2013-17</td>
<td>15,000,000</td>
</tr>
<tr>
<td>2018-20</td>
<td>25,000,000</td>
</tr>
</tbody>
</table>

Note: Development finance targeting mitigation and adaptation do not add up to the total climate-related development finance, which includes activities that target both mitigation and adaptation at the same time.

Relative to all developing countries.


Box 2.10. Canada supports the Climate Finance Access Network to build capacities to better access climate finance

Canada supports the Climate Finance Access Network (CFAN), founded in 2021, that aims to unlock climate finance at scale, deploying climate finance advisors to supplement capacity in developing countries’ governments and direct access entities. These embedded advisors work to develop high-quality projects and to build lasting national capacity that will ultimately maximize adaptation and mitigation outcomes.

CFAN brings together regional and global member initiatives experienced in building in-country climate finance capacity. Member initiatives with the required experience and presence in countries act as implementing partners and enrol advisors. These advisors participate in multi-month intensive training programme that equips them with an understanding of the climate finance ecosystem. The training is designed to grow national and regional capacity by providing participants with the expertise required to region-tailored strategies in accessing and accelerating climate finance. CFAN provides ongoing technical support to advisors while also developing long-term capacity on the ground through in-country trainings for civil servants.


To more fully tap into the growing climate finance momentum, policymakers and donors can enhance efforts to identify opportunities that combine national priorities and climate
considerations. Currently, the focus of CRDF lies overwhelmingly in climate adaptation rather than mitigation. In 2019-20, adaptation programmes absorbed almost three-quarters of total climate-related aid to ODA-eligible OECS countries. Mitigation-related climate finance has progressively decreased from USD 99 million in 2015-17 to USD 82 million in 2018-20. In 2018-20, mitigation finance amounted to only 17% of adaptation finance. However, among policymakers in OECS countries, there is palpable and growing interest in developing renewable especially solar energy. This was prompted by the COVID-19 and Ukraine crises that renewed emphasis on topics such as food security or energy prices in relation to inflationist tensions. Renewable energy projects could be part of the solution to high-energy costs in OECS countries.

Donors could capitalise on this momentum to increase ODA towards climate-related goals. This could help OECS (and SIDS) countries transition to net-zero, thereby creating economic growth opportunities. Greater capacities to access green funds (Box 1.5) as well as increasing OOF financing could help bridge the gap. In the absence of more efforts to align the climate agenda with domestic interests, there is a risk that climate finance will be perceived as a way to super-impose donor interests at the cost of national priorities.
Building on the evidence and analysis collected in section 2, this section summarizes main findings and conclusion of this study and presents a set of policy recommendations and concrete actions for DAC members to better support and accompany OECS countries in the management of the development financing challenges and opportunities they currently face. ODA-graduation is not the end of the story, but a well-prepared transition should lead to greater resilience and stronger partnerships between DAC members and OECS members.

3.1. Graduation is not the end of the story

**SIDS seem ill-prepared for life after graduation**

Evidence collected in OECS-SIDS that have recently graduated from the DAC list of ODA recipients (St. Kitts and Nevis, 2014, and Antigua and Barbuda, 2022, for example) suggests that these countries were ill-prepared to maintain a sustainable growth and development financing pathway after graduation. The absence of adequate taxation systems and lack of enabling business environments are some of the issues SIDS continue to face when on the verge of and after graduation. The void left by the exit of DAC donors can trigger unsustainable government choices, such as heavy reliance on CBI schemes to create fiscal space, or contraction of debt with non-DAC actors beyond sustainability thresholds.

**DAC members are not anticipating or adapting their assistance enough in preparation of graduation**

It appears that when OECS members approach(ed) graduation, DAC members were not sufficiently identifying nor focusing on local problems that constituted obstacles to financial sustainability and self-reliance. DAC members further did not adequately focus on capacity building to channel assistance at this stage of development. For example, in the case of ODA-eligible OECS, all of which are UMICs/HICs, technical co-operation represented only 2.5% of total bilateral and multilateral outflows (or USD 9.3 million commitments on average per year in 2018-19)\(^5\), when such assistance is particularly needed at this stage of development, ensuring capacity aspects for self-reliance and continuity with post-graduation partnerships.\(^5\)\(^2\)\(^3\)

DAC members were also insufficiently co-ordinated (or had not made use of co-ordinating institutions/mechanisms such as the OECS and CARICOM). Field interviews and quantitative information (see Section 2.4) reveal an insufficient use of regional and multilateral channels of development co-operation (e.g., channelling support through OECS), despite the fact that they could play
a much more prominent role in paving the road to further diversification (e.g., through telecommunications, energy and labour market reforms) and response to challenges such as the adverse effects of climate change.  

**Graduation often comes as a surprise**

Graduation from ODA eligibility list often comes as a surprise to partner countries due to insufficiently thorough information and preparation processes. Countries are informed by a formal letter from the DAC the year before their graduation occurs. Information is sometimes not shared across government authorities, or changes in government might affect continuous awareness. Most importantly, the decision is not sufficiently explained, with GNI per capita not understood or perceived as a good indicator of countries’ vulnerability and readiness to be self-reliant.

Better communication and more in-depth dialogue could help anticipate and prepare for graduation. Better communication and more in-depth dialogue could help anticipate and prepare for graduation. Recently, upon request of the SIDS Technical Experts Group, the OECD/DCD developed growth and graduation simulation and forecast tools, which could facilitate this process of preparing for graduation: those tools have been made freely available and accessible online.

Based on forecasts, DAC members and partner countries could start preparing graduation at least a decade in advance. Adequately planning the phasing out of ODA with actions to be taken by both donors and partner countries, thereby preventing post-graduation setbacks, could pave the way for a successful transition to sustainable ODA graduation.

Learning from peers about the graduation process, its opportunities and risks, with illustrative case stories of failures and successes, should be encouraged. DAC members could facilitate dialogue and sharing of tips from SIDS that have already graduated. SIDS share many similarities and solutions/lessons learnt that can usefully be extrapolated to peers.

### 3.2. The DAC could adopt a number of measures to smoothen OECS countries’ transition and ODA graduation

**DAC members should place a stronger emphasis on domestic resource mobilisation**

One of the main issues highlighted in this study is the absence of effective tax systems that would enable OECS countries to remain on a sustainable growth and financing pathway after graduation. Systems are often biased by the (often high-end) tourism industry that generates sufficient income to forgo or delay taxation of locals. Unfortunately, these tourism flows can also create inflationist tensions and reduce governments’ incentives to increase the domestic tax base. This resulted in the introduction or temptation to introduce citizen by investment (CBI) schemes that target foreign wealthy individuals to expand the tax base without soliciting locals. CBI schemes have become an important source of public resources in the Caribbean in spite of their potentially harmful effects.

Donors should focus their efforts on supporting domestic resources mobilisation (DRM) to ensure a smooth transition of OECS countries without financing gaps or traps after graduation. A sound tax system is the only sustainable path to self-reliance. The main challenge to address is how to expand the tax base without beggar-thy-neighbour types of policies:

- Phase-out ineffective tax incentives to attract foreign investors in the tourism sector that can turn into a race to the bottom and deprive governments of significant tax returns.
- Promote private sector development, including backward and forward linkages in the tourism industry (see tourism multiplier effect), or exploit the opportunities of regional shoring and shortening of value chains in North America, to expand the tax base.

- If desirable, progressively phase-out CBI schemes that contribute to higher volatility and windfall effects when additional sources of tax income are put in place.

A related challenge is how to manage the social impact when locals are increasingly solicited to contribute to tax efforts. Donors could work in parallel to address this issue of tax acceptance.

The OECD, together with CARTAC/IMF and regional partners (OECS, CARICOM) could align policies and closely plan transition pathways to credible tax policy reforms. The implementation of Pillar Two of the Global Anti-Base Erosion (GloBE) rules, which will introduce a global minimum corporate tax rate of 15% to multinational enterprises, will require additional skills and assistance for countries, especially in evaluating how their tax revenues would be affected and devising tax systems to use the new global rules to their advantage.

Some of the topics the partnership could address include: (i) Design of a transition plan to raise domestic tax mobilisation while planning a phasing out from the CBI schemes; (ii) Undertake technical studies to define the most appropriate focus and timeline to achieve such an objective (i.e., design simulations quantifying the pros and cons of different tax systems including transitioning phases for implementation); (iii) Help develop the capacities to structure SIDS-appropriate tax systems; (iv) Define a fit for purpose ‘roadmap’ for the region as a whole, as well as actions that take into account individual particularities/different national contexts; and (v) Clearly define the role (and cost) of each actor in achieving the goals.

DAC members should look beyond the GNI per capita indicator to assess OECS countries’ needs and prepare ODA graduation

In the case of OECS, and SIDS more broadly, the GNI per capita indicator could usefully be complemented with other measures of vulnerability and resilience to appropriately assess partner countries’ needs. Evidence has shown that SIDS are uniquely vulnerable to several external shocks, that they take longer to recover, and that their economies are insufficiently resilient to cope with their effects. Considering those factors is key for donors to correctly diagnose OECS countries’ needs and act in consequence, making the right choices and prioritisations when allocating ODF resources. Such vulnerability also justifies finding ways of operating even after graduation, including to respond to weather-related shocks.

Currently, many vulnerability indicators have been or are in the process of being developed, among others in the United Nations. They do not seem ripe to replace GNI per capita as an eligibility criterion for ODA, including for methodological reasons. However, they provide useful information about vulnerability that could be used by the DAC to better understand the local context, guide allocation of ODA, and support the effectiveness and resilience of ODA efforts. Box 3.1 highlights some of these indicators.

Such indicators could be used to better inform and guide donor decisions. For example, integrating them in a harmonised way into the transition finance methodological framework and other analytical and diagnostic work, would help donors better understand partner country needs and enhance development effectiveness. This could be especially important in preparing countries for graduation from ODA. Embedding MVI indicators into the Graduation Roadmap suggested above could enrich and facilitate donors’ discussions with partner countries and with each other, to co-ordinate efforts in advance of a countries’ ODA graduation.
Box 3.1. Vulnerability Indicators

Many indicators looking to better illustrate the unique vulnerabilities of countries have been developed (or are being developed) in recent years. They all look beyond the GNI per capita criterion to include measures of population behaviour (health and education status, gender equality, youth opportunities, conflict, wealth distribution in society, social nets, resilience of the economies to cope with external shocks, etc.). These include:

- **The Commonwealth Universal Vulnerability Index.** Developed in 2021 by the Commonwealth, it comprises three main measurable concepts (i) a Universal Vulnerability Index (UVI), which itself relies on three indices of structural vulnerability (economic, climate change, and sociopolitical) and on the two components of Resilience Index (RI), the Structural Resilience Index (SRI) and the Non-structural or Policy Resilience Index (NSRI); (ii) a (Universal) Structural Vulnerability and Resilience Index (SVRI) relying on three indices of structural vulnerability and an index of structural resilience; and (iii) a (Universal) Structural Vulnerability Index (SVI) relying on three structural vulnerability indices: a new Economic Vulnerability Index to External and Natural shocks (EVI/ENS or EVENSI), a Physical Vulnerability to Climate Change Index (PVCCI), and a Socio-political Vulnerability to Domestic Violence (IVI).

- **The United Nations Multidimensional Vulnerability Index.** The new UN MVI, guided by the principles of multidimensionality, universality, exogeneity, availability, and readability, was finally launched in September 2023. The final report of this UN MVI explains the configuration of the MVI Framework, constituted by an MVI index, which reflects the Structural Challenges faced by countries, having two components: structural vulnerability and structural resilience, each with its own Economic, Environmental and Social dimensions; and a Systematic and in-depth vulnerability country profiles that supplement the MVI assessment. Also, a structured and co-ordinated approach of vulnerability-resilience country profiles are included in the final report of the High-Level Panel, including a clear objective and method for co-ordination.

- **The multidimensional vulnerability index for the Caribbean (CDB).** Updated in 2019, has been developed by the Caribbean Development (CDB) and is internally used as an important component of CDB’s financial resource allocation framework. The Index combines what are perceived to be the root causes of vulnerability into an aggregate composite index. It provides a static view of the vulnerability of a country at a point in time, relative to other Caribbean small states. It quantifies the extent of the exposure of the country to exogenous shocks as also social vulnerability and climate change components. Note that a new framework of work is currently in progress and should complement this MVI: the Internal Resilience capacity and Recovery Duration Adjuster.

DAC members should establish a ready-to-apply checklist to prepare for graduation

In order to improve the ODA graduation process, the DAC could adopt a Roadmap for graduation considerate of specific vulnerabilities of developing country partners, including the SIDS. Such Roadmap would include:

- **A planning** (based on OECD forecasts now available online) for the DAC and graduating country of administrative and other steps leading to graduation.
- **An analysis of the consequences** for the country’s access to certain types of finance of its graduation (e.g. ineligibility for ODA but continued access to certain vertical funds or regional programs), including a list of ongoing programmes to be phased out and financed by government budget if deemed necessary.
- **Awareness raising in government** of the process and its consequences (e.g., which ministries will be affected, and how they can seek other sources of funding).
- **Awareness raising among DAC members** active in the country to prepare graduation and identify alternative means of supporting the country post-graduation, or at least to focus efforts on preparing substitution of official development finance by private or domestic public resources to avoid setbacks and secure resilience of ODA achievements.
- **Co-ordination and dialogue among donors and with the local government and civil society** to ensure a smooth transition and post-graduation sustainable growth and finance: e.g., identification of priorities for smooth transition, acceleration of efforts in selected areas of action (DRM, private sector development, energy transition).

Based on OECD’s forecasts of graduation over a ten-year horizon, this checklist could be applied upstream by DAC members when planning assistance to SIDS. A self-monitoring exercise would be strongly suggested for those members involved in providing ODF assistance to OECS/SIDS.

**DAC members should facilitate dialogue and peer learning**

This Roadmap for smooth graduation could be supplemented (and fed) by an institutionalised dialogue bringing together recent and future graduates along with DAC members and other relevant actors (e.g. regional entities, civil society). Graduation is intended to be seen as a positive development. However, OECS countries that have already graduated have not viewed it as such. Learning from past challenges should be facilitated through further dialogue, pre- and post-graduation, in order to gain from peer experiences and recommendations.

Issues such as forecasts of graduation, regional priorities, facilitations and access to technical assistance, and other needs could be usefully shared in a common forum. This “club” could focus on the dissemination of concrete case stories of successes and failures and have a strong practical focus to identify solutions for smooth transition and setbacks avoidance.

**A pipeline of projects could be prepared to identify and facilitate business opportunities and diversify OECS economies**

One common problem identified throughout the OECS is the difficulty to access finance due to the lack of capacity in government and the absence of a pipeline of projects. It is not enough to accelerate efforts of donors in certain areas to better prepare graduation, the countries also need to have absorption capacities.

Some business opportunities have been highlighted across this study; however, they are not exhaustive, and many others await investors. Preparing a pipeline of projects, including green transition projects, to be shared with potential international investors looking for business opportunities could help
close the information gap that inhibits meeting supply and demand. Such a facility could result in new capital entering the OECS economies. Box 3.2.

Box 3.2. Highlighting some OECS business opportunities

OECS countries are largely tourism-based economies; however, there is still place for diversification, in the tourism sector and elsewhere. This box highlights opportunities to scale up on value added tourism opportunities and recalls the importance of lowering the energy production costs to facilitate new service or industry-based business opportunities.

Cruise ship passenger account for the majority of tourism arrivals in the OECS region but spending per visitor is low for this type of tourist. While Antigua and Barbuda and Saint Lucia attract more stay-over visitors (Figure 3.1, left), spending respectively USD 2 072 and USD 1 842 each on average per stay (Figure 3.1, right), other countries such as Dominica, Grenada, St. Vincent and the Grenadines, and St. Kitts and Nevis mainly attract cruise visitors staying in land for just a few hours. On average, in the OECS region, spending per visitor is 18 times larger for other visitors (largely stay-over visitors) than for cruise visitors. This gives the latter an opportunity to diversify their offer, attracting longer-stay visitors who spend more.

Figure 3.1. Cruise ship passengers represent the majority of tourists in OECS countries but are characterised by low expenditure per visitor

Average number of visitors in 2018-19; USD spending per visitor in 2019

Note: Data on spendings per passenger were unavailable for Montserrat.

Also, strategies to grow the yachting sector (high market economic value and lower environmental impact compared to cruise passengers) could present an important opportunity. To do so, promoting the Caribbean brand and harmonising regional policies for easier intra-regional travel are opportunities that could be explored.

More and better infrastructure (not only hotel infrastructure but also roads, airports, energy supply, waste management, communications) is positively correlated with the number of tourists and tourism revenues.\(^58\)\(^59\) Many OECS countries, however, do not have the airport nor the fly connectivity needed to attract long stay-over visitors. Fast, efficient, and frequent ferry facilities between islands are also lacking.\(^60\)
Correctly evaluating the economic and social return of new pro-tourism infrastructure (including regional investment), giving a scale of priority to the execution of projects, would be key to ensure long-term sustainable growth and an efficient allocation of resources. Furthermore, using high quality standards on investment would both benefit the local population and favour the development of new tourism niche markets increasingly demanding contemporary consumption values (inspirational experiences looking to promote environmental conservation, minimise impacts, etc.).


Some order of prioritisation of execution could also be added to this pipeline of projects following the recent list of policy priorities set out in the Development Strategy Assessment developed by the OECD Development Centre together with the OECS Commission (OECD, 2022[36]). DAC members could align to these priorities facilitating, for example, blended finance to promote new investments under the initiatives recommended to be pushed forward (Box 3.3).

Box 3.3. Development Strategy Assessment of the Eastern Caribbean – Opportunities and priorities for action in the OECS

The Development Strategy Assessment of the Eastern Caribbean was done in partnership by the OECS Commission and the OECD Development Centre. It assesses the objectives of the OECS Regional Development Strategy 2019-2028 in the post-Covid context and identifies opportunities and priorities for regional and local action. The partnership also produced the OECS Scorecard, which is co-owned by the OECS Commission and the Eastern Caribbean Central Bank and keeps track of the most important policy results indicators.

The assessment identifies the following key priorities and opportunities for the OECS and its members:

- Invest in regional public goods
  - A regional competition framework
  - Reforming the regional telecommunications sector framework
  - A regional sustainable ocean economy hub
  - Energy sector regulation at the regional level
- Invest in renewables energies
- Build resilience to natural disasters
- Expand tourism value added
- Invest in technological upgrades in agriculture and fisheries
- Close the skill gaps and improve the quality of education
- Ensure better health action through NCD prevention

**DAC members should place greater focus on capacity development**

DAC members should accelerate their efforts to promote business-friendly environments in OECS countries and help them adapt regulation to stimulate entrepreneurship and competition. This would help ensure employment and growth, enable further economy diversification, and result in additional fiscal revenues. Currently, the focus on tourism combined with the import of inputs results in limited forward and backward linkages, leaving OECS countries heavily exposed to global inflationary pressures. Government revenues are then re-distributed to compensate for higher-than-normal prices, creating a vicious circle of dependence on re-distribution and disincentives for entrepreneurship and import substitution.

**Donor support can especially help to enhance the value-added in the tourism industry and promote forward and backward linkages** with sectors that are closely linked to tourism, such as agriculture and fisheries. For example, donors could provide targeted technical and financial support for local farmers and fishers, to allow for technological upgrades. This would promote local sourcing of agricultural, culinary, and artistic products. Donors can also help to promote new and sustainable tourism segments such as nature and eco-tourism by providing training and disseminating good practices.

In parallel, policy reforms are necessary to align government and private sector incentives to promote a business-friendly environment. The telecommunications and energy sectors, which are vital to ensuring the vibrancy of the private sector, are characterised by monopolistic or oligopolistic structures throughout the region, calling for a review of competition and regulatory policies.

**Donors can assist by supporting and championing reform initiatives and providing capacity development.** This could take the form of direct interventions (e.g., training to government officials in charge of the development of sector reforms such as energy and telecommunications; sending experts that could help advise on the development of new pro-business/competition regulation), or indirect support in the form of peer learning spaces and exchange (e.g., with other countries, experts having faced similar challenges and tasks) could facilitate learning, knowledge sharing and good practices.

**DAC members should make a better use of regional organisations to respond to climate change and other challenges, and smoothen the graduation process**

Using regional channels and modalities is a means to ensure continuity of support beyond ODA graduation. OECS-HIC countries continue to face pressing challenges because of their specific vulnerabilities and merit adequate attention. Focusing precisely on issues such as competitiveness, energy production and cost, trade, and financial frames and schemes, may help recalibrate needs with responses, and appropriately complete DAC members’ and partners pending issues on which to tackle on. While direct bilateral assistance is not an option, these countries can be supported through regional initiatives and channels including the OECS. Furthermore, the small size of the OECS economies (graduated or not) and the commonality of some challenges could also justify the deployment of regional solutions or turn-key projects solutions already tested in other projects.

**Capacity development is also needed to facilitate OECS’ access to green financing, in particular green funds.** Climate finance is likely to increase on the back of high-profile initiatives such as the Bridgetown Initiative which call for a massive scaling up of resources to invest in climate change mitigation and adaptation, as well as financing that can help reduce and manage the risks associated with climate-related losses and damages. Desk research (Piemonte, 2022) and field exchanges have provided evidence of the difficulty faced by SIDS in completing the many formalities required to unlock these funds. Technical assistance to train local authorities to meet these requirements is urgently needed. With the adoption of the Global Biodiversity Framework in Montreal at COP15, there is a growing momentum for international finance in support of biodiversity. OECS countries, with their wealth in natural capital, are well situated to benefit from these financing opportunities. The experience with climate funds (concerning
climate-related issues), however, suggests that accessing new forms of finance that will be made available for investments in biodiversity, may involve similar challenges and technical requirements. Donors have the responsibility to ensure that the resources they make available to combat the impacts of climate change and to promote biodiversity reach the countries and communities that are in dire need of them.

Finally, to enhance development effectiveness and achieve better results, DAC Members should enhance engagement with national statistics offices and identify opportunities to support capacity building for better data collection and strengthened national statistics. Such capacity building should aim to create robust and sustainable national data pools that could serve as the basis for more harmonised use of common indicators between development partners and incentivise the alignment of results frameworks. Similarly, donors should seize opportunities for capacity building by conducting joint monitoring and evaluation exercises with Governments where government officials are actively consulted and involved in each step of the process. The OECD Toolkit on Effective Results Frameworks: Impact by Design: Effective Results Frameworks for Sustainable Development provides valuable guidance on which capacity-building efforts are the most conducive to supporting more effective and sustainable development results.
References


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Annex A. Citizenship by Investment schemes

Table A A.1. Citizenship by Investment schemes

<table>
<thead>
<tr>
<th>ODA eligible OECS members up to 2021</th>
<th>OECS members that have graduated</th>
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<tbody>
<tr>
<td>Antigua and Barbuda</td>
<td>Dominica</td>
</tr>
<tr>
<td>A minimum USD 200 K investment in an approved real estate project;</td>
<td>Offers Citizenship by Investment for:</td>
</tr>
<tr>
<td>USD 100 K for a single applicant; USD 150 K for a main applicant and spouse; USD 175 K contribution for a main applicant, spouse, and up to 2 children; USD 25 K each for additional dependents; USD 50 K each for eligible siblings aged 18 to 25 years old.</td>
<td>A donation (plus costs) totalling: USD 150 K/individual; USD 200 K for families of up to 4 people; USD 225 K for families of 5 people; A donation of: USD 100 K/individual; USD 140 K for an individual and spouse; USD 150 K for an individual, spouse, and up to 2 dependents; An additional USD 15 K for each additional qualifying dependent applying at the same time; An additional USD 25 K donation for each additional qualifying dependent who subsequently applies;</td>
</tr>
<tr>
<td>The purchase of a business for a minimum USD 1.5 million investment;</td>
<td>A minimum USD 220 K investment in an approved real estate project.</td>
</tr>
<tr>
<td>A joint purchase totalling at least USD 5 million, in which each individual contributes at least USD 400 K;</td>
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<td>Saint Lucia</td>
<td>Anguilla</td>
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<tr>
<td>St. Kitts and Nevis</td>
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**Offers Citizenship by Investment for:**

- **Anguilla**
  - **USD 250 K** individual, spouse, and one dependent (must be held for 6 years);
  - **USD 250 K** individual, spouse, and up to 4 dependents (must be held for 7 years);
  - **USD 300 K** individual, spouse, and up to 4 dependents (must be held for 5 years);
  - An additional **USD 15 K** each additional dependent applying at the same time;
  - **USD 250 K/

- **St. Kitts and Nevis**
  - **USD 100 K**
  - **USD 300 K** investment in an approved real estate project, which must be held for a minimum of 5 years;
  - **USD 400 K** investment (plus **USD 35.05 K** fee) in a real estate project that does not appear on a government held list of approved project;
  - **USD 400 K** investment in excess of **USD 400 K** years for purchases

- **A minimum contribution to the National Development Fund of USD 100 K;**

- **A minimum contribution to the University of the West Indies of USD 100 K.**

- **A minimum USD 300 K investment in an approved real estate project, which must be held for a minimum of 5 years;**

- **A minimum USD 3.5 million investment in an approved enterprise project that creates at least 3 permanent jobs;**

- **A minimum USD 6 million joint investment, in which each individual invests at least $1 million, in an approved enterprise project that creates at least 6 permanent jobs.**

Notes

1 See https://www.oecs.org/en/who-we-are/history.


3 The British Virgin Islands use the United States Dollar, and Martinique and Guadeloupe use the Euro.

4 Micro-states are defined as those countries with a population lower than 200,000 inhabitants, see https://www.worldbank.org/en/country/smallstates/overview#1.

5 All OECS countries have been, since the creation of the Organisation, service-based economies, with the tourism, trade and banking and business sectors representing in 2021 from 29.5% of the GDP in Montserrat, to 52.8% in Saint Lucia, with a median of 38.4% for the OECS countries group. Based on Eastern Caribbean Central Bank (ECCB) statistics, 2022.

6 This is the average public debt-to-GDP ratio of ODA-eligible OECS countries.

7 The debt situation is dealt with in greater detail in the next section.

8 As Antigua and Barbuda graduated in 2022, the current data (showing information until 2021) include this country as an ODA-eligible OECS in order not to ignore information valuable to this study.

9 Antigua and Barbuda’s GDP decreased by 20.1%; Dominica’s GDP by 16.6%; Saint Lucia’s GDP by 20.3%; St. Vincent and the Grenadines’ GDP by 5.3%; Grenada’s by 13.7% and Montserrat by 5.3% (2020, see https://www.eccb-centralbank.org/statistics/trades/country-report.

10 This Overview section largely benefits from work carried out by the Development Centre, OECD, see OECD (2022), Development Strategy Assessment of the Eastern Caribbean, https://doi.org/10.1787/f1566c7a-en.

11 School closures can provoke backslides in education which will complicate children’s entry into the labour force. They will acquire less qualified jobs and be paid less.

12 Evidence shows that OECS countries have been subject to climate events of greater intensity in recent years (period of analysis 1984-2021) producing greater amounts of damages and a greater number of people affected by each event. Author’s conclusions based on EMDAT data (2022).

13 In the case of Montserrat, the 1996-98 volcano eruptions severely affected the economy, which has not completely recovered since then.

14 Exceptions are 2002 and 2003.

Waiting for reliable GNI per capita information, the DAC has decided to defer the decision to graduate Montserrat until October 2025, see https://one.oecd.org/document/DCD/DAC(2023)38/FINAL/en/pdf.


“Construction began on the Levera Beach Resort, a 176-room hotel located on the least developed north-east coast of the island, a project that was green lighted as part of the country’s citizenship by investment programme.” See https://repositorio.cepal.org/bitstream/handle/11362/42024/S1700815_en.pdf?sequence=9&isAllowed=y.

Other barriers to more competitive economies are reflected in the weaknesses in land governance, marked by an informal nature of land tenure type, hamper investment in land; absentee claimants; informal fragmentation and low agricultural productivity (Griffith-Charles et al., 2015[71]).

IMF estimates that the national electricity bill in the Caribbean represented, on average, 9% of countries' GDP, compared to 2.5% of GDP in the US. “Around 40 percent of Caribbean firms identify electricity costs as a major constraint to doing business, which is higher than the average of Latin America and other developing countries. This has increased uncertainty of investment planning, with unfavourable repercussions for capital formation, the inflow of FDI, and long-term growth”. (McIntyre et al., 2016[72])

Capacity development refers to technical assistance and capacity building. See https://doi.org/10.1787/0481c16a-en.

Note that 2020 showed a generalised downturn on FDIs all around the world as a consequence of the COVID-19 crisis.

DAC members contributing to the CDB in its 10th replenishment (in 2021, for four years) are Canada, the UK, Germany, and Italy. (In the last replenishment they respectively pledged 27%, 12%, 6%, and 1.5% of the total https://www.caribank.org/sites/default/files/publication-resources/BD%202026%20Report%20Negotiations%20of%20SDF%202010_redacted.pdf; in its 9th replenishment they pledged as follows: Canada (24%), the UK (9%), Germany (6%), and Italy (1.3%) https://www.caribank.org/sites/default/files/publication-resources/SDF-9-Resolution-and-Report-of-Contributors_Final.pdf).

Currently, six OECS countries possess a CBI programme. See Annex A.

While residence and citizenship by investment (CBI/RBI) schemes allow individuals to obtain citizenship or residence rights through local investments or against a flat fee for perfectly legitimate reasons, they can also be potentially misused to hide assets offshore and escape reporting under the OECD/G20 Common Reporting Standard. See https://www.oecd.org/tax/automatic-exchange/crs-implementation-and-assistance/residence-citizenship-by-investment/.

Except for Montserrat.
“A potential explanation for why so many of these countries were so hard hit by the financial crisis is their sensitivity to the economic cycle of advanced countries, particularly the US. In addition, during the recovery phase, the weak linkages with the emerging countries that were driving the global recovery, such as China and India, prevented them from enjoying a stronger performance” as cited in (UNECLAC, 2018[50]).


29 Focusing on the Eastern Caribbean, Rasmussen (2004[70]) found that the median public debt increases by a cumulative 6.5% points over three years following a disaster, mainly because of an increase in spending and a small reduction in revenue. See (Mohan and Strobl, 2021[74]).

30 This indicator reflects a government’s ability to meet external creditor claims on the public sector through export revenues. A persistent deterioration of this ratio signals an inability to generate enough foreign exchange income to meet external creditor obligations on a country’s Public and Publicly Guaranteed (PPG) debt.

31 Evidence also points to a non-linear relationship between public debt and growth. For Caribbean countries, Greenidge et al. (2012[68]) demonstrate that at debt levels lower than 30 percent, increases in debt are associated with faster economic growth. However, the effect on growth diminishes rapidly as debt rises beyond 30 percent of GDP, and beyond 55 percent of GDP debt becomes a drag on growth. A similar pattern exists for trade openness: below a debt level of 34 percent of GDP, greater openness to trade has a positive impact of growth, while the effects are insignificant once debt levels exceed this threshold.

32 Note the importance of the public and publicly guaranteed debt (from official as well as private sources), such debt affects the countries’ sovereign balance sheet (unlike non-guaranteed debt). Information on the composition of public debt is publicly available for only four OECS countries: Dominica, Grenada, Saint Lucia, and St. Vincent and the Grenadines.

33 This also compares to 32% in other UMIC-service-based developing countries.

34 The EMBI is a benchmark for measuring the total return performance of international government and corporate bonds issued by emerging market countries that meet specific liquidity and structural requirements. It is measured in base points, which reflect the difference between the return rates paid by emerging countries’ government bonds and those offered by U.S Treasury bills.

35 Dominica’s off-the-radar Chinese debt is not available for 2020 but was estimated to equal 2019 debt stock levels.

36 Dominica’s total debt to GDP ratio in 2022 (that is, including domestic debt) would go from 109% (see Figure 2.15) to 123%.

37 The CRS database allows to track COVID-19-related expenses through a keyword search. Total COVID-19-related assistance to OECS countries amounted to USD 21 million in 2020-21.

38 For reference, Canada’s commitments totalled USD 52 million in the same period.
Comparing the same period (2008-17) and partner countries (Antigua and Barbuda, Dominica, Grenada, and Saint Lucia), bilateral donors committed a lower amount than China, that is USD 429 million (vis à vis USD 882 from the latter).

From the mid ‘90s, cash crops (mainly bananas) that enjoyed preferential access to European and US markets began to phase out (following a WTO ruling on bananas). Tourism and the provision of financial services replaced agriculture as a significant means of development among OECS countries.

OECD (2018[73]), Section 4 shows that globally ODF to the infrastructure sector is the most targeted sector for countries still at a Lower-middle income (LMIC) level.

This regional field is available in the CRS database from 2002 onwards.

A text search using the words “OECS”, “Eastern Caribbean”, “Anguilla”, “Barbuda”, “Dominica”, “Grenada”, “Montserrat”, “Lucia”, “Vincent” and “Kitts” and “CARICOM” under the restriction “recipientname” equals ‘Caribbean and Latin America, regional’ and ‘Caribbean, regional’. OECS-related additional projects represented USD 350.7 million over 2002-21 and CARICOM-related additional projects USD 181.4 million over the same period. CRS database.

Regional co-operation amounts represent an upper bound.

USD 7.1 million per year in 2020-21.

The biennium 2018-19 is here highlighted because it better represents what could be identified as ‘normal’ years (2020-21 being ‘COVID-19’ years, its TC figure would be less representative of normality). In any case, and for information, in 2020-21 TC represented 0.8% of total bilateral and multilateral ODF to OECS countries (USD 6 million per year), plus USD 1.1 million per year through regional co-operation.

Natural events exclude biological events and are mostly related to climate and geophysical events, that is drought, earthquake, volcanic activity, floods, landslides, and storms.

There is no evidence of a greater frequency of climate phenomena in the period and region analysed.

By the end of 2020, only 52% of the GCF commitments had been disbursed, with commitments mainly made between 2015 and 2017. This ratio was similar (53%) in the case of the Climate Investment Funds (CIFs) but corresponds to commitments from earlier years (the bulk of them between 2012 and 2015). The Global Environment Fund (GEF) shows an even lower ratio of disbursements to commitments, at 33%, mainly corresponding to transactions committed between 2013 and 2015 (and some in 2008). These delays, which could adversely affect future allocations of resources to SIDS, could be explained by the limited skills and technical capacities in SIDS to adequately manage projects.

The figure comprises bilateral and multilateral development finance. For bilateral donors it is the sum of all activities – concessional or not – that are identified with the Rio marker principal or significant for climate change adaptation or mitigation. For MDBs and other multilateral institutions that use the MDBs Climate Components methodology, it comprises the climate specific value (the climate component).

2018-19 is quoted because it better represents a ‘normal’ period than 2020-21 (COVID-19 crisis years).

Also, in the cases of Anguilla, Antigua and Barbuda, and Saint Kitts and Nevis, technical assistance was close to zero before ODA graduation. Indeed, as for other OECS countries, project type interventions are the most used typologies through which development assistance is channelled.

Furthermore, the OECS could be used to channel assistance to countries that have already graduated from the DAC recipients list when such assistance is justified to preserve and reinforce self-reliance.

An official letter, signed by the DCD Director, is sent to the national authorities informing them of the impending graduation.


CARTAC, the Caribbean regional technical assistance centre (an IMF regional unit in charge of helping countries strengthen human and institutional capacity to design and implement sound macroeconomic policies that promote growth and reduce poverty) provides technical assistance in six core areas: public finance management, tax and customs administration, financial sector supervision and financial stability, debt management, economic and financial statistics and macroeconomic programming analysis.

As are the proximity to majors markets, GDP levels or level of development and political stability (security), all factors well ‘solved’ in the case of Caribbean SIDS because of their proximity with US/Canada markets, relative high level of income and political and social safety environments.

See for example (Seetanah et al., 2011[69]).

A World Bank study on six OECS countries concluded that “existing estimates suggest that substitution of cruise for stay-over tourists would likely result in a net positive impact on the economy”. (Barbet-Gros et al., 2015[66]).

For example, the OECD/FDI quality toolkit, https://doi.org/10.1787/7ba74100-en.