



Vulnerability of Eastern Caribbean Countries



What all small island-developing states have in common is their susceptibility to a wide range of risks and a limited capacity to deal with these when they occur. The sudden outbreak of novel coronavirus (*herein COVID-19*) has highlighted the immense challenge of dealing with a new type of crisis for the region. With the timing of COVID-19 likely to overlap the hurricane season this year, many lives and livelihoods are at risk and remain vulnerable in years to come.

Why is the Caribbean most in need of assistance?

By far the most frequent type of disaster to hit the Caribbean is natural. According to IMF research, of the 511 disasters worldwide to hit small states since 1950, around two-thirds (324) have been in the Caribbean. Their analysis indicates that this region is up to seven times more likely to experience a natural disaster than larger states, and when one occurs, incur as much as six times more damage. Climate change will only intensify these events.

Vulnerability of the Caribbean is multi-dimensional and includes economic, social and environmental factors. The frequency of disasters in this region means that recovery can take years as experienced by Dominica and Antigua and Barbuda in 2017 following the passage of Hurricanes Maria and Irma.

Economic diversification is very limited. Their size, limited resource bases and remoteness constrain development and the Eastern Caribbean’s ability to build resilience. The Caribbean also faces significant ‘brain drain’, with many highly skilled people opting to move overseas to work. Regional integration still has some way to go and in the absence of a

strong business enabling environment - with the Eastern Caribbean ranked above 100 (190 = worst) for doing business - investment and innovation are stymied. These inherent structural problems have prevented the Caribbean from reaching its true economic potential.

The services sector dominates economic activity contributing close to three-quarters of GDP in some Caribbean states. The Eastern Caribbean is heavily reliant on tourism, which for some contributes as much as 50% of GDP and provides jobs for up to one-half of labor forces in this region. While tourism is the Caribbean’s most prized asset - with around 80% of tourist arrivals from the US, Canada and the UK - an overdependence on this sector makes it a key vulnerability for the region in the current health crisis.

COVID-19, through the tourism sector, has caused huge social and economic disruption for the Caribbean. Jobs have been lost and tourism related businesses closed because of this pandemic. Government stimulus packages, working through existing social safety nets – mainly national insurance schemes – have had limited effect as many depend on the informal sectors for their jobs and livelihoods. With the informal sector in some Caribbean countries as much as 40% of GDP, this “health” crisis will likely cause poverty and inequality to rise substantially in its wake.

Many Eastern Caribbean states are net food and energy importers and highly vulnerable to sharp price swings. COVID-19 has been highly effective in disrupting international and domestic supply chains. The longer this crisis lasts, the disruption to international supply will spill over to the Caribbean and risk this region’s own economic revival ironically at a time when it should be investing in preparedness ahead of the hurricane season.





Lingering reconstruction costs of past disasters have squeezed much needed fiscal space for response to this health crisis. Financing the recoveries of past natural disasters through debt has crowded out development expenditures across the Caribbean. High public debt – domestic plus external - levels of over 60% of GDP are commonplace and serve to limit fiscal space for years to come. COVID-19 will only increase the region’s indebtedness calling into question whether these levels can be sustained. It will also undermine development investments targeted at the Sustainable Development Goals because of the need to redirect and repurpose existing resources.

Socially, high unemployment, aging demographics, high levels of non-communicable diseases and crime beset the region. With unemployment is high, ranging between 10% and 25%, and somewhat structural, COVID-19 will exacerbate joblessness across the Eastern Caribbean. Without easy access to, social protection schemes and investments to shore-up the Micro, Small and Medium Enterprises, poverty and inequality will become more widespread. Aside from the enormous loss of economic potential, further unemployment from COVID-19 has the potential to cause an avalanche of adverse social consequences, most notably crime which will deter much needed tourism arrivals to the region and citizen security.

While many Caribbean countries have in place social protection measures, past experiences have exposed weaknesses in their response to crisis emergencies. The poor and vulnerable are particularly at risk, not only because many operate in the informal sector but also because they simply not have the means or awareness to access public social safety net schemes. Additionally, their lack of means to afford insurance products combined with inadequately built dwellings in climatically vulnerable locations contributes to their economic vulnerability and makes their potential for income growth in the coming months dire. To protect the most vulnerable in this region, not just from COVID-19 but also from future crises, governments will need the fiscal space and technical expertise to maximize effectiveness of their social protection provisions.

Old age-dependency in the Caribbean is higher than the global average. With public finances already committed to meeting health, pension and other social security commitments and needs of the elderly, health systems are likely to become increasingly stretched with these costs as well as those associated with the region’s high prevalence of non-communicable diseases. With public health expenditures ranging between 3% and 7% of GDP, the Global Health Security Index has shown that health systems in the Caribbean substantially lag the global average in terms of preparedness and put this region on the back foot to deal with the health consequences of COVID-19.

Last but certainly not least, the environmental vulnerabilities implied by climate change and global warming for this region will add to the pressures on the Caribbean. The increased frequency with which natural disasters are likely to occur and the damage caused will put further pressure on governments to find the fiscal space to respond. The COVID-19 pandemic has forced Caribbean countries to reassess their preparedness against a wider range of risks. Being already familiar with the devastating impacts of environmental events, the Caribbean will not only need to prepare and build resilience against the impact of global warming but also the against new health risks that threaten the lives and livelihoods of its citizens.

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At this time of heightened global uncertainty, the Caribbean has never been in as much need of the level of assistance required today. Without this, the future will be wrought with a vicious circle of uncertainty, debt-dependency and increasing hardship, while with support from the international community small vulnerable economies across the Eastern Caribbean can strive towards a path of resilience, prosperity and sustainable development.

