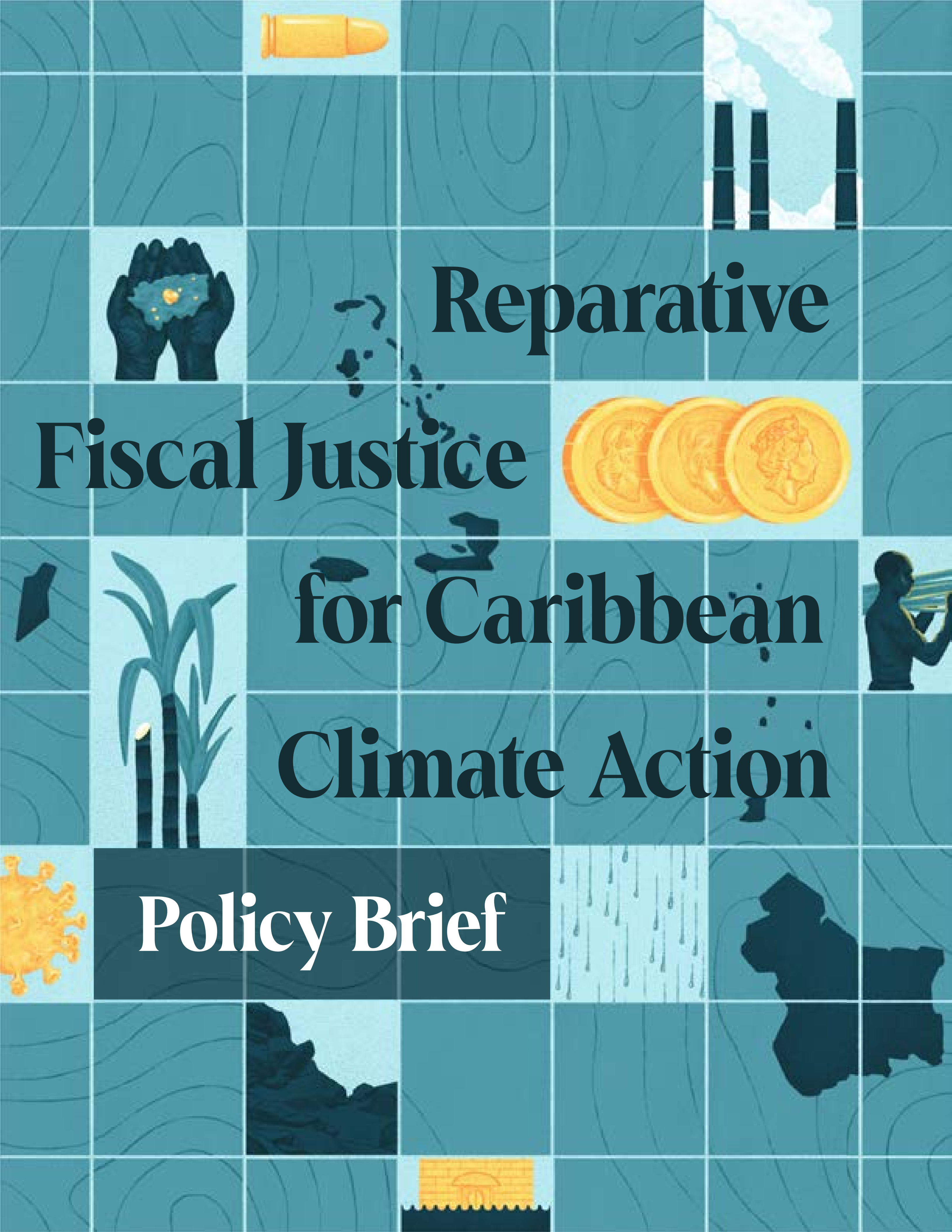


Reparative Fiscal Justice for Caribbean Climate Action

Policy Brief

Climate & Community INSTITUTE

November, 2024

Authors: Ketaki Zodgekar, Fayola Jacobs, Patrick Bigger, Avery Sinclair Raines and Shady Lawendy

The intertwined challenges of climate and fiscal crises are devastating the ecologies and economies of countries around the world. This is felt most acutely in the Global South, which is swamped with debt, economically eroded by tax abuse, and forced to operate in a global financial system where rules are written by, and in favor of, the wealthy Global North. The Caribbean has a unique, heightened vulnerability to the crisis, not simply as an accident of geography. Current vulnerability to climate and economic crises stems from colonial occupation and the economic extraction that came with it; now the region is among the most highly indebted in the world, and the impacts of climate crisis is mounting: turbocharged hurricanes, sea level rise, and extreme heat are already regular features of island life, but Caribbean governments are strapped for the resources they need to contend with social and ecological crises they had little part in creating.

Each year, the Caribbean loses US$3.2 billion to fiscal extraction through debt service and tax abuse – and until 2030, the region needs an additional US$2.75 billion per year in funding to meet even modest climate goals. In other words, if this fiscal extraction ended, Caribbean countries would have funds to make a strong start to combatting the climate crisis – and adapting to a more dangerous world.

The Caribbean needs climate reparations that cancel debt, reform rules on international taxation, and restructure the global economic system to both restore fiscal capacity and ensure that these precarious conditions will not be reproduced in the coming decades. This report demonstrates how interlinked climate and economic precarity have been produced in the Caribbean, and applies a reparative framework to identify paths toward other, better futures.

The total annual fiscal drain from the anglophone Caribbean is **around $3.2 billion dollars,**

while the projected cost of climate action is at least **$2.75 billion.**

Reparative Fiscal Justice

Getachew and Olúfẹ́mi O. Táíwò, we propose a worldmaking approach to fiscal justice through climate reparations: reparative approaches to climate action should be about both redressing past harms and forging conditions that make different kinds of futures possible. This reparative approach to climate and economic crisis is distinct from, but aligned with, calls from the Caribbean for reparations that compensate for the ongoing harms of slavery; both are necessary but we specifically focus on the social, economic, and environmental processes that deepen climate vulnerability.

Accounting for past harms, including those inflicted on Caribbean countries during colonialism and imperialism, and more recently, through the impacts of the climate crisis, is imperative. It is equally important to also change the structural conditions such that the harms do not continue, through the tenet of non-repetition. In the climate space, this means that big polluters both have a responsibility to limit the future harms they will create through the continuing use of fossil fuels, but also to supply the resources for adaptation and alternative development paths, implementing them in just, durable ways.

Given the mounting climate damages and economic imbalances caused by colonial extraction and the structural organization of the global economy, non-repetition necessitates fiscal justice: an end to the global financial architecture that fiscally extracts from the Caribbean, and the resultant freeing up of fiscal capacity to pursue a just transformation to a climate safer future. Climate reparations are a key mechanism to move towards fiscal justice: a reparative approach both repairs the legacy of colonial extraction and western consumption that caused the climate crisis, and looks forward, towards rebuilding a new international economic order within which ongoing climate damages can be fairly addressed. What environmental and economic futures would be unlocked if Caribbean communities had the time, space, and resources to think, dream, and do differently?

Colonial industrialization and extraction fueled the climate crisis, and has made the Caribbean more vulnerable to its impacts

Colonization, enslavement and indigenous genocide built global webs of extraction that fueled industrialization in Europe and North America. Extracted profits from the Caribbean funded rapid industrialization, enabling Northern powers to become massive greenhouse gas emitters while dominating global economic and political decision-making – leaving the Caribbean underdeveloped.

On average, these 13 countries lose **$3.3 billion** annually to climate-related disasters, or 4.4% of their GDP.

Industries developed and expanded under colonization, such as sugar cane agriculture, were predicated on the destruction of forests and wetlands. Colonial economic activities were focused on extraction and export, eroding biodiversity and developing entire islands in service of socially and ecologically harmful industry. As a result, settlements and infrastructure were concentrated on the coasts for ease of crop growth and export, and this pattern is reinscribed today through islands' reliance on tourism for revenue. This is a grave concern in a quickly warming region, where 70% of the population resides in coastal areas and 1-2m of sea level rise is predicted by 2100 – colonization has increased the Caribbean's physical vulnerability to climate impacts through centuries of extractive economic relations that reshaped landscapes to suit the needs of the colonizers.

Caribbean countries suffer fiscal extraction through onerous external debt service

The region accumulates debt on unfair terms, in order to finance development and disaster relief, trapped in egregious cycles of debt service that necessitate further borrowing in order to make interest payments.

The volume of money needed to pay for just transitions in a warming world is huge; some estimates put the climate debt owed by the Global North to the Global South for the harms of the climate crisis- and the cost of contending with it- at as much as US$5 trillion per year. Countries need to borrow to invest in projects that will boost economic activity while reducing climate vulnerability, and ideally would be able to spread those costs over time and multiple generations of beneficiaries in order to make payments manageable. The problem is the current global debt architecture, in which lending conditions are onerous. International Financial Institutions (IFIs) like the IMF classify many Caribbean countries as middle income, making them ineligible for cheaper financing despite having relatively small economies and their heightened risk to extremely disruptive storms. In addition, repayment schedules are demanding, interest rates are high, and countries have huge public spending needs, which only grow in the wake of climate disasters.

This takes place in economies that have already suffered colonial extraction of economic resources, which has slowed growth for generations. In addition, credit rating agencies are beginning to incorporate climate vulnerability into their sovereign credit ratings, resulting in higher borrowing costs for vulnerable countries in the Caribbean, further raising the cost not only of climate action, but of any investment in critical services. Further, if investors assess that a country is having difficulty repaying its debts, then they are less likely to invest in that country because high sovereign debt is seen as a drag on growth and a sign of economic instability, further decreasing critical monetary inflows.

The global debt architecture is broken, and must be thoroughly overhauled to make borrowing work for the Global South. Substantial volumes of Global South debt owed to IFIs and other official creditors must be canceled. In the Caribbean, official creditors hold 69% of the total public external debt, making this strategy a critical pathway of the debt crisis. Multilateral bodies should also pursue all avenues to mandate private creditors to partake in debt cancellation – particularly in key financial jurisdictions where creditors are concentrated. In addition the Bretton Woods institutions must move away from one-dollar-one-vote systems decision making processes, towards more democratic governance.

The international tax system is another route by which funds are unjustly siphoned out of the Caribbean

The international tax system is every bit as broken as its debt counterpart. Tax abuse, wherein companies and individuals shift profits away from the country where the economic activity happened and reporting them in low tax jurisdictions erodes the tax base globally. Practices like these result in approximately $1.38 trillion USD moved into tax havens each year, and a loss of $245 billion USD in corporate tax for countries in which the profits were earned.

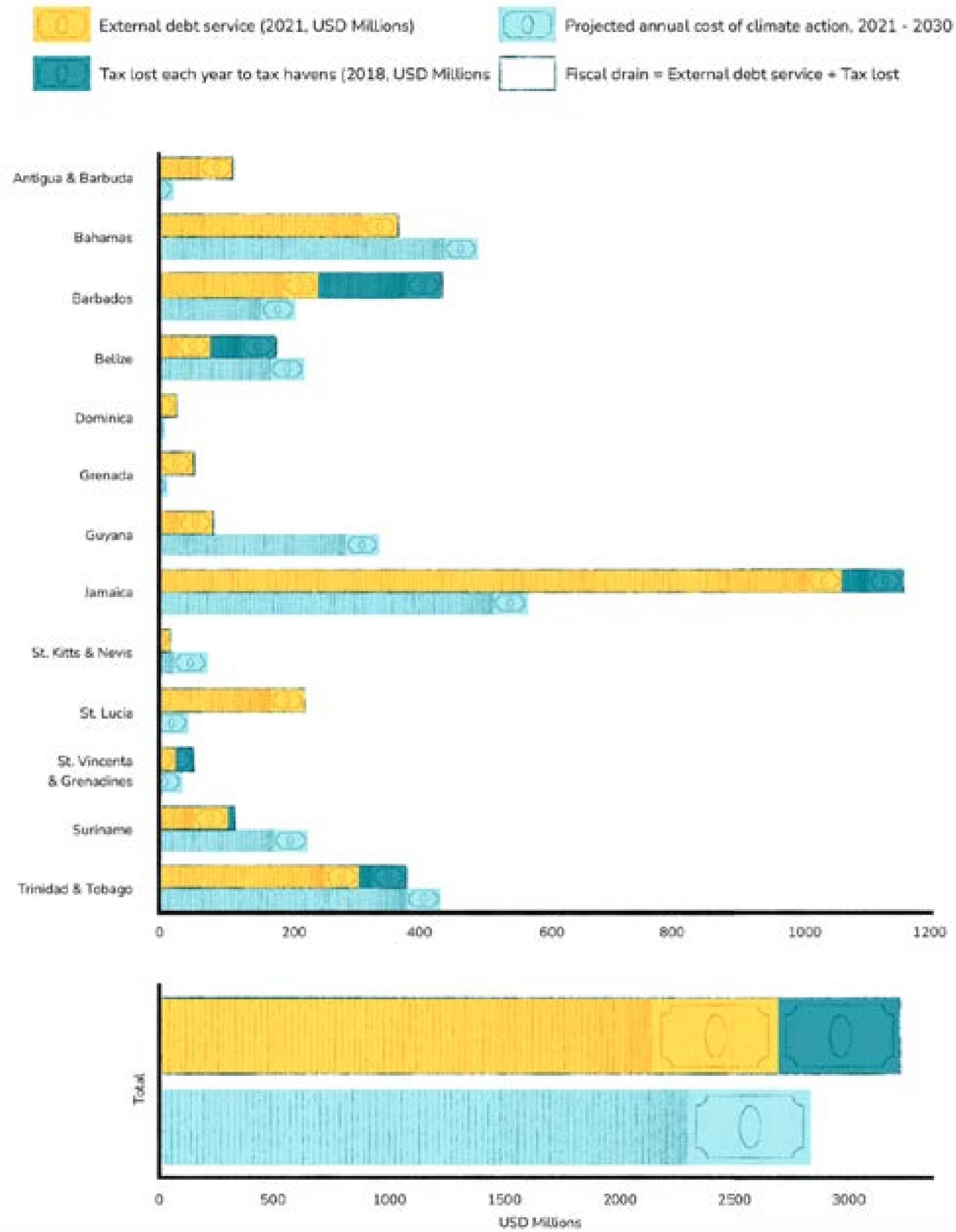
Many Caribbean countries make net losses due to tax abuse, while others are classified as tax havens, participating in this "race to the bottom" because they view low non-resident tax rates as beneficial for their economy – attracting investment, tourism, and some level of travel. However, a system of adequate taxation of multinationals and wealthy individuals globally that feeds revenues back to the region could deliver significantly more meaningful finance directly for Caribbean governments to use. There is no robust global tax governance: since 2012, the Organization for Economic Cooperation and Development (OECD)) has had responsibility for international collaboration on tax. Although more than 140 countries have signed on to their proposed Inclusive Framework on Base Erosion and Profit Shifting (BEPS), the OECD has no legal standing to enforce policy, and it is not an inclusive forum: membership is limited to 38 mostly high-income countries, where multinational corporations make a large proportion of their revenues.

These countries have a lot to gain from tax reform but few incentives to carry out reform in a way that is redistributive, or reparative.

Since 2022, Global South nations and civil society groups have been pushing for tax governance to move to the more-inclusive United Nations, through the establishment of an ambitious, legally-binding UN Tax Convention. In Summer 2024, the UN Intergovernmental Committee on International Tax Cooperation laid the groundwork for a convention – with the backing of most member states. As the process advances, it is crucial that the convention promotes legally-binding tax policy, which embeds a commitment to climate finance for the Global South. A reparative approach could be pursued by closely aligning recovered revenues with existing UN climate funds, and pursuing diverse, redistributive tax instruments such as a Tobin tax on international currency market transactions, an emissions levy on first class international flights, or a global minimum wealth tax on high-net-worth individuals – by encouraging signatories to implement the necessary domestic instruments that target extreme wealth and overconsumption. These mechanisms would raise revenues for climate action by taxing the super rich, and activities with adverse climate and economic impacts while sending revenues where they are badly needed- including small island states, like those in the Caribbean.

Without fiscal extraction, Caribbean countries would have substantially more funds to combat the climate crisis

Using country statistics on external debt service, and tax lost to tax havens, we calculate that the 13 countries we examined in the Caribbean region collectively lose around US$3.2 billion annually to fiscal extraction. Concurrently, by countries' own estimations, Caribbean governments will need an additional US$2.75 billion per year in funding until 2030 to meet their climate goals. The Caribbean loses more to fiscal extraction than it needs for baseline climate action, but these spending estimates are a floor, not a ceiling or even a baseline for considering truly transformative climate investments, as a reparative approach to climate justice must entail.



Current responses to climate catastrophe in the Caribbean fail the region

At a domestic level, climate planning is under-resourced, and hence fails to take into account local conditions – though supernational organizations like the Caribbean Community (CARICOM) and the Alliance of Small Island States (AOSIS) and play a crucial role in coordinating regional climate action. Multilateral responses overemphasize quick-fixes through accounting tricks or complicated financial mechanisms rather than structural changes that meaningfully boost fiscal capacity through debt reform, free from conditionalities. Mia Mottley, the Prime Minister of Barbados, has offered one promising approach–the Bridgetown Initiative. Bridgetown proposes a welcome slate of changes on debt assistance, but still pursues a strategy that rests on using public financial support to drive private investment. The US Government's U.S.-Caribbean Partnership to Address the Climate Crisis 2030 (PACC 2030) aims to advance Caribbean climate goals by making the region more attractive to private investment from the US, through subsidies to companies, promoting technical capacity, data collection and STEM education. Aside from a provision on encouraging the World Bank to broaden disaster financing eligibility, PACC2030 does little to further a reparative agenda to boost fiscal capacity, instead focusing on ameliorating market conditions for private enterprise.

Reparative Policy Recommendations

In sum, these proposed solutions are inadequate, technocratic fixes that do not challenge the ongoing financial system that reproduces Caribbean climate vulnerability. A reparative approach is necessary to achieve a just transformation to a warmer world.

1: Adopt debt aspects of Bridgetown Agenda

International financial institutions need to implement the strongest debt aspects of the Bridgetown Agenda: providing unconditional rapid credit and financing facilities akin to crisis periods, suspending interest surcharged, operationalising the IMF's Resilience and Sustainability Trust and channeling Special Drawing Rights to all the countries that need it.

2: Force private creditors to participate in public debt restructuring

Governments and international bodies should regulate private lending to Global South governments and mandate private creditor participation in debt reduction and cancellation programs. This could be pursued through targeted key legislative interventions in a few key jurisdictions – for example, New York state, which has jurisdiction over 52% of the developing world's private debt.

3: Shift tax governance from the OECD to the UN

Tax governance should shift from the OECD, to the UN – through a legally-binding UN Tax Convention. Country governments should engage in the current ongoing UN Framework Convention on Tax – pushing for unified tax rules globally, robust enforcement, crackdowns on profit shifting and the introduction of novel tax instruments that raise revenue by targeting the wealthiest and biggest polluters.

4: Commit recovered revenues towards Global South climate action

The UN Tax Convention should embed a mechanism through which additional tax revenues are used for climate action – and channeled to the countries and communities that need it most, through grants, and support to existing funds such as the loss and damage and adaptation funds.

5: Wealthy nations should provide reparative climate finance

Caribbean countries need more money with less strings attached, which is provided at the scale of the challenge over the long-term, and administered at the local level, so that Caribbean states can build capacity in all sectors to protect infrastructure, land and communities from climate disaster – rather than short-term finance concentrated solely around disaster relief.

6: Reform IFIs for democratic governance and introduce heterodox perspectives

The Bretton Woods Institutions must move away from the one dollar-one vote system that structurally marginalizes Caribbean countries along with the rest of the Global South, to instead drive a more just, equitable response to fiscal and climate pressures; if these institutions are incapable of reform then alternative institutions and frameworks will be urgently needed.

7: Harmonize international climate action with action on the ecological crisis

The natural landscapes of the Caribbean have historically blunted the impacts of storms, filtered water and enabled agriculture – but have been radically reshaped by colonial land management, then deteriorated due to unsustainable use and tourism facilities. Countries must regain the fiscal capacity to conserve and restore their degraded landscapes and ecosystems. Climate action cannot come at the expense of the people, animals, plants, and landscapes of the Caribbean, particularly given their importance for making a brighter future possible.