

**AIS SIDS Regional Preparatory Meeting  
24-26 July 2023  
Balaclava, Mauritius**

**Session 1: Addressing SIDS Economic Priorities**

**24 July 2023, 1:15 PM – 3:00 PM**

**Background Note**

**Executive Summary**

This session will bring together experts and policymakers to discuss the economic transformation journey, challenges, and opportunities faced by Small Island Developing States (SIDS) in the context of the SAMOA pathway. Participants will leverage their knowledge from past experiences to propose a suitable direction for the new SIDS development agenda. The session aims to learn from lessons and formulate strategies that align with the evolving needs of SIDS.

**Introduction: Challenges faced by AIS SIDS**

Around 2014, the small island developing states (SIDS) in the Atlantic, Indian Ocean, and South China Sea experienced a period of economic growth following a slow recovery from the 2008 global financial crisis. Although growth rates were lower compared to the previous decade, with the exception of Maldives which sustained robust growth at over 6%, these SIDS economies grew at an average rate of around 3% until the COVID-19 pandemic hit.

In 2020, the COVID-19 pandemic had a devastating impact on AIS SIDS economies due in part to the economic concentration on the tourism sector. This dependence on tourism has made the countries particularly vulnerable to exogenous shocks, further exacerbated by the impacts of climate change. Although there were signs of recovery in 2021, ongoing external factors such as the Ukraine war and general inflation continue to exert pressure on public finances, businesses, and households in AIS SIDS. These challenges have also widened the investment gaps for sustainable development, posing additional obstacles to their economic

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resilience and development. During this period, the unemployment rates in most AIS SIDS remained stagnant at an average of 8%, except for Mauritius which saw a slight decrease of one percentage point. The phenomenon of jobless growth raises concerns, as it indicates that economic growth has not translated into sufficient employment opportunities. While there have been some improvements in job quality, particularly for youth and women, these groups still face challenges such as, gender and youth pay gaps, and a prevalence of informal employment.

**Paradigm Shifts Are Necessary: Interlinkages, synergies and trade-offs**

Given the economic vulnerabilities faced by Small Island Developing States (SIDS) in the AIS region, several key economic priorities can be identified to address and mitigate their specific challenges. While these priorities aim to address economic vulnerabilities and foster sustainable development, there are additional challenges and potential trade-offs that need to be well balanced.

1. **Economic Diversification:** AIS SIDS should prioritize diversifying their economies beyond a narrow range of industries, such as tourism, commodities, or fishing. Promoting the development of new sectors, such as renewable energy, information technology, creative industries, and sustainable manufacturing, can reduce dependence on vulnerable sectors, but also on imports, which will enhance economic resilience. It is critical to balance the need for diversification with risk management strategies considering the uncertainties of developing new sectors. As such conducting feasibility studies, building resilience, and providing support to emerging sectors during their early stages will be key.
2. **Climate Change Adaptation and Resilience:** Given their vulnerability to climate change impacts, SIDS should prioritize investments in climate change adaptation and resilience measures. This includes strengthening coastal infrastructure, implementing early warning systems, improving disaster risk management, and promoting sustainable land use practices. Integrating climate resilience into all economic sectors is crucial for long-term stability.

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3. **Sustainable Tourism Development:** Prioritizing sustainable tourism practices can help minimize environmental impacts, preserve cultural heritage, and ensure the equitable distribution of benefits. Diversifying tourism offerings, promoting community-based tourism (ensuring better integration with the local suppliers and communities), and investing in sustainable infrastructure and transportation systems are key priorities.
4. **Sustainable Blue Economy Development:** Sustainable blue economy offers a solution to bringing economic benefits, creating jobs while safeguarding the environment. It includes traditional sectors such as sustainable fisheries, aquaculture, tourism, and marine transportation as well as emerging sectors such as ocean renewable energy and marine genetic biotechnology. Harnessing the potential of the blue economy can create new economic opportunities and promote sustainable use of marine resources.
5. **Enhancing Trade and Market Access:** SIDS should prioritize efforts to enhance trade and improve market access for their goods and services. This can be achieved through regional integration initiatives, promoting intra-regional trade, negotiating favorable trade agreements with larger economies, and addressing non-tariff barriers. Strengthening export capacity and market diversification can reduce dependence on imports and enhance economic stability. However, increasing integration into regional and global markets can also expose SIDS to external shocks and volatility. SIDS need to tactfully navigate the negotiations on trade agreements, enhance resilience, and strengthen domestic industries to mitigate the risks associated with market access, including increased competition from larger economies.
6. **Access to Financing:** Improving access to financial resources is a critical priority for SIDS. This includes mobilizing international climate finance, attracting foreign direct investment, fostering public-private partnerships, and enhancing domestic resource mobilization through effective tax systems and financial sector development. Strengthening financial resilience and expanding access to affordable credit and insurance can support economic growth and stability. Considering that these new economic priorities often require substantial financial resources, SIDS will need to

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balance between accessing external financing, such as loans and grants, and managing their debt burden. Over-reliance on external borrowing can lead to debt distress, affecting fiscal sustainability and future development prospects. Careful financial planning, debt management, and diversification of funding sources are essential to minimize the trade-offs between financial resources and debt burden.

7. **The Multi Dimensional Vulnerability Index:** The use of per capita income for eligibility purposes or as the major proxy for assessing a country's need for development support, including concessional finance hides a very large heterogeneity in terms of structural vulnerability between countries. There is a strong case to be made to allow vulnerable countries to also access development support, including concessional finance and other support facilities particularly related to debt, and to allocate more resources to the most vulnerable countries. In this regard, the work of the High-Level Panel on the Multi-Dimensional Vulnerability Index (MVI) is key. The Proposed MVI framework, is consists of a global assessment of structural vulnerability and structural resilience (the index) and systematic and in-depth vulnerability-resilience country profiles that complement the assessment of the MVI, termed Vulnerability and Country Resilience Profiles (VRCP). The Multidimensional Vulnerability Index could also serve as a tool to inform approaches inter alia to debt restructuring, to act as a vehicle to extend eligibility for comprehensive debt treatment and to allow exceptional eligibility for vulnerable States.
8. **Capacity Building and Knowledge Transfer:** SIDS should prioritize capacity building efforts to enhance human capital and institutional capacity. Investing in education, vocational training, and research and development can promote innovation, entrepreneurship, and technological advancements. Facilitating knowledge transfer and fostering partnerships with international organizations, research institutions, and development agencies can support sustainable economic development.

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

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1. **Effective Policy and Institutional Frameworks:** Develop and strengthen national policies and strategies that align with the economic priorities of AIS SIDS; establish dedicated institutions or units responsible for coordinating and implementing priority initiatives; enhance governance frameworks to ensure transparency, accountability, and participation in decision-making processes.
2. **Partnerships and Cooperation:** foster partnerships and collaboration between SIDS, regional organizations, international financial institutions, development agencies, and the private sector; engage in South-South cooperation to facilitate knowledge sharing, exchange of best practices, and technology transfer among SIDS; seek technical assistance and capacity-building support from international organizations and donor countries.
3. **Financial Mechanisms:** mobilize international climate finance, such as the Green Climate Fund, to support climate change adaptation and resilience-building efforts; explore innovative financing mechanisms, such as green bonds, climate bonds, and impact investments, to attract private sector funding for sustainable development projects; to operationalize SDG Stimulus with support of the UN, IMF and MDBs by re-prioritizing investments in sector vital to boosting resilience and providing buffers during shocks, such as sustainable tourism or blue economy development; strengthen domestic resource mobilization through effective tax systems, combating tax evasion, and promoting investment-friendly environments.
4. **Capacity Building and Knowledge Transfer:** invest in education and vocational training to build a skilled workforce that can contribute to priority sectors; facilitate knowledge transfer and technology diffusion through partnerships, technology licensing, and research collaborations; enhance data collection and analysis capabilities to support evidence-based decision making and policy formulation; foster research and development activities to promote innovation and technological advancements in priority sectors.
5. **Regional Integration and Cooperation:** strengthen regional integration initiatives, such as regional trade agreements and common markets, to enhance trade and market access for SIDS; foster intra-regional collaboration in priority sectors, including

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tourism, fisheries, renewable energy, and transportation; establish regional platforms for sharing experiences, lessons learned, and best practices in addressing economic vulnerabilities.

6. **Communication and Awareness:** raise awareness among stakeholders, including governments, private sector entities, civil society organizations, and local communities, about the economic vulnerabilities and priorities of SIDS; promote sustainable consumption and production patterns among residents, tourists, and businesses; conduct public outreach campaigns to highlight the economic benefits of implementing the identified priorities.

### **Proposed Guiding Questions for the Discussions**

- What are the actionable entry points for SIDS to convert the current crises into opportunities for a more inclusive, resilient and sustainable recovery?
- What emerging gaps and opportunities in building strong and resilient SIDS economies?
- How can the international community best support SIDS recovery and transformation for accelerated SDG implementation?
- What are necessary strategies to address debt vulnerabilities, ensure better financing for SIDS, and align development co-operation with SIDS sustainable development priorities?
- What lessons can be drawn from the economic transformation journey of SIDS IAS during the implementation of the SAMO Pathway to inform the next agenda?