



Revitalising SIDS' Economies for Accelerated and Sustainable Growth

*Background Note¹ for the Interactive Dialogue 1,
4th International Conference on Small Island Developing States
"Charting the Course Toward Resilient Prosperity"*

1. Introduction

There are 39 small island developing States (SIDS) which are members of the United Nations, representing 20% of the UN membership. Eight of them are also least developed countries (LDCs). Overall, SIDS are a heterogeneous group, with diverse geographic, demographic, and economic characteristics. Although they are characterised by small geographic and demographic sizes,² they are home to substantial biodiversity, controlling nearly 30% of all ocean areas through their Exclusive Economic Zones (EEZ).

However, SIDS play a marginal role in the global economy. Their share in global gross domestic product (GDP) stands at 0.4% (of which 80% is from Caribbean SIDS), and their share of total international merchandise trade is only 0.3%. SIDS' share of world foreign direct investment (FDI) inflows accounts for 0.2%,³ while their per capita manufacturing value added is less than one third of the global average.⁴ Nevertheless, the trade to GDP ratio of SIDS is comparatively high, with the average exceeding 100%, reflecting the fact that SIDS are small open economies that rely heavily on international trade. However, SIDS trading partners are limited, and concentrated with the United States, China and Australia absorbing the bulk of their exports and sourcing substantial amounts of SIDS' imports. Structurally, SIDS depend on the services sector, including tourism, financial services, food services and real estate, with services dominating their GDP and exports.

Within the broader framework of the upcoming UN Programme of Action for SIDS (SIDS4), this background document is intended to provide insights into possible ways of revitalising SIDS' economies to ensure their accelerated and sustainable growth. It is important to note, however, that it does not directly examine the topic of financing. Neither does it focus on education and, thus,

¹ The background note was prepared by UNCTAD, UNIDO and UNCDF, as co-leads, with substantial contributions from ESCAP, ILO, IOM, ITC, RCO Belize, RCO Papua New Guinea, UN Joint SDG Fund, UPU, UN Habitat, UN Tourism, UNESCO, UNFPA, UNOPS, and the WTO. Not all contributions and recommendations have been included in the background note.

² The aggregate population of SIDS is 65 million, slightly less than 1% of the world's population. <https://sdgs.un.org/smallislands/about-small-island-developing-states>.

³ <https://unctadstat.unctad.org/datacentre/>.

⁴ <https://stat.unido.org/sdg>.

human capital formation, or the digital economy, as components of SIDS' sustainable development. These critical areas are discussed in concurrent background notes for other Interactive Dialogues taking place at the Conference.

2. Key constraints and challenges to SIDS' development

A number of development challenges pose substantial predicaments to revitalising SIDS' economies and accelerating their economic growth. These include:

Structural limitations: Small populations and thus human resource bases and small domestic markets, lack of economic diversification and low value addition, a usually limited endowment in natural resources, and remoteness from global markets, renders SIDS unattractive as a destination for foreign direct investment (FDI), making current levels of investment grossly insufficient. This impacts their development efforts as engagement in the global economy – through, for example, international trade and global and regional production processes – is of particular importance for present-day development. SIDS are also highly dependent on imports of fossil fuels, critical raw materials and food supplies.

Vulnerability to external shocks and a lack of resilience: In addition to significant exposure to economic shocks due to possessing small and undiversified economies, SIDS are especially vulnerable to natural disasters, as well as to climate change, due to strong exposure to meteorological hazards and rising sea levels. For example, in the Maldives, Kiribati and Tuvalu, 99% of land lies below 5 metres above sea level. Moreover, critical coastal transport infrastructure in SIDS, notably ports and airports, being lifelines for external trade, food and energy security, as well as tourism, is projected to be at a high and increasing risk of coastal flooding, from as early as the 2030s. All these factors impede prospects for future economic growth.

Climate change, pollution and biodiversity loss are set to remain among the biggest challenges for SIDS, particularly for the development of the blue economy, a potential core for the group's future development. Deteriorating ocean health is affecting SIDS' livelihoods and the ability of oceans to regulate climate. The high and rapidly growing level of marine litter, including plastic litter and microplastics, requires urgent solutions.⁵ Anthropogenic drivers of environmental degradation represent a serious problem on a global scale, negatively affecting marine life and biodiversity, ecosystems, livelihoods, fisheries, aquaculture, maritime transport, tourism and other sectors of the ocean economy. Eleven million tons of plastic are estimated to enter the ocean each year.⁶ Moreover, over the past decades, overfishing caused by overcapacity, inadequate management of the fishery sector, and illegal, unregulated and unreported fishing, has been particularly problematic, with many fish stocks in significant distress.

⁵ <https://www.unido.org/Marine-plastic-litter>.

⁶ The annual global production of plastics was about 400 million tons in 2020 and is expected to double by 2040 and increase by 2.5 times by 2050, if the current consumption rates and patterns continue.

Debt unsustainability and limited access to finance: SIDS are among the most indebted developing countries in the world. In 2022, external debt accounted for 78.5% of SIDS' GDP and for 144.6% of their export revenues (goods and services, including tourism).⁷ By early 2023, most Poverty Reduction and Growth Trust-eligible SIDS were at high risk of or already in debt distress (including Comoros, Dominica, Guinea-Bissau, Haiti, Kiribati, Maldives, Marshall Islands, Micronesia, Papua New Guinea, Samoa, Saint Vincent and the Grenadines, Tonga and Tuvalu, Grenada and São Tomé and Príncipe).⁸ Additionally, many Small Island Developing States (SIDS) face severe limitations in accessing both private investment and public finance like development aid. Some SIDS are technically classified as Middle Income Countries and disqualified from aid designated for Low-Income Countries. Moreover, the high perceived investment risks related to the issues noted above, along with underdeveloped financial markets and regulatory frameworks, further restrict access to private investment, exacerbating their economic and developmental challenges.

3. Potential Solutions and Opportunities

A new development and partnership model for SIDS should take into account limitations in SIDS' economic and trade structures, ecological and environmental challenges, structural disadvantages to attract FDI, as well as SIDS' needs and aspirations for inclusive growth and sustainable development, characterised by full and productive employment and decent work for all. It is essential for SIDS' policymakers to kickstart a paradigm shift in development policy formulation and implementation away from fragmented and short-term interventions, towards multi-sectoral and integrated programme-based approaches, which acknowledge the interdependence of policies and actions. This also includes pro-active and modern, data-driven, evidence-informed, industrial policies, coupled with comprehensive job-creation strategies.⁹ A "smart island" approach needs to take into account development plans and strategies at national and regional levels, allowing for better spatial planning, monitoring of impacts and policy adjustments. A balanced market approach is required, one that focuses on creating domestic supply and demand for SIDS-appropriate products and services, and supports local private sector development, entrepreneurship, innovation, and productive employment. Prioritised sectors can further guide interventions within the broader approach to revitalise SIDS' economies. Therefore, this background note calls for the restructuring of SIDS economies, facilitated by modernising infrastructure, enabling strategic investments and developing the local private sector, with the blue economy and related industries, including tourism, becoming core drivers of sustainable development. All of these measures should be supported by commensurate international actions in providing access to concessional finance as well as mobilizing private capital through guarantees.

⁷ UNCTAD estimations based on World Bank, International Monetary Fund and national sources.

⁸ <https://www.imf.org/en/Topics/PRGT>.

⁹ "Global Industrial Policy: Measurements and Results" from UNIDO: <https://bit.ly/3UPvqvR>

- **Restructure the economies:**

Economy-wide, domestic productive capacities are critical enablers for economic diversification and structural transformation, and essential to reduce SIDS' economic vulnerabilities, diversify exports and ensure participation in the global economy at higher levels of value addition.¹⁰ SIDS need to prioritise policies that encourage local value addition, innovation, and entrepreneurship to foster a conducive environment for the growth of domestic, sustainable industries. Modern industrial policies can facilitate low-carbon, resource efficient and climate resilient, higher value-added manufacturing, including agro- and aqua-processing, and services in traditional and emerging sectors, including the blue economy and smart agriculture, as well as IT-enabled services. This includes providing incentives for micro, small and medium-sized enterprises (MSMEs), investing in skills development and technology transfer, as well as digitalisation (the latter being central to economic growth and productivity), leveraging the skills and economic resources of the diaspora, and promoting market access and visibility for locally produced goods and services. By nurturing homegrown industries, SIDS can create employment opportunities, reduce poverty, and retain wealth within their economies. Moreover, revitalising domestic value chains for smart land and ocean-based food production, including the use of modern biotechnologies, can lower SIDS' high dependence on food imports.

- **Develop critical infrastructure:**

SIDS need an estimated USD 71.4 billion for infrastructure for the 2020-2030 period, which is over 4 times higher than the current annual spending of USD 1.4 billion,¹¹ to build climate-resilient infrastructure to cope with vulnerabilities and facilitate economic growth. This is why SIDS also require national, integrated climate-resilient infrastructure development plans, including early warning systems, and broader disaster risk reduction strategies. Infrastructure development needs to be based on a comprehensive approach. Adoption of advanced infrastructure planning and programming tools is necessary.¹² A dedicated programme for SIDS' Infrastructure Planning and Execution could be designed and delivered using the Centres of Excellence for SIDS.

It is necessary to promote integrated policies, which could capitalise on SIDS' renewable energy and energy efficiency potential for sustainable economic growth (e.g., solar, wind, hydropower, bioenergy, geothermal and ocean energy), and to support SIDS in adopting sustainable energy technologies to improve productivity and competitiveness, energy security and access/affordability, and address the negative impacts of conventional energy systems (e.g., GHG emissions, local

¹⁰ Productive capacities are the productive resources, entrepreneurial capabilities and production linkages that together determine a country's ability to produce goods and services that will help it grow and develop. They can be measured through the [Productive Capacities Index \(PCI\)](#) and the [Competitive Industrial Performance \(CIP\) Index](#), being composite indexes addressing such dimensions as natural capital, human capital, transport, energy, ICT, private sector, institutions and structural change.

¹¹ More information at: https://iris.cdri.world/upload/pages/IRIS_Vision.pdf
<https://www.adb.org/sites/default/files/page/561776/framework-financing-needs-sids-discussion-paper.pdf>
https://content.unops.org/publications/Infrastructure_SIDS_EN.pdf

¹² The examples, among others, are the National Infrastructure System Model, the Capacity Assessment Tool for Infrastructure, Sustainable Infrastructure Finance Tool, the Infrastructure Asset Management, or National Infrastructure and Procurement Context and Opportunity Assessments and related certification programmes.

pollution). Key priorities should include: resource-efficient low-carbon building materials, waste-to-energy solutions, clean cooking, heat for industrial productive uses, and green hydrogen. The large-scale integration of variable renewables requires also investment in smart grid and storage solutions.

- **Enable strategic investments:**

Despite recent growth (39% FDI increase from 2021 to 2022),¹³ current investment levels are insufficient to revitalise SIDS' economies and drive sustainable ocean-based economies. FDI is also unevenly distributed with a high concentration in a few SIDS with relatively large market sizes. A similar pattern is observed for special economic zones (SEZs) – only 10 SIDS are host to one or more.¹⁴ Investors do not generate sufficient financial and development returns and often fall short of seizing opportunities in ocean-based innovative sectors: sustainable fisheries, renewables, marine biotechnology, desalination, or sustainable tourism. The priority should, therefore, be given to strengthening SIDS' investment promotion agencies (IPAs) to attract more and higher quality FDI, including those originating from the diaspora, ideally jointly as sub-regions and involving their networks. Support should also be given to the implementation of enabling policies, regulatory and fiscal, and non-fiscal incentive frameworks to ensure the investments' strategic channelling. SIDS should also be encouraged to develop sub-regional project proposals to gain scale and higher levels of returns for the potential investors.

There is also a need for more innovative financing, risk mitigation and insurance instruments and products, which incentivise investment in SIDS-appropriate blue and green solutions and business models. A more effective use of concessional capital through blended finance is recommended to mitigate risks and mobilise more sustainable private sector investment capital. Support across the investment continuum may include grants for technical assistance to support project preparation and investment readiness, and concessional finance, including loans and guarantees, to catalyse additional investments.

- **Develop the locally owned private sector:**

A robust private sector is key to structural transformation, economic diversification and resilience building. The supply of productive jobs depends on a well-functioning private sector and well-organised labour market. Therefore, it is imperative that SIDS foster a robust, domestically owned private sector composed of local MSMEs. The imperative of local ownership is derived from its greater propensity for the domestic retention of financial resources, technology, know-how and jobs. The private sector needs to be at the core of SIDS' engagement in the global economy through international trade, FDI inflows, and insertion in global and regional production value chains. SIDS should create conditions for MSME clustering and FDI-MSME linkages through, for example, SEZs.¹⁵

¹³ https://unctad.org/system/files/official-document/wir2023_en.pdf

¹⁴ https://unctad.org/system/files/official-document/wir2019_en.pdf

¹⁵ <https://ipp.unido.org/knowledge/documents/international-guidelines-industrial-parks>

In the context of SIDS' development, it will be necessary to link MSMEs to their national and regional tourism sector, as well as to the broader blue economy via a sustainable value chain approach, ensuring that they have the necessary technical and financial capacity to produce and distribute goods and services. The productivity and competitiveness of the SIDS' private sector also requires affordable access to renewable energy, raw materials, digital infrastructure and technology. Moreover, support to national and regional business support organisations is needed to ensure that they have the capacity and resources to promote and support enterprise development and competitiveness. Finally, governments and partners need to further promote financial sector development and build financial institutions and banking sectors that efficiently serve MSMEs.

- **Focus on the blue economy...**

Global estimates of the blue economy turnover are between USD 3 trillion and USD 6 trillion annually.¹⁶ The blue economy entails the exploitation, preservation, and regeneration of the marine environment in a sustainable manner. Within the context of the blue economy, SIDS should focus on sustainable fisheries and the innovative use of marine resources, using lessons learnt from existing global frameworks, including the UN Decade of Ocean Science for Sustainable Development, as a means of embedding national priorities in sustainable ocean planning and management.¹⁷

To ensure the sustainable use of ocean resources for the benefit of SIDS and to broaden their economic basis, SIDS should: (i) Design and implement ocean economy and trade strategies (for all ocean economic sectors), which will prioritise and increase external and internal investment in ocean science, data sharing infrastructure, and capacity exchange to ensure that relevant and timely information and knowledge is available to underpin development of plans for resilient and sustainable ocean economic development; (ii) Implement policies that ensure transparent and equitable international fisheries access agreements in EEZs, while protecting the local fishery sector and developing policies and procedures to eliminate overfishing, as well as unsustainable and illicit practices and trade; (iii) Build institutional and technical capacity within the fishery and aquaculture sectors and increase its productivity through digital and renewable energy solutions, while developing the fish-processing sector. From the standpoint of industrial policy and fisheries global value chains, industrial "upgrading" should be favoured over maximisation of rent capture; (iv) Develop marine bioprospecting as a niche sector to advance structural transformation and increase higher value-added exports in foods, nutraceuticals, cosmetics and medicines;¹⁸ (v) Develop and implement measures to mitigate and adapt to climate change in relevant oceans-based value chains, and policies to address environmental degradation and plastic pollution; and (vi) Foster the commercialisation of renewable ocean energy technologies using marine space and natural resources for productive uses, including the use of seaweed, algae and ocean thermal energy conversion.

- **... including sustainable tourism:**

¹⁶ <https://www.un.org/en/desa/exploring-potential-blue-economy>

¹⁷ <https://www.unesco.org/en/decades/ocean-decade>

¹⁸ "Promising Sectors for Economic Transformation of Small Island Developing States," from OHRLLS: <https://bit.ly/3UylHZg>

Due to its labour intensity, the tourism sector is an important enabler of sustainable development for SIDS. The objective should be the sector's transformation into a local, formal job-creating (particularly for women, youth and indigenous people) and environmentally sustainable pillar of the national economy with a high degree of domestic retention of financial revenues. Policymakers should consider: (i) Designing and implementing green fee/tax initiatives to channel tourism flows and ensure a high revenue retention within local communities and for the purpose of environmental sustainability, and protection and restoration of fragile ecosystems; (ii) Strengthening cross-sector collaboration, ensuring the integration of local production (manufacturing, agri-food, fisheries, creative industries) into the tourism sector through short supply chains;¹⁹ and (iii) Strengthening links between local populations and the tourism sector by empowering communities, as the custodians of the environment and nature and local culture, by creating formal jobs, and by supporting destination management organisations. Nature- and culture-based tourism lends support to local and indigenous people and their livelihoods and enhances local value chains, promoting sustainable tourism around, for example, World Heritage Sites and Biosphere Reserves. The cultural and creative sectors – encompassing such areas as music, festivals and carnivals, performing arts, gastronomy, arts and crafts, design, fashion or the gaming industry among others – build on talent and creativity to sustain national economies. For this, tourism governance and policies need to be improved, tourism local supply chains enhanced, tourism climate change adaptation strategies implemented, and financing for the sector's development secured.

4. Strategic Engagement and Partnership

Broad partnerships are essential to facilitate the implementation of solutions for the successful revitalisation of SIDS economies and need to include SIDS' governments, international organisations, donors, local communities, diasporas, NGOs, local business, professional and workers' organisations, and the local private sector. Within the process, the key partnerships should focus on three interlinked tasks: (i) Ensuring SIDS' greater engagement with the global economy in higher value-added segments; (ii) Facilitating the development of core economic sectors related to the blue economy and tourism; and (iii) enabling technology transfer.

To build productive capacities, advance economic and export diversification, and develop the local private sector for international trade, new partnerships should draw on existing collaborative efforts such as: the WTO Work Programme on Small Vulnerable Economies, which focuses on key areas like e-commerce, resilient supply chains, and climate change adaptation; the WTO Trade Facilitation Agreement Facility, which is instrumental in SIDS to fully implement trade facilitation measures; the UNCTAD-FAO-UNEP Inter Agency Joint Plan of Action to achieve the trade related targets of SDG 14, through improved trade-related policies that safeguard food security; the Standards and Trade Development Facility, which promotes safe trade practices; UNIDO's Industrial Parks Platform and Invest in ACP Platform, and the ACP Business-Friendly programme, which supports SIDS' value

¹⁹ [Short Food Supply Chains for promoting Local Food on Local Markets](#)

chains through inclusive policies and investment promotion; as well as the UNCTAD-DOALOS Oceans Economy and Trade Strategies programme, which supports SIDS in realising economic benefits from the sustainable use of marine resources.

In terms of the sustainable development of the blue economy, the examples include: the UN Ocean Conference's Ocean Decade Alliance, which includes Heads of State of SIDS and non-SIDS countries, that advocate for increased investment in ocean science. The Alliance has a strategic partnership with the SIDS Coalition for Nature to amplify its work with a focus on SIDS' priority needs for data sharing, capacity development and investment in ocean science; UNESCO's World Network of Island and Coastal Biosphere Reserves, which promotes island and coastal strategies, including local and indigenous knowledge and nature-based solutions for sustainable biodiversity and heritage preservation and management, and adaptation to and mitigation of climate change impacts; the Alliances for a Greener, Bluer Caribbean (Ridge to Reef), which shows how the UN, governments, donor countries, NGOs, farmers and cooperatives, and MSMEs, can work together, tackling climate change, while boosting sustainable livelihoods; the UNCTAD-CITES-OECS Blue BioTrade project, which seeks to empower small-scale coastal producers to produce and trade marine biodiversity-based products under the Blue BioTrade environmental, social and economic sustainability criteria; the UNCDF-managed Global Fund for Coral Reef – a solution to bridge the blue finance gap by nurturing businesses and projects throughout an architecture of investment, and support from early stage to maturity and commercial bankability; the Local Climate Adaptive Living facility, designed by UNCDF, which provides a successful model for financing locally-led adaptation in SIDS and other vulnerable nations; financed by the Joint SDG Fund, a Blue Economy Financing Roadmap, as part of the broader work on developing the Integrated National Financing Framework. The roadmap explores the role that the blue economy can play in mobilising finance at scale and accelerating sustainable blue growth.

Partnerships should also be built around the environmental and social sustainability of the tourism sector: all the UN Tourism-led initiatives – Glasgow Declaration on Climate Action in Tourism; the Global Tourism Plastics Initiative, the One Planet Sustainable Tourism Programme, Tourism for Rural Development Programme and Best Tourism Villages Initiative; and the Measuring the Sustainability of Tourism Programme. In terms of culture-based tourism, successful partnerships developed with relevant regional organisations such as the Organisation of Eastern Caribbean States, the Caribbean Community, the Pacific Regional Education Framework, as well as under the UNESCO "EU Transcultural Programme", and the experience of the Caribbean Cultural Training Hub to support the cultural and creative industries and foster skills development, notably for youth and women economic empowerment.

A partnership is also needed to ensure the transfer of sustainable technology to SIDS on a preferential basis, including offshore and onshore renewable energy technologies and those related to the sustainable harnessing of the blue economy. The UNIDO-supported Global Network of Regional Sustainable Energy Centres and the Global Ocean Energy Alliance, which support SIDS in getting access to renewable ocean energy technology solutions, are examples of steps taken in this

direction. The latter aims to build a bridge between governments, the ocean energy industry, applied science and green-blue financing.

Specifically, these strategic partnerships should focus on supporting SIDS to:

- Build productive capacities to diversify national economies within traditional and emerging sectors, undergo structural transformation and develop high-productivity sectors focused on export.
- Develop climate-resilient infrastructure, including the renewable energy sector.
- Promote enabling investment policies and innovative financial and de-risking instruments, and build investment promotion capacities to unlock private investment, including FDI, and financing for the sustainable growth of ocean-based economies.
- Develop the domestic private sector to create jobs and foster the inclusion of SIDS in international trade and value chains through, inter alia, support in establishing SEZs.
- Promote affordable access by the private sector to innovative technologies and clean energy, and resource efficiency, as well as raw materials, including critical minerals.
- Ensure the sustainable development of the blue economy and make the blue economy the core of development, with a focus on sustainable fisheries and innovative use of marine resources.
- Develop industry and sustainable agriculture and aquaculture by investing in innovation and value addition.
- Develop the domestic, sustainable tourism sector, with diversified tourism products, including culture and nature-based tourism, and ensure that it is well connected with national economies and the private sector through localised supply chains.
- Strengthen the capacities of women and youth to become entrepreneurs and drive economic growth.
- Enhance partnerships between SIDS and various stakeholders through capacity-building, technology transfer, and the diffusion of policy and institutional best practices.

Questions to consider:

- Where does the future lie in SIDS' sustainable development and how can SIDS' economies be revitalised? What should be the strategic interventions and priority sectors, taking into consideration SIDS' vulnerabilities, as well as their heterogeneity?
- The blue economy – the abundant, nevertheless, fragile resource: How to ensure the sustainability of the blue/ocean economy, including tourism, as well as its profitability for SIDS? How to transition to a sustainable and inclusive tourism model?
- Role of the international community in SIDS' development, financing, technical assistance, and beyond is widely acknowledged. How can that role be materialized and how can international community improve its support to SIDS' sustainable development?