SIDSS4 Conference Side Event

Financing resilient prosperity in Small Island Developing States

28 May 2024, 4-5.30pm, American University of Antigua

Organized by: ODI, Commonwealth Secretariat, Government of Antigua and Barbuda, UK Government, UNCTAD

Background on the event

Small Island Developing States have historically achieved significant, if volatile, growth due to an open global economy, favourable geopolitical context and a less hostile climate. Today, these three pillars are breaking down and the exogenous economic and environmental shocks that SIDS disproportionately face are intensifying. Generating resilient prosperity requires a strong enabling environment and significant financial support, but SIDS have limited capacity to mobilise domestic resources to build resilience, a problem compounded by restricted access to affordable finance. SIDS find themselves stuck in a cycle of repeated shocks, higher levels of debt, and the inability to invest in resilience leading to increasing impacts of shocks and spiraling levels of debt. Managing debt sustainably, and making necessary investments to build the climate-resilient, climate-friendly, high-skilled, competitive economies of the future will require SIDS-specific support and changes in the global debt architecture.

Key issues discussed

- Increasing external shocks, rising levels of debt and debt servicing in SIDS.
- Challenges high debt servicing present for provision of basic services and investment in resilience and economic growth.
- The unique vulnerabilities faced by SIDS, such as dependency on global trade and susceptibility to international price shocks, particularly for food and fuel imports.
- Success stories among SIDS in reducing debt distress and increasing financial resilience
- IMF programmes and budget lines to assist SIDS in debt distress and implications of the G20 Common Framework.
- The potential for domestic resource mobilization and economic growth in SIDS: the diverse economic landscapes of SIDS, which range from tourism and financial services to real estate, underscore the importance of developing tailored approaches to boost domestic financial resources.
- The potential for building productive capacities, enacting decisive policy actions, and fostering long-term development partnerships.

Key recommendations for action (5-6 bullet points)
- Short-term recommendations that can make a demonstrable difference to supporting resilient prosperity in SIDS include the provision of minimum annual climate finance allocations for SIDS and other highly vulnerable countries, scaling up use of ‘climate-resilient debt clauses’, maximising the potential of debt swaps, creating a debt sustainability support service for SIDS and a global debt transparency compact
- In the medium term, major reforms are needed in the global debt architecture, including: the widespread adoption of vulnerability criteria in eligibility and allocation decisions for concessional finance and debt relief; the provision of debt service cancellation for SIDS following a qualifying high-impact disaster; and greater inclusion of SIDS in decision-making on international finance reforms
- Development partners, including the UN System, should support SIDS by implementing targeted responses that address the unique challenges of each economy. This includes using tools like UNCTAD’s Productive Capacities Index (PCI) to diagnose and address gaps in productive capacities, facilitating structural transformation, and economic diversification.
- There are opportunities for SIDS to embrace innovative development strategies that leverage their comparative advantages and enhance both institutional and private sector efficiency.
- By focusing on producing and delivering high-quality tradeable goods and services, SIDS can generate diverse income streams, improve fiscal stability, and promote sustainable economic growth.