



**Statement to be delivered by Ms. Margo Debye
Third Secretary of Nauru to the United Nations
Chair of Alliance of Small Island States (AOSIS)
5th Session of the OWG-SDG on Macroeconomic Policy
November 26, 2013**

Co-Chairs,

Nauru has the honor to speak on behalf of the Alliance of Small Island States (AOSIS), namely the Pacific, Caribbean, and AIMS.

Nauru associates itself with the statement delivered by Fiji on behalf of G77 & China.

Co-Chairs,

We congratulate and thank you for convening the 5th OWG Session that highlights the thematic issues of macroeconomic policy question, energy, sustained and inclusive economic growth, infrastructure development, and industrialization. These are crucial global issues that are called for at a time when the World is struggling to recover from what is known as the worst crisis faced by the world economy since the Great Depression of the 1930s.

Co-Chairs,

The consequences of the global economic and financial crisis on the smaller and fragile economies including small island developing states (SIDS) are unprecedented. High rates of unemployment, particularly for women and youth, and migration of skilled labor and the resulting brain drain are pervasive. Moreover, there is an increase in capital flight to developed countries, which translates to less domestic savings and productive investment in SIDS.

Compounded with the adverse effects of extreme weather conditions and sea level rise, these spores have threatened to roll back SIDS' development gains of the last decade including the achievement of millennium development goals (MDGs) and may trigger a human tragedy. As a result, more and more workers could lose their jobs, with many more slipping into underemployment and various forms of income insecurity.

Co-Chairs,

Macroeconomic policy instruments, namely fiscal and monetary policies, must be used actively to foster a robust global economic recovery with a focus on promoting sustained and inclusive economic growth and job creation. These tools have to be used in tandem with sustainable development strategies as well as ambitious reforms aimed at price stability, improving safety and soundness of the financial system, financial market

development, fostering conducive business environment, promoting competition, and diversification of economies.

The global financial crisis underscored just how important effective macroeconomic policy is to financial stability. It has resulted in declining external demand and development aid to developing countries, including SIDS, as evident with ODA being registered at .29% of GNI instead of the 0.7% target level. Slower economic activity coupled with unconventional monetary easing in developed countries has further impacted developing countries including small island economies by nurturing sizeable and volatile short-term capital flows and speculative activity in foreign exchange and commodity markets which can exacerbate the volatility of food prices and consequently impact on hunger and nutrition.

The crisis has also taught some hard lessons that need to be considered in the debate. First is the generally accepted view that the financial system must serve the real economy. It is observed that sometimes, the world of finance can become so dominant and self-engrossed that it forgets its conventional purpose – which is transfer of funds from those that have, to those that need. Second, financial intermediation is said to be successful when we match savings and investments for the purpose of generating economic growth. For example, institutional investors, including pension funds and insurance companies hold over \$70 trillion in assets, and are looking for long-term investment opportunities, including in the developing world. This pool of savings needs to be channeled for productive investment. It can easily result in spurring productivity growth and accelerating recovery of the global economy.

The weakening of the link between financial intermediation and productive economic activity has caused much anxiety and consternation with several propositions being put forth by developing countries, particularly SIDS on how this link can be strengthened. For example, the risk weightings within the capital adequacy rules of the banking system in accordance to Basel III standards could further limit access to finance for smaller entities and long-term financing, net effect of which could further exacerbate the challenges SIDS faced and undermine and derail achievement of MDGs and sustainable development goals.

Co-Chairs,

Small island developing states' economies are typically remote and poorly served by infrastructure and other services. Getting market information and transporting goods to market is often an insuperable challenge, making the transition from subsistence to a market economy difficult.

Access to capital for productive investment in infrastructure such as communication, transportation, and energy is vital and key to reducing transaction costs, building resilience, and diversifying the economy for sustainable economic growth.

Moreover, investment in human capital, institutional capacity, and technology that limit or eradicate negative and harmful impacts of the natural environment is essential.

Compared with infrastructure, financial sector development does not require a large amount of financing, but it does call for more knowledge-intensive support. This is important if domestic savings were to be promoted and mobilized for the significant and increasing development needs of small island states.

Co-chairs,

In spite of SIDS best efforts and the mobilization of limited domestic resources, its progress in the attainment of the internationally agreed development goals has been uneven, requiring continued effort and support. SIDS could benefit significantly from capital flow from abroad, which can be official development assistance from development partners, long-term international loans, as from the World Bank, foreign private investment, medium- and short-term loans from commercial banks, or medium- and short-term loans from the International Monetary Fund (IMF).

For SIDS, especially those least able to borrow on commercial terms from private capital sources or to qualify for World Bank loans, ODA is an important source of funds. Without such finance infrastructure development may be difficult and so delay foreign investment.

International support for financing (concessionary loans or grants) need to be accessible, predictable, and efficient in order to have resounding positive impact on SIDS fragile economies, and create meaningful employment, generate income, and build resilience against external shocks.

Co-Chairs,

To conclude, despite global challenges, appropriate macroeconomic policies with a focus on job creation and equity could help drive world sustainable economic growth. But the risks and challenges we face remain daunting. Finance is critical to spurring and maintaining economic growth, and to making growth more inclusive and environmentally sustainable. There is a need to use innovative financial mechanisms to galvanize global savings into productive investment, especially for the developing countries including small island states. But that investment must also be better attuned to the needs of our people as well as our national and regional economies. In other words, if economic growth is achieved, then social development and eradication of poverty will be realized not just for the current generation but also for generations to come.

Co-Chairs,

We stand ready to engage and support the important work of this Group and look forward to a positive outcome of our discussions.

Thank you.