



HIGH-LEVEL POLITICAL FORUM ON SUSTAINABLE DEVELOPMENT

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Mobilizing international solidarity, accelerating action and embarking on new pathways to realize the 2030 Agenda and the Samoa Pathway

Small Island Developing States

Wednesday, 8 July 2020, 10:00am – 12:00pm

Secretariat Background Note

Executive summary

For Small Island Developing States (SIDS), the COVID-19 pandemic has resulted in a new array of challenges which could jeopardize the implementation of the 2030 Agenda and SAMOA Pathway. The virus's cascading and potentially scarring effects on economies and societal systems require an urgent response, guided by the objective of building back better to increase these countries' resilience to future crises. Sound country policies are important, together with support from the multilateral financial community and other partners to mobilize the magnitude of resources required at this time.

Challenges faced by SIDS

SIDS, economies have been forecasted to contract, as a result of COVID-19. The final economic impacts will depend on actions taken at the national, regional and global levels.

COVID-19 is affecting SIDS through:

- **Declining economic activity** as social distancing policies continue to be upheld. For SIDS, the sectors most affected are the service sectors, which provide the bulk of employment in SIDS;
- **Interruption of global supply chains** which affects SIDS, who are net importers. When combined with losses in revenue and remittance flows and diminished purchasing power due to increased unemployment, SIDS are in danger of reversing poverty gains and falling into food insecurity.
- **lower demand for tourism services** already being seen in the wider tourism industry and commodity sectors (the main industries and sectors of SIDS economies).
- **Worsening financial situations** leading to increased debt levels from stressed government fiscal accounts, due *inter alia* to the necessary expansion of expenditure to fight the pandemic and provide



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fiscal support for the economy. There is also an additional constraint with the need to maintain sufficient foreign exchange reserves for SIDS to sustain imports.

COVID-19 has also highlighted challenges in the **health sector**, where SIDS have relatively weaker healthcare systems, the **education sector** where learning has been impacted especially for the most vulnerable and there is unequal access to digital technology infrastructure, weak and inadequate **social protection systems** and on which additional pressure will be placed in countries with already limited fiscal space and **large scale unemployment** which disproportionately affects the poor and vulnerable.

Interlinkages, synergies and trade-offs: Responses to tackle impacts of the pandemic

SIDS implemented significant measures in the initial stages of the crisis, including a broad range of economic policies to mitigate its socio-economic effects. These sought to increase public resources for the health sector, protect households through safety nets (especially the most vulnerable), safeguard production capacity and employment, stave off a liquidity crisis and prevent the collapse of the economic system.

The fiscal stimulus measures however will substantially widen fiscal deficits and increase debt levels in many countries. Therefore, appropriate fiscal measures will have to be pursued in many SIDS to enable them to face future adjustments and minimize financial risks.

Recommendations for action: Mechanisms and partnerships to accelerate progress

There are likely to be severe structural scars left in SIDS economies following the pandemic. SIDS would need to “build back better”, to innovate and implement bold changes that would boost economic resilience to exogenous shocks e.g. COVID-19 and build diversified economies. This however requires true partnership and genuine international support, notably from multilateral organizations and bilateral partners. Significant technical and financial resources together with new and innovative financial instruments that incentivizes ex-ante resilience building, such as *inter alia* debt swaps, will be necessary. Immediate and effective commitments for long-term debt relief from all creditor nations are also required for SIDS. Whilst there has been some support for the suspension of debt repayments for IDA



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eligible countries, most SIDS do not fall into this category. Debt relief and restructuring in all SIDS, needs to be explored, with greater flexibility in the assessment of developing countries' fiscal situations, and extended credit facilities. In this regard, the persistent use of historical measures of GDP per capita captures neither who is most affected, nor who is least able to respond to the pandemic, and should be addressed.

Any responses must also be buttressed against the risk associated with climate change and extreme natural events, thus reinforcing the need to build resilient economies. Once priorities have been set, implementation will then be key to success.

Guiding questions

- What kinds of policy reforms are required to ensure that SIDS build back better in the aftermath of COVID-19 and remain on track with the implementation of the SAMOA Pathway and the 2030 Agenda?
- What are the channels of support currently available for such efforts? How can the required resources be leveraged to effectively assist SIDS?
- What innovative and other financial approaches, including support for debt restructuring and debt relief, are needed to complement international development assistance?
- How can SIDS' efforts be best supported to ensure effective implementation of the 2030 Agenda and SAMOA Pathway at national and regional levels?