HIGH-LEVEL POLITICAL FORUM
ON SUSTAINABLE DEVELOPMENT

#HLPF #SDGs #GlobalGoals

Small Island Developing States: From Recovery To Resilience In The Face Of Multiple Shocks

11 July 2023, 4:15 PM – 6:00 PM

Secretariat Background Note

Introduction

Small Island Developing States (SIDS), as with many other developing countries, are facing unprecedented challenges stemming from:

- Global inflation, the war in Ukraine and the COVID 19 pandemic that have led to rising cost of living;
- a debt crisis following the COVID-19 pandemic and climate-related disasters, and;
- the ongoing climate crisis as storms and droughts intensify.

The financing landscape for SIDS continues to be dominated by per capita income as the predominant criteria for access to concessional finance, with limited scope to mobilize domestic and external resources. Richer countries are typically able to borrow at significantly lower interest rates than SIDS. The disconnect between the size of the development needs of SIDS, available financing, coupled with the need for, and affordable access to it, has stymied SIDS ability to build resilient ecosystems (social, institutional, productive capacity, environmental, and financial resilience).

SIDS require multilateral cooperation for the expansion and redistribution of liquidity and debt reduction. This will enhance their policy space to foster a sustainable recovery and advance their economic and social development. Access to finance will be a critical element of this, as systemic sustainability cannot be achieved without financing resilience. Financing resilience in turn requires a financing support system that can provide adequate and affordable liquidity to meet the enormous development needs of SIDS.

Paradigm Shifts Are Necessary

Recovery in SIDS will also need to take place within a global context in which concerns around climate change are giving rise to far-reaching policy changes. The sixth report of the Intergovernmental Panel on Climate Change (IPCC) sounded even more insistent alarm bells on likely damage to developing countries in terms of loss of livelihoods, increased climatic catastrophes, and ecosystem degradation, stating that "Climate Resilient Development is already challenging at current warming levels. It will become more limited if global warming exceeds 1.5°C (2.7°F). In some regions it will be impossible if global warming exceeds 2°C (3.6°F)" (IPCC 2022).

Clearly, meeting the SDGs will also require changing how we finance resilient recovery. Distinguishing between financing for rescue, recovery, and long-term repositioning will also be important, since all financing instruments are not created equal. A suite of instruments that can be combined coherently to manage different needs, while providing appropriate governance safeguards is necessary.

In particular, the characterization of SIDS development financing needs is not aligned with the existing framework to access concessional finance. Gross National Income (GNI) does not capture the process of development and, moreover, it does not map well to the financing needs for development. Finance eligibility criteria and systems are often not suited to the unique challenges and constraints of SIDS. Given their vulnerabilities, it remains a fact that even when

SIDS have achieved high levels of GNI per capita, and have graduated from access to concessional finance, they still face significant challenges following exogenous shocks — in particular natural hazard events. These challenges amplify high debt levels, structural weaknesses, and limited implementation capacity.

New International Benchmarks and Initiatives

The High-Level Panel on the ***Multidimensional Vulnerability Index*** (MVI) has been working to develop a new international benchmark (the MVI) that will identify the main sources of structural vulnerability and lack of structural resilience in countries, across all dimensions, at national levels. Currently there is no international, widely accepted, quantitative benchmark to measure structural vulnerability or lack of resilience across multiple dimensions of sustainable development at the national level.

The MVI as proposed by the Panel is a two layered structure consisting of a quantitative assessment and a detailed vulnerability and resilience country profiling exercise. Countries with structural risk of lower well-being also deserve special assistance, especially if these countries inherently lack resilience.

There are Multiple use cases for an MVI depending on the stakeholder. These include, *inter alia,* to:

- Identify the main sources of structural vulnerability and lack of resilience in countries, across all dimensions, at the national level.
- Assist countries in developing strategies to improve well-being by pinpointing their sources of vulnerability and benchmarking these across countries.

- Assist in the allocation of development finance by complementing other measures of country need (especially the GNI which does not have a risk adjustment).
- Tool for research/analysis of vulnerability and development.

The MVI will provide a very powerful instrument to the UN development system in analyzing SIDS contexts and strengthening the relevance of Cooperation Frameworks, Joint Programmes and development investments to enhance value for money and expedite progress.

Another potentially important initiative that is being driven by the Prime Minister of Barbados is ***The Bridgetown Initiative*** which is a call for collective action to lay the path toward a new financial system that directs financial resources towards climate action and the Sustainable Development Goals (SDGs). The initiative seeks to address the immediate needs of countries facing debt distress and liquidity challenges, proposing a large-scale SDG Stimulus package to invest in the Sustainable Development Goals (SDGs), while stressing the need for reform of the international financial architecture.

In a similar vein, the Economic Commission for Latin America and the Caribbean (ECLAC) has proposed an innovative financing for development agenda for recovery in the Latin American and Caribbean Region, based on five policy actions: (i) expand and redistribute liquidity from developed to developing countries; (ii) strengthen regional cooperation by enhancing the lending and response capacity of regional, subregional and national financial institutions, and strengthening linkages between them; (iii) carry out institutional reform of the multilateral debt architecture; (iv) expand the set of innovative instruments aimed at increasing debt repayment capacity and avoiding excessive indebtedness; and (v) integrate liquidity and debt reduction measures into a development financing strategy aimed at building forward better (Caribbean Resilience Fund).

The Need for Continued Dialogue

In order for SIDS to foster resilient recovery, innovation and the implementation of bold changes that would boost economic resilience to exogenous shocks are needed. These are costly. Initiatives such as *inter alia* the MVI and the Bridgetown initiative, if backed by international consensus, could have the potential to unlock the necessary financial resources to allow countries to achieve these goals.

Proposed questions for discussion

- What are the actionable entry points for SIDS to convert the current crises into opportunities for a more inclusive, resilient and sustainable recovery and effective SDG implementation?

- 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?

- How can resilience building and the development of proactive and preventative strategies, become more central in the lending policies applied in development cooperation and by international financial institutions (IFIs) and multilateral development banks (MDBs)?