

**INVESTING IN INSTITUTIONS  
TO ACHIEVE PROGRESS TOWARDS  
THE SUSTAINABLE DEVELOPMENT GOALS**

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## Institution building is a major constraint for small states

- All states are exposed to **external shocks which are not of their own making**, as has been clearly evidenced in 2000 and 2021 due to the COVID-19 pandemic.
- However certain states, notably the small ones, are continually exposed to adverse external shocks more than others. **Due to their small domestic market, small states have no option but to seek external markets for a viable scale of production of goods and services.**
- This renders them **highly vulnerable to changes occurring outside their shores.** To make matters worse, many small states often rely heavily on a narrow range of exports and on strategic imports, including food and fuel. These tendencies exacerbate their vulnerability

## Small Island Developing States are highly economically vulnerable

- In various studies, it has been shown empirically, over and over again, that SIDS are highly economically vulnerable, and their economy is therefore highly affected by changes not of their own making.
- Such vulnerability, associated **with unpredictable external shocks, leads to uncertainty and volatility, if no institutional arrangements are in place to build resilience.**
- Various studies also show that volatility is harmful, with one reason being that equal downswings and upswings result **do not cancel each other out**, but result in a net downswing, which is detrimental to growth and development.

## Vulnerable small states need not be volatile and unstable

- It is observed that not all highly vulnerable small states experience a high degree of volatility and instability, with the main reason being that these states, **though inherently vulnerable, have put in place appropriate institutions that enable them to withstand or cope with such adverse external shocks.**
- **Conversely, there are countries, which are not so highly exposed to external shocks,** but still experience instability and volatility due to weak institutions and ineffective economic management domestically.

## Institution building is a major constraint for small states

- **Institution building is a major constraint faced by small vulnerable states, mostly due to their limited ability to benefit from economies of scale. Good economic governance requires a complex institutional framework.**
- **This is necessary for, among others, putting in place good financial oversight, controlling abuse by dominant firms and by cartels, putting in place preparedness systems for climate change and disasters, planning land-use, and most importantly for developing a well-organised national statistics.**
- **The implementation and progress relating to SDGs, require monitoring and measuring, which are difficult to undertake without appropriate statistical institutions.**

## The 2030 agenda recognises the importance of Institutions

- **SDG 16 and the 2030 agenda recognize the importance of effective, accountable and inclusive institutions are essential to achieving the Sustainable Development Goals.**
- One of the first steps often taken by governments to implement the Agenda is to strengthen their institutional arrangements for attaining progress relating to SDGs.
- **It is well known that where institutions are weak, and insufficiently manned by expertise, governance is undermined in matters related to the economy, social development and environmental concerns.**

## Institutions for resilience building: A case for concessionary finance

- In the case of small states, such an institutional framework is costly per capita, due to economies of scale constraints. Institutions are characterised by high per capita overhead costs, which cannot be downscaled in proportion to the population (the so-called indivisibility problem).
- That is one reason why, SIDS deserve to be considered as worthy of concessional funds. Without such support, the ability of SIDS to progress towards achieving the SDGs and to build their economic, social and environmental resilience to withstand the harmful affect of adverse external shocks, would be weakened.