GLOBAL 25.06.2018 | Jorge Moreira da Silva

Before the next storm

How to strengthen small island states

The 2018 Atlantic storm season has now begun, and small island developing states, or SIDS, are once more bracing to see which of them will be hammered by hurricanes that will devastate their economies and pile yet more debt onto their balance sheets.

Having agreed last October that the unique situation of small island states, with their high vulnerability to climate-related shocks, requires unique treatment in the field of development, donor countries now need to put their words into action and find ways deliver better long-term support.

The devastating impact of Hurricanes Irma and Maria on some small Caribbean islands last year exemplified the fragility of SIDS. Dominica recorded losses of an estimated 226 per cent of its 2016 GDP. Barbuda had to evacuate its entire population and reconstruction costs are in the billions of dollars.

These losses are all the more crippling given that SIDS tend to have much higher debt than other developing countries. This is due to a vicious circle that sees many having to borrow at elevated rates for post-storm humanitarian needs and reconstruction because they already carry high debts from past crisis responses. External debt averages almost 60 per cent of Gross National Income (GNI) in SIDS, reaching 100 per cent or above in Cape Verde and Jamaica, and 128 per cent in Mauritius.

Even without their vulnerability to weather events, the paradox of SIDS is that even if most are classified as upper middle-income, their growth prospects are greatly limited by their small size and remoteness. Their tiny populations – most islands count fewer than 200,000 inhabitants – combined with their remoteness leave them much less connected to international markets than other developing countries.

The potential of the blue economy

The recent OECD report 'Making Development Co-operation Work for Small Island Developing States' highlights approaches that have been used in some small island states to enhance debt sustainability. These include steps taken in advance – for example through state-contingent debt instruments that can bring debt servicing to zero in the event of a hurricane – and actions taken after the event, for example through the use of debt-for-climate swaps.

Solutions also exist to move small island states closer to self-sufficiency. New digital technologies can lift barriers to global markets. Renewable energies – sun, wind and ocean waves, all abundant on small islands – can be exploited to break dependence on fossil fuels and create fiscal space to address critical development needs. Developing the rich potential of the blue economy can address poverty and food security while fuelling economic growth and jobs.

Our goal must be to have self-sustained island states that are resilient to the annual, increasingly severe storm season, and there is no time to waste.

For SIDS to seize these opportunities, the international community needs to make development co-operation work better for them. Foreign aid in the form of concessional finance – such as grants and concessional loans – still accounts for the largest flow of external finance for three out of five SIDS and it can have a critical leveraging impact in many of these countries. These resources should be used more effectively to mobilise other public and private finance flows.

Development finance from non-traditional donors is growing to fill the gaps. China and other emerging providers including Chinese Taipei, India, Indonesia, Malaysia, Morocco, Russia, United Arab Emirates and Venezuela are becoming key financial partners for SIDS. The Lowry Institute estimates that China provided USD 1.8 billion to Pacific SIDS from 2006 to 2014, and is most active in the Cook Islands, Fiji, Papua New Guinea, Samoa, Timor Leste, Tonga and Vanuatu.

Self-sustaining island states

In the future, as SIDS grow economically to the point that they graduate off the official recipient list for foreign aid, the role of non-traditional providers – whose financing allocations do not rely on OECD Development Assistance Committee (DAC) criteria for official development aid (ODA) – could further increase.

In October 2017, the OECD DAC member countries gave the OECD Development Cooperation Directorate (DCD) a mandate to explore options that would increase access to concessional finance by countries affected by climate-related natural disasters, and resulting humanitarian crises, even if they are no longer eligible for ODA. These proposals will be submitted to the DAC for consideration this year.

While this support for strengthening the long-term resilience of SIDS to shocks is encouraging, the international development community now needs to take action. Our goal must be to have self-sustained island states that are resilient to the annual, increasingly severe storm season, and there is no time to waste.

This article was first published in International Policy Digest.



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