



# **Achieving Debt Sustainability and the MDGs in Small Island Developing States**

*Panel discussion: Economic and other Constraints faced by Small Island Developing States in the Context of Climate Change*

**Economic and Financial Committee Side Event General Assembly of the United Nations**

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**United Nations Development Programme**

# Public Debt in SIDS: Introduction

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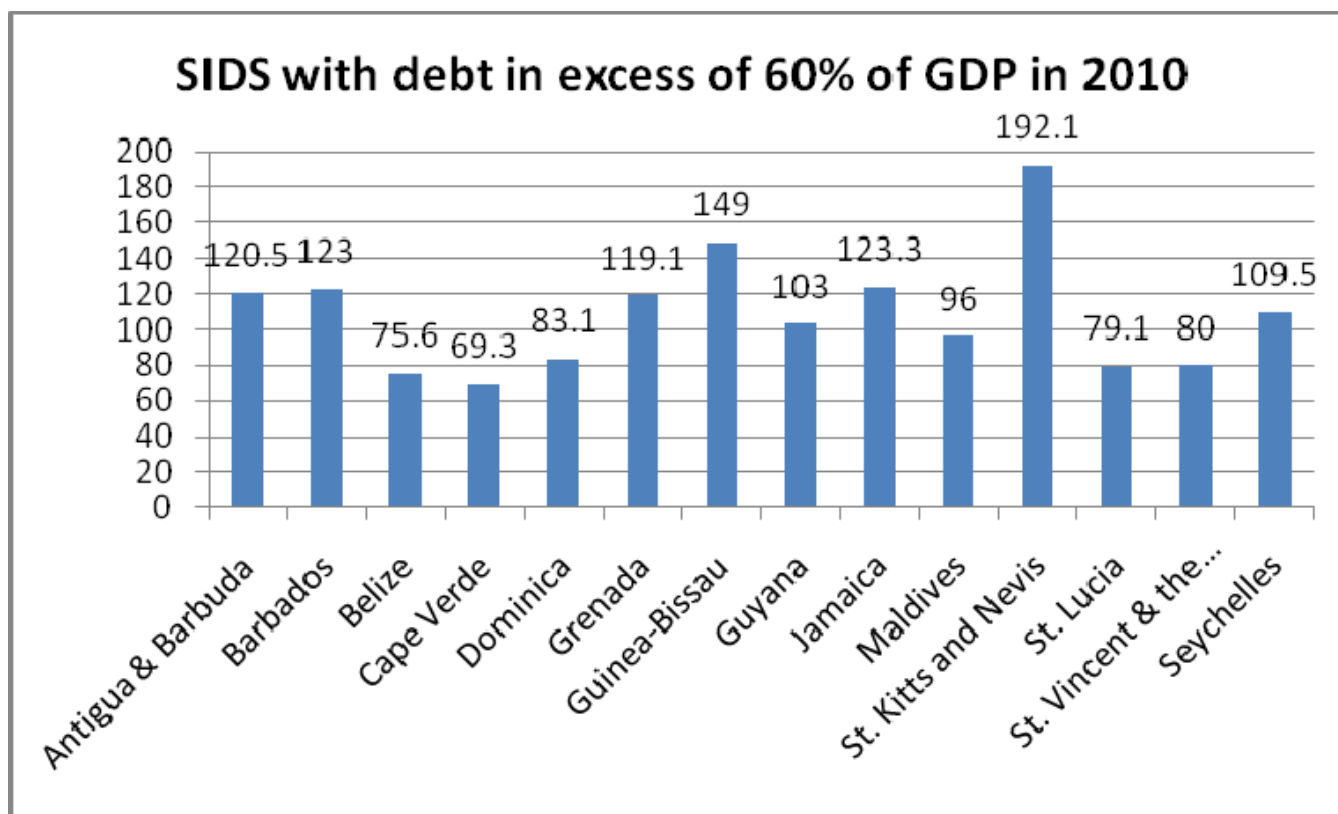
*“Small island developing states have made less progress than most other groupings, or even regressed, in economic terms, especially in terms of poverty reduction and debt sustainability.” (MSI+5 Review, 2010)*

- Many SIDS register extremely high public debt ratios
- Concurrent food-fuel-financial crises have worsened public debt ratios
- Climate change has increased (and will further increase) SIDS’ vulnerabilities to natural disasters and public debt accumulation
- Based on UNDP Discussion Paper: ‘Achieving Debt Sustainability and the MDGs in Small Island Developing States’

# Public Debt in SIDS: An Overview



What lessons can be learned from recent trends in debt sustainability in small island developing states and other vulnerable economies



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## The fiscal burden of public debt

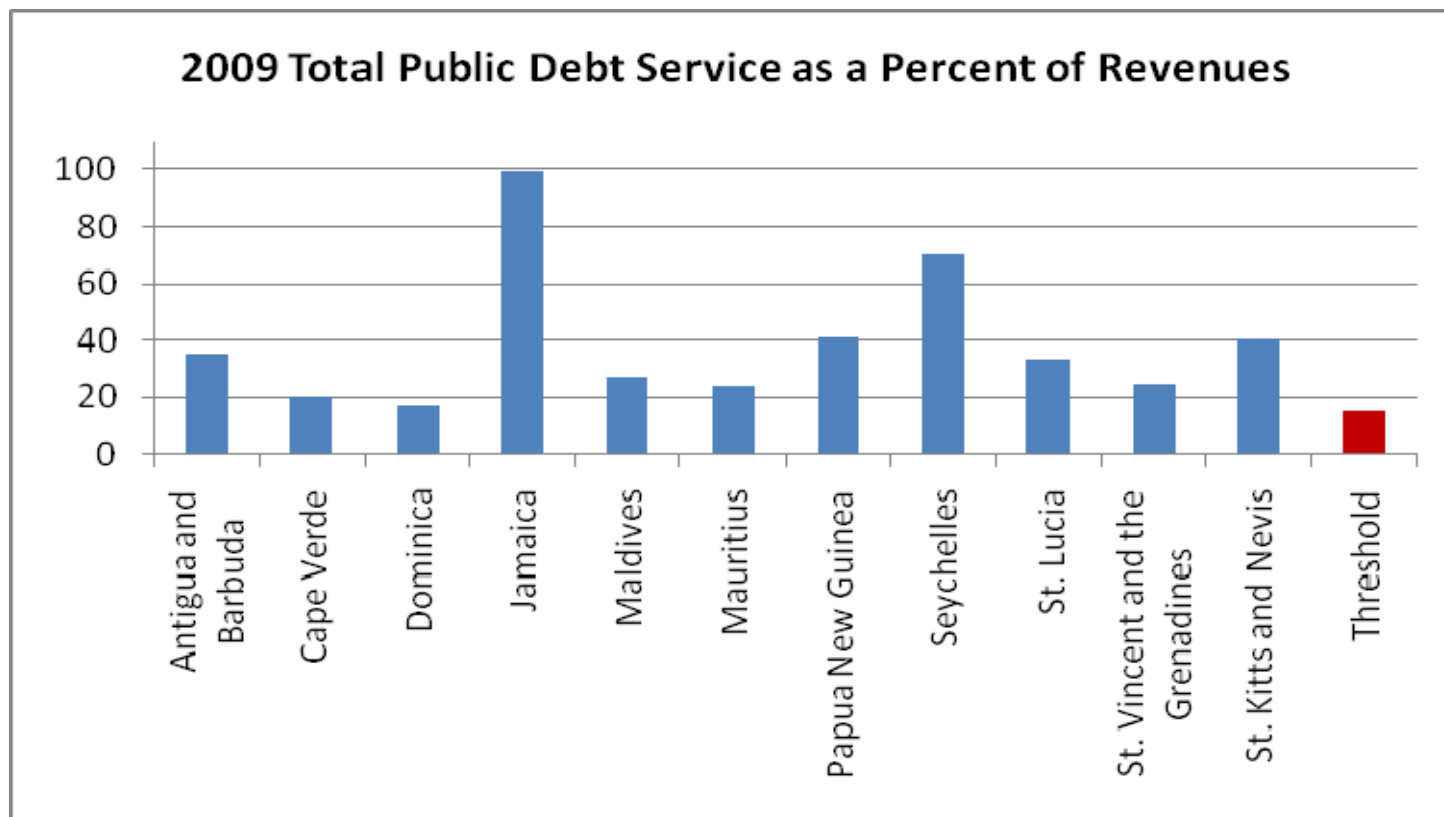
**“Every year for many years, we have been spending more than we earn. Every year, we have to borrow to make up the difference, so, each year, the debt gets bigger and bigger and each year we have to set aside more money to pay the interest on that debt. [...] For the last 10 years, all of the taxes we collect have had to be used to service that debt. So, before we can pay one teacher or nurse or policeman, before we can patch one pothole, before we can put one bottle of medicine in our hospitals or provide one school lunch for a needy child, we have to borrow more money, piling up the debt even further and the cost of servicing that debt even higher.”**

**Prime Minister Bruce Golding, Jamaica, 13 January 2010**

# Public Debt in SIDS: An Overview



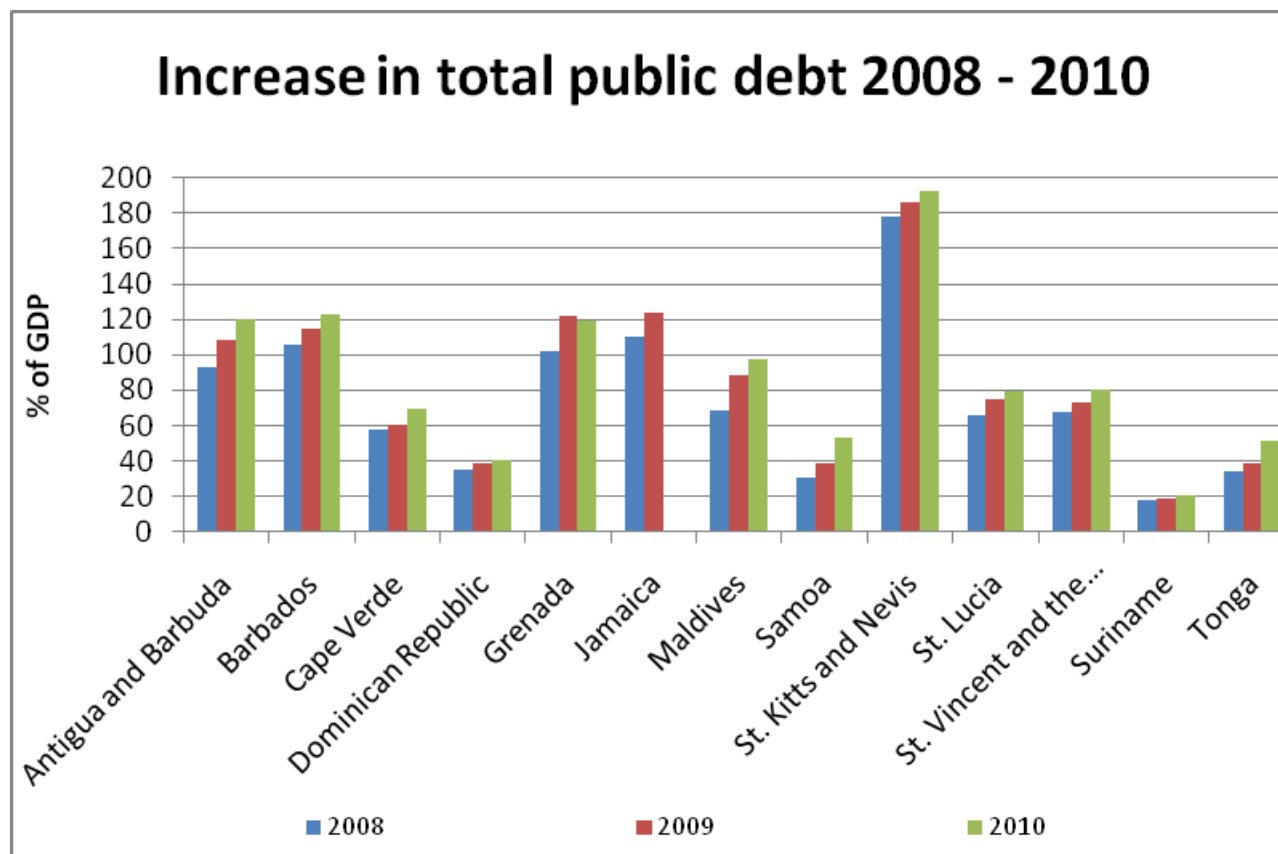
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# Public Debt in SIDS: An Overview



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# Public Debt in SIDS: An Overview



## ECCU countries' public debt levels

Eastern Caribbean Central Bank target: 60 percent debt to GDP

Country	2010	2011	2012	2013	2014
Antigua and Barbuda	120.5	128.5	134.0	137.0	139.6
Dominica	74.3	70.3	66.4	62.5	58.8
Grenada	119.1	116.3	111.8	104.5	96.8
St. Kitts and Nevis	192.1	196.1	200.2	206.5	213.2
St. Lucia	79.1	80.7	82.1	82.7	83.3
St. Vincent and the Grenadines	80.0	83.6	84.3	85.6	86.8
<b>ECCU Overall</b>	<b>103.8</b>	<b>106.8</b>	<b>108.4</b>	<b>109.3</b>	<b>110.3</b>

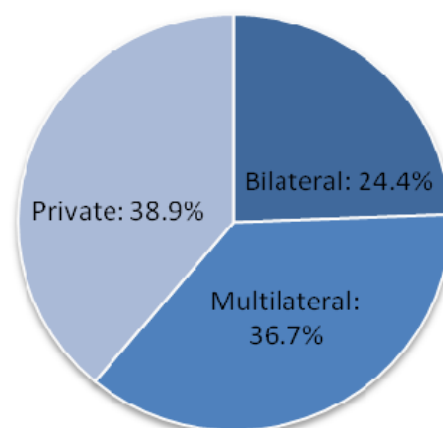
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**Increases in private (external and domestic debt) paralleled by decreases in ODA: has increased debt vulnerabilities in some countries**

**ODA from OECD DAC to SIDS declined from 3.7 percent of total aid in 2000 to 2.8 percent in 2008 (US\$ 2.4 bn out of US\$ 87 bn in 2008)**

**Composition of SIDS Public External Debt by Creditor Type (2008)**



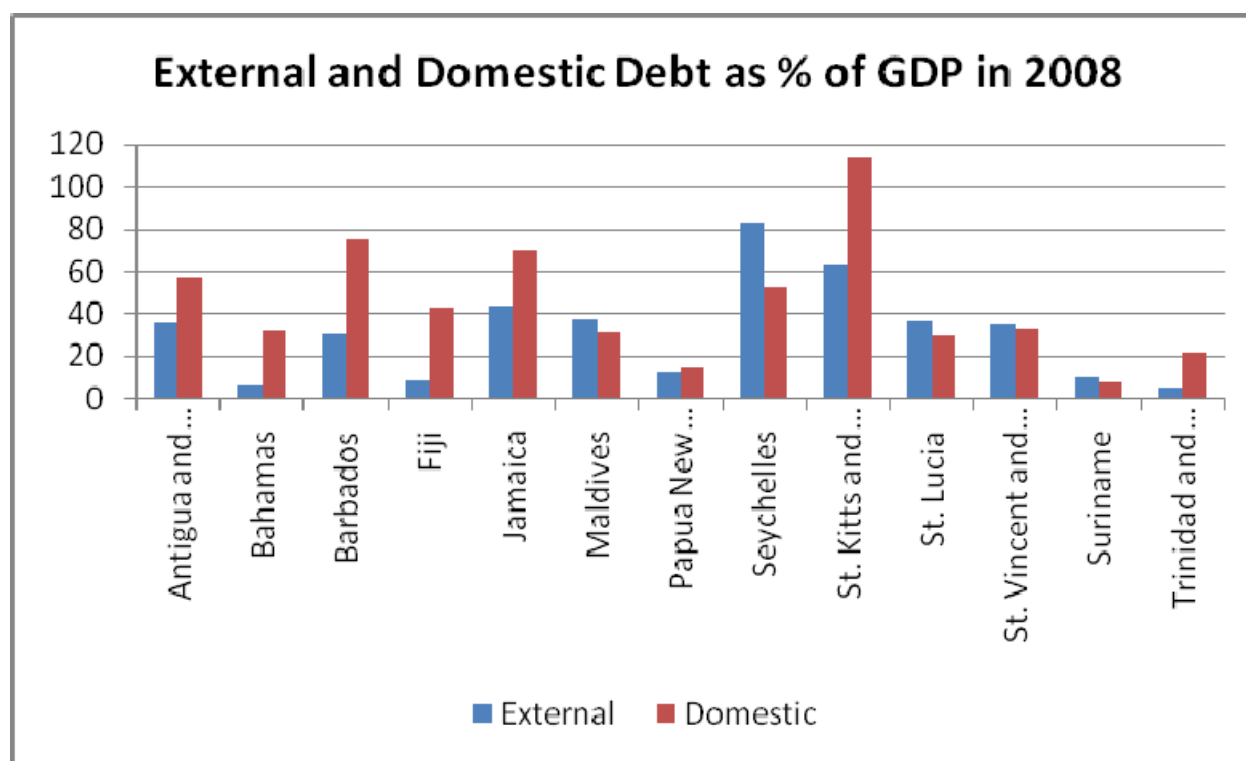
Note: Covers 23 SIDS for which data are available



# Public Debt in SIDS: An Overview



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# Debt Restructuring Operations in SIDS



Country	Multilateral debt	Bilateral debt	Private external debt	Private domestic debt
Antigua and Barbuda		2010	2008	
Belize				2007
Comoros	At decision point under the HIPC Initiative: interim relief provided	2009		
Dominica			2004	
Dominican Republic		1985, 1991, 2004, 2005	2005	
Grenada		2006	2005	
Guinea-Bissau	At decision point under the HIPC Initiative: interim relief provided	1987, 1989, 1995, 2001		
Guyana	Received full multilateral debt relief under the HIPC Initiative and MDRI	1989, 1990, 1993, 1996, 1999, 2004		
Haiti	Received full multilateral debt relief under the HIPC Initiative and MDRI	1995, 2006, 2009		
Jamaica		1984, 1985, 1987, 1988, 1990, 1991, 1993		2010
São Tomé and Príncipe	Received full multilateral debt relief under the HIPC Initiative and MDRI	2000, 2005, 2007		
Seychelles		2009	2010	
Solomon Islands			2010	
St. Vincent and the Grenadines		2007		
Suriname		2009		
Trinidad and Tobago		1989, 1990		

# The link between debt sustainability, economic vulnerability and climate change

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## High levels of public debt:

- **constrain governments' fiscal space and abilities invest in public infrastructure development and the MDGs;**
- **increase pressures to reduce public expenditures;**
- **compromise governments' abilities to channel substantial resources into climate change adaptation;**
- **can crowd out bank credit to the private sector, stifle private sector investment and economic growth.**

# The link between debt sustainability, economic vulnerability and climate change

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- **SIDS among the most vulnerable to external shocks such as natural disasters, and increasingly climate change;**
- **UNCTAD: natural disasters added on average 24 percentage points to debt to GDP ratio in the three years that followed the events;**
- **High levels of debt, in turn, constrain governments' abilities to deal effectively with external shocks;**
- **The predicted impacts of climate change will exacerbate this cycle further.**

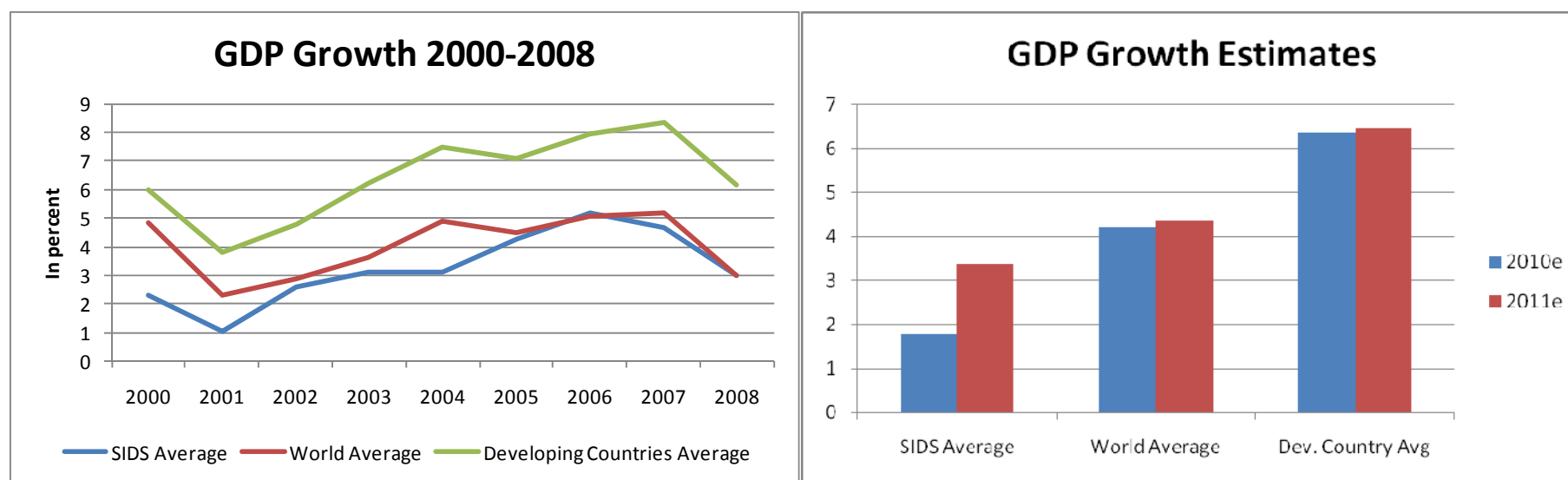


# The link between debt sustainability, economic vulnerability and climate change

**SIDS underperform in terms of economic growth**

**Projected GDP growth for SIDS in 2010 is 1.7 percent on average compared to 6.3 percent for developing countries: SIDS unlikely to 'grow-out' of debt**

**Other policy measures must be considered, tailored to SIDS-specific needs and challenges**



# **Potential initiatives and instruments to address economic constraints, debt sustainability and vulnerability to climate change**



**Current approaches rely on small island developing states to resolve debt problems themselves via fiscal retrenchment, increased taxation and ad-hoc debt restructuring**

**SIDS' governments can make efforts to boost domestic resource mobilisation and improve debt management capacities**

**International policy environment must also be strengthened:**

- 1.Measures to reduce existing public debt burdens;**
- 2.Measures to support SIDS going forward.**

# **Potential initiatives and instruments to address economic constraints, debt sustainability and vulnerability to climate change**

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## **Measures to reduce existing public debt burdens:**

- 1. Debt relief initiative: in some countries, the size of the debt overhang is so large, comprehensive debt relief must be ruled-in;**
- 2. Debt conversions for climate change adaptation: innovative financing mechanisms could support the neediest countries to generate additional resources for climate change adaptation;**
- 3. Measures to restructure private and domestic debt;**
- 4. A Sovereign Insolvency Mechanism is required.**

# **Potential initiatives and instruments to address economic constraints, debt sustainability and vulnerability to climate change**



## **Debt conversions for climate change adaptation**

- **Official sector creditors cancel part – or all – the debt of a particular country;**
- **A central trust account (or adaptation account) is established;**
- **SIDS channel debt service saved in national currency to the account to ‘recycle’ into climate change adaptation priorities in line with national development ;**
- **Fund could be tapped every, 2, 3 or 5 years to allow critical mass of funds to accumulate;**
- **Around US\$ 200 million annually would be generated to spend on climate adaptation;**
- **Eligibility criteria requires further work;**
- **Initiative must be truly ‘additional’.**



# **Potential initiatives and instruments to address economic constraints, debt sustainability and vulnerability to climate change**

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## **Measures to support SIDS going forward**

- 1. Need for SIDS-specific approach: trade and development finance concessions must be extended. Requires reform of aid allocation criteria to capture structural vulnerabilities. The UN's Economic Vulnerability Index (EVI) and Human Assets Index (HAI) could be combined with traditional per capita measures;**
- 2. Need for tailor-made financial instruments in recognition of SIDS' vulnerabilities: such innovative financial instruments should reduce debt service in the face of external shocks (e.g. counter-cyclical loans)**



## **Achieving Debt Sustainability and the MDGs in Small Island Developing States**

*Thank you!*

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**United Nations Development Programme**