Submission by the Commonwealth Secretariat to the First PrepCom for the Third International Conference on Small Island Developing States.

The Commonwealth Secretariat is pleased to submit this contribution to the First Preparatory Committee for the Third International Conference on Small Island Developing States. Twenty-five of the world’s 39 SIDS are members of the Commonwealth, and these countries’ concerns are central to the Commonwealth Secretariat’s work.

In recent years, one area of focus for Commonwealth efforts has been resilience building and the enabling environment for SIDS’ sustainable development. As an over-arching approach to support SIDS development, the Commonwealth has been developing the conceptual underpinnings for resilience building – a policy response or set of policy responses aimed at strengthening the ability of countries to withstand external shocks across all three pillars of sustainable development.

We note the call by many SIDS for concrete, action-oriented proposals and partnerships to emerge from the Third International Meeting on Small Island Developing States, and in this spirit, contribute the following specific areas of action related to the enabling environment for SIDS’ sustainable development for consideration as part of the preparatory process.

Addressing the debt concerns of SIDS, taking into account the inherent structural vulnerability of SIDS to external shocks:

The debt and financing challenges of our smallest and most vulnerable members has long been a concern within the Commonwealth. The high debt burden is hampering growth prospects, is exacerbating their vulnerability to economic shocks and, as a result, is threatening the achievement of development objectives.

The Commonwealth has worked closely with Commonwealth Senior Officials and Heads of Government to develop proposals for consideration by the international community. These have been formulated as solutions to four key debt and financing challenges (proposals 1-4 below).

Before outlining our policy options it is important at the outset to note that the emergence of the debt issue is, in many cases, a symptom of a bigger problem of low economic growth resulting in a deterioration in primary fiscal balances and rising interest costs. If a lasting solution is to be found, a two-pronged approach will be required.

At the national level, small states will need to commit to addressing the growth issue, fiscal responsibility and reform of policies and institutions. At the same time, however, small states will need the strengthened support of the international community given their inherent structural vulnerability and this is where we place our emphasis in this submission.

Proposal 1: To implement detailed consideration of the potential for, and design of, debt swaps for climate change adaptation and mitigation.

For SIDS, climate change represents a real and escalating threat to their sustainable development and attainment of the MDGs. At the same time, many SIDS possess high and unsustainable public debt. The Commonwealth has developed a proposal for a multilateral debt relief-for-climate change swap which would provide SIDS with significant debt relief and
assist them in unlocking pledged climate funding to finance climate change adaptation and mitigation projects.

Proposal 2: To agree broad-based implementation of counter-cyclical loan mechanisms to reduce debt accumulation episodes and consequent growth challenges in small states.
The Commonwealth Secretariat proposes the development of counter-cyclical lending contracts, in which it is agreed ex ante that debt servicing will automatically be allowed to fall or become zero, in periods when external shocks (measured in a particular way, e.g., a fall in value of exports) hit a particular country. If more widely applied, counter-cyclical lending would represent an important instrument that complements existing shock absorber mechanisms, but to date, the lending instruments developed have not been well-tailored to the specific needs of small states. The Commonwealth urges all official and unofficial lenders to consider this innovation currently utilised by the French Development Agency.

Development Financing and Resilience Building:

Proposal 3: To add vulnerability to the criteria for eligibility to access IFI concessional resources and official development assistance.
SIDS’ vulnerability to external shocks has been recognised within the World Bank’s ‘small island economy exception’ and is the basis for the IMF’s inclusion of a small economy exception for access to PRGT resources and inclusion as a criterion to determine graduation from PRGT resources in an effort to safeguard against premature and reverse graduation. However, neither institution has considered vulnerability as a criterion for eligibility to use their concessional facilities. The Commonwealth urges that this asymmetry is addressed. Adding a criterion of vulnerability to eligibility criteria to access IFI concessional finance would meet three principles of good aid allocation, in terms of: (a) effectiveness, because marginal effectiveness of aid is higher in vulnerable countries; (b) equity, because vulnerability is a structural handicap to be compensated for; and (c) transparency, because it contributes to avoiding the multiplication of exceptions which are currently applied. Such an approach would help address serious short-term vulnerabilities and debt vulnerabilities and would not necessarily result in an increase in financial resources needed, or a reduction in concessional resources for low income countries that are already eligible.

Proposal 4: To elaborate a concrete approach to pursuing macroeconomic adjustment within a framework of resilience building, enabling resilience building to serve as the main policy conditionality for small states access to IFI resources.
Building resilience to external shocks includes macroeconomic adjustment, but it would also be accompanied by social and environmental policy reforms as well. In accessing international and bilateral aid, and debt restructurings, most countries agree to an IMF programme which does not give due consideration to the need to strengthen developmental aspects. A concrete approach to macroeconomic adjustment within a framework of resilience building could draw on the resilience index and framework developed by the Commonwealth Secretariat and Professor Lino Briguglio in response to the Mauritius Strategy for Implementation. This would provide a policy framework based on macroeconomic stability, market efficiency, social development, good governance and good environmental management to help SIDS build resilience to external shocks.
Strengthening Institutional Support to SIDS in Implementation of the BPOA:

Proposal 5: To initiate a process to strengthen regional institutional arrangements supporting implementation of the BPOA.

The BPOA emphasises implementation at national, regional and international levels. To be effective, the regional components of the BPOA need to be co-ordinated through the preparation of a regional implementation strategy and supported by an effective inter-governmental mechanism to advance elements of the BPOA. At present, institutional arrangements addressing the BPOA are different within each of the SIDS region, and remain weak. This is particularly problematic for SIDS, where national capacities are constrained by inherent characteristics. Action is required to develop institutional arrangements that deliver technical advisory services; inter- and intra-regional collaboration and co-ordination; formulation of common positions to bridge regional and international levels; and build public awareness, education and resources mobilisation as well as monitoring and evaluation on implementation of the BPOA.

Addressing Data Constraints in SIDS:

Proposal 6: To set in place a process to: identify 5 to 10 priority datasets across the three pillars of sustainable development for which data is missing for a significant number of SIDS; and drive forward a process of achieving the full integration of SIDS into these universal datasets within the next 3 years.

The data constraints of SIDS have been strongly highlighted within the BPOA process, yet these are not easily amenable to action because a response requires the development of durable national capacity to collect and process statistical information and data within countries that are inherently challenged by capacity constraints. Yet, we know that indicators are important drivers of implementation. The Commonwealth’s analysis on attainment of the MDGs in small states published as ‘The Big Divide’ shows that process on the MDGs in SIDS is mixed, but for many SIDS their progress cannot be effectively gauged because the data is not available. Linked to priorities for SIDS in achieving sustainable development – and an assessment of which data sets might be the most transformational for SIDS if they were tracked – key institutions could collaborate with SIDS to identify and progress a limited number of data sets within a short and clearly defined time-frame.

Strengthening Ocean Governance at the National Level:

Proposal 7: Develop a concrete framework to assist SIDS in strengthening holistic approaches to ocean governance.

While many SIDS have small land masses, they have jurisdiction over globally significant ocean areas, making them not so much small island – but large ocean – developing states. SIDS are increasingly seeing their future development based in the oceans, but the full potential of this resource has yet to be realised by them. Partnerships will be especially vital in the process: opening up new opportunities for SIDS by drawing in much needed skills, knowledge and capacity; and bringing-in financial investment and management capabilities from across their ocean ecosystems. There are examples of leadership by SIDS that are starting to unlock change. The efforts have been pragmatic. National constraints in terms of skills, institutions and data are both a reality and a necessary starting point that must be folded into the whole approach. By drawing-in others to national and regional efforts, through partnership, SIDS are beginning to access a wider range of resources and capacities to achieve their objectives, and addressing problems at a more strategic ecosystem level. Many international partnerships exist at a sectoral
or ocean-basin level, or with a focus on the development of international law governing ocean resources. There is still much scope, however, for the development of frameworks and partnerships to support national and regional efforts of SIDS to strengthen ocean governance in support of sustainable development.

Further detail can be provided on the Commonwealth Secretariat’s proposals and work in these areas.

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