Financing for Sustainable Development in Small Isand Developing States

United Nations Department of Economic and Social Affairs

Financing for Sustainable Development in Small Island Developing States (SIDS)

Division for Sustainable Development
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Abstract

Small Island Developing States (SIDS) is a term that first appeared at the 1992 United Nations Conference on Environment and Development (UNCED) to focus the attention of the international community on the unique characteristics and challenges of the small, ecologically fragile, and economically vulnerable island states.

This note was prepared as a background document for the upcoming Third International Conference on SIDS, scheduled to take place in Samoa in September 2014. It aims to provide a quick overview of the main components of sustainable development financing in SIDS, based on numerical indicators and the latest available data. The note covers the following dimensions: heterogeneity of SIDS; domestic sources of financing; and external sources of financing. It does not provide policy recommendations.

Financing for Sustainable Development in Small Island Developing States (SIDS)

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Introduction

Small Island Developing States (SIDS) is a term first appeared during the 1992 United Nations Conference on Environment and Development (UNCED) to focus the attention of the international community to the unique characteristics of the small, ecologically fragile, and economically vulnerable island states, including but not limited to the following:

- Volatility and susceptibility to external global economic factors, including economic and natural shocks beyond domestic control;
- Lack of economies of scale;
- Excessive dependence on international trade;
- Relatively high costs for transportation and energy services;
- Limited human, institutional, and financial capacities to manage and use natural resources on a sustainable basis;
- Increasing demographic (small but rapidly growing population) and economic pressures on fragile, vulnerable, endemic natural resources and ecosystems.

This note aims to provide an overview of current status of various sources of sustainable development financing in SIDS, with a view to taking stock and contributing to relevant discussions, including, among others, the work of the expert committee on a sustainable development financing strategy as well as the preparatory process for the Third International Conference on Small Island Developing States scheduled to take place in Samoa in 2014.

The diverse circumstances of SIDS

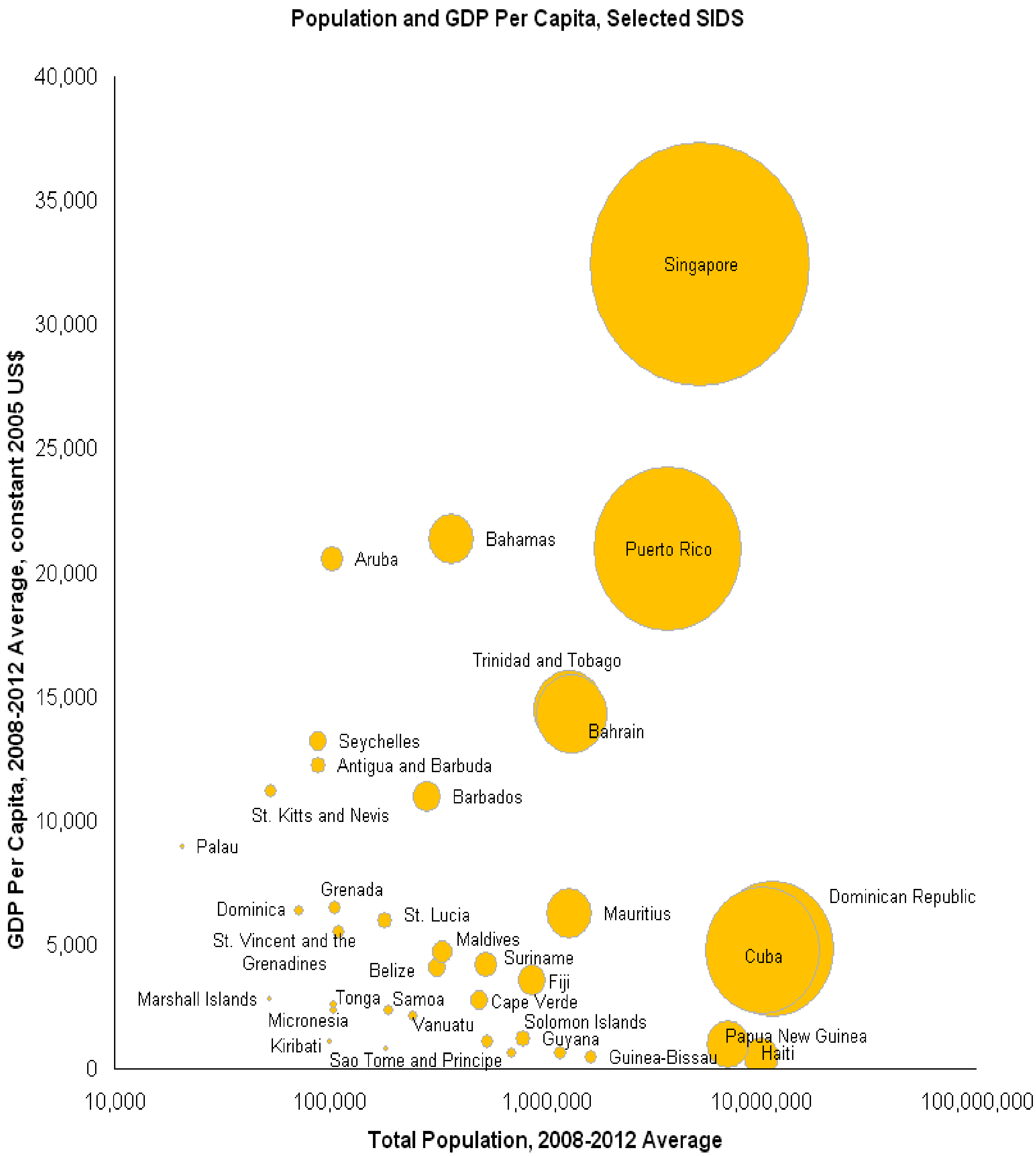
The group of Small Island Developing States (SIDS) consists of 52 countries and/or territories[1], among which 38 are Member States of the United Nations. The rest include non-UN Member States and non-self-governing or non-independent territories that are associate members of UN regional commissions. SIDS consists of three geographical regions, the Caribbean, the Pacific, and the Atlantic, Indian Ocean, Mediterranean and South China Sea (AIMS). Most of them are members or observers of the Alliance of Small Island States (AOSIS)[2], an ad hoc negotiating body advocating for SIDS at the United Nations. 10 of them are also recognized by the United Nations as Least Developed Countries (LDCs)[3].

Despite the set of common challenges mentioned above, it is important to keep in mind that the group of SIDS is significantly diverse in many ways. Population in SIDS ranges from less than 100,000 persons to more than 10 million. Similarly, GDP per capita in SIDS covers a very broad spectrum, reflecting markedly different economic circumstances. Total population of SIDS as of 2011 was 64.7 million, of which 23% live in LDCs. Haiti hosts more than 70% of the SIDS LDCs population (10.12 million as of 2011)[4]. According to the 2013 Human Development Report, the level of human development in SIDS ranges from very high to extremely low[5]. SIDS also differ with respect to the structure of their economies. Some are more service-based, such as Bahamas and Barbados; while some are more resource-based, such as Trinidad & Tobago and Papua New Guinea[6].

[1] http://www.unohrlls.org/en/sids/44
[2] http://aosis.org/members/
[3] http://www.unohrlls.org/en/ldc. Note that although Tuvalu is a LDC according to UN-OHRLLS, it is classified as an upper middle income country in the World Development Indicators database of the World Bank Group.
[4] World Development Indicators
[5] Human Development Report 2013 (UNDP)
[6] According to the World Development Indicators database, in 2011, mineral rents accounted for 35.55% of Papua New Guinea's GDP; natural gas rents accounted for 24.48% and oil rents accounted for 13.16% of Trinidad & Tobago's GDP.

Figure 1 plots GDP per capita against total population for the SIDS for which information is available. The size of the bubbles represents GDP. Figure 1 clearly illustrates heterogeneity among SIDS, and underscores the need to go beyond averages of economic and social variables across SIDS in order to understand the challenges they face.

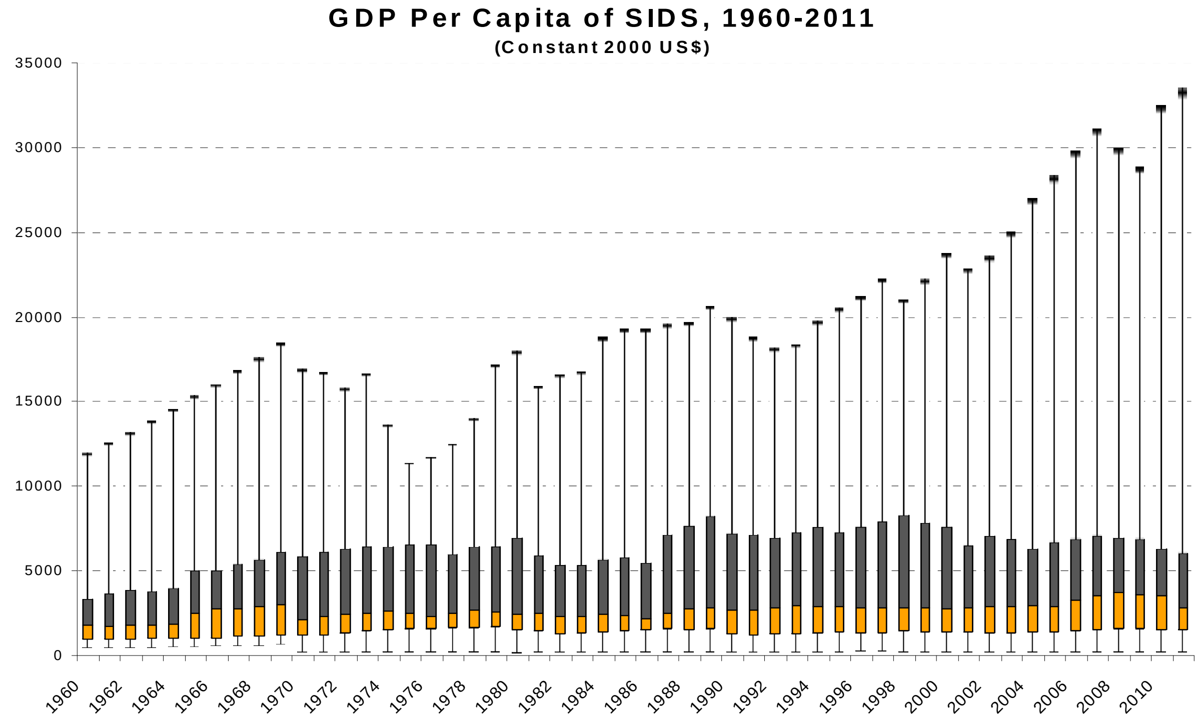
Figure 1 Population and GDP Per Capita, Selected SIDS



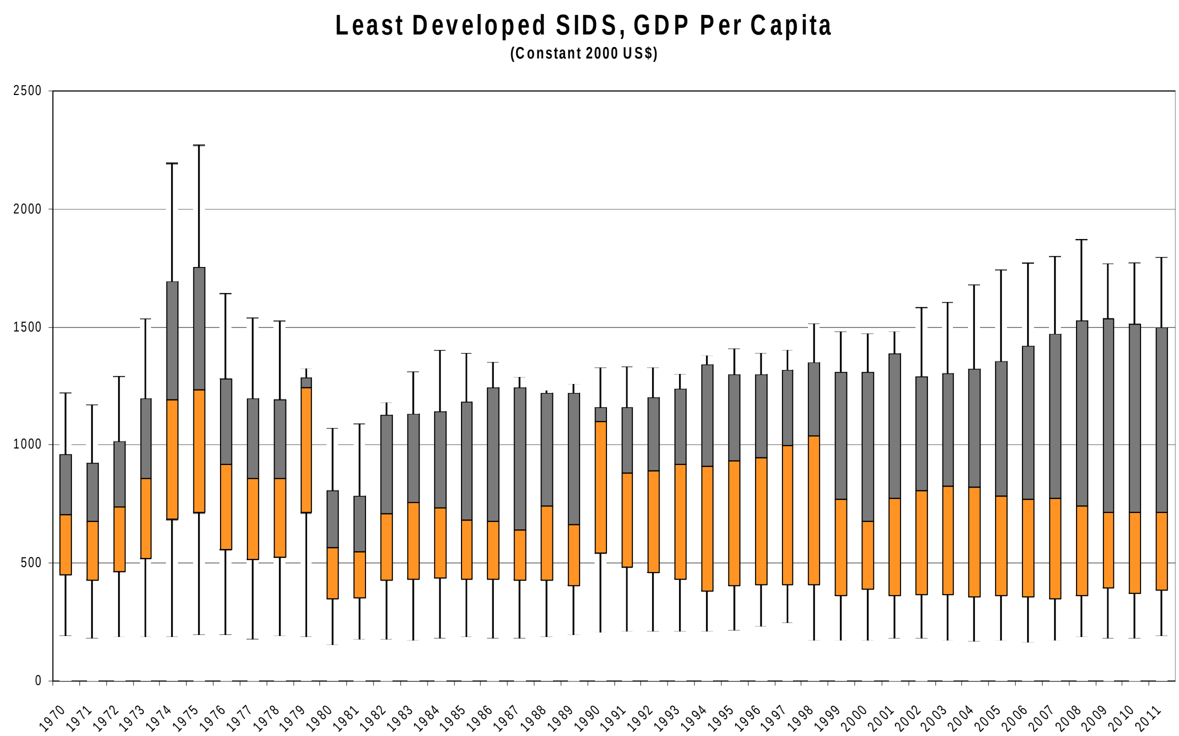
Note: the size of the bubbles represents GDP. Five year average levels were calculated in order to eliminate annual fluctuations.

Source: World Development Indicators 2013

Figure 2 Widening Gap of Economic Development in SIDS



Source: World Development Indicators 2012

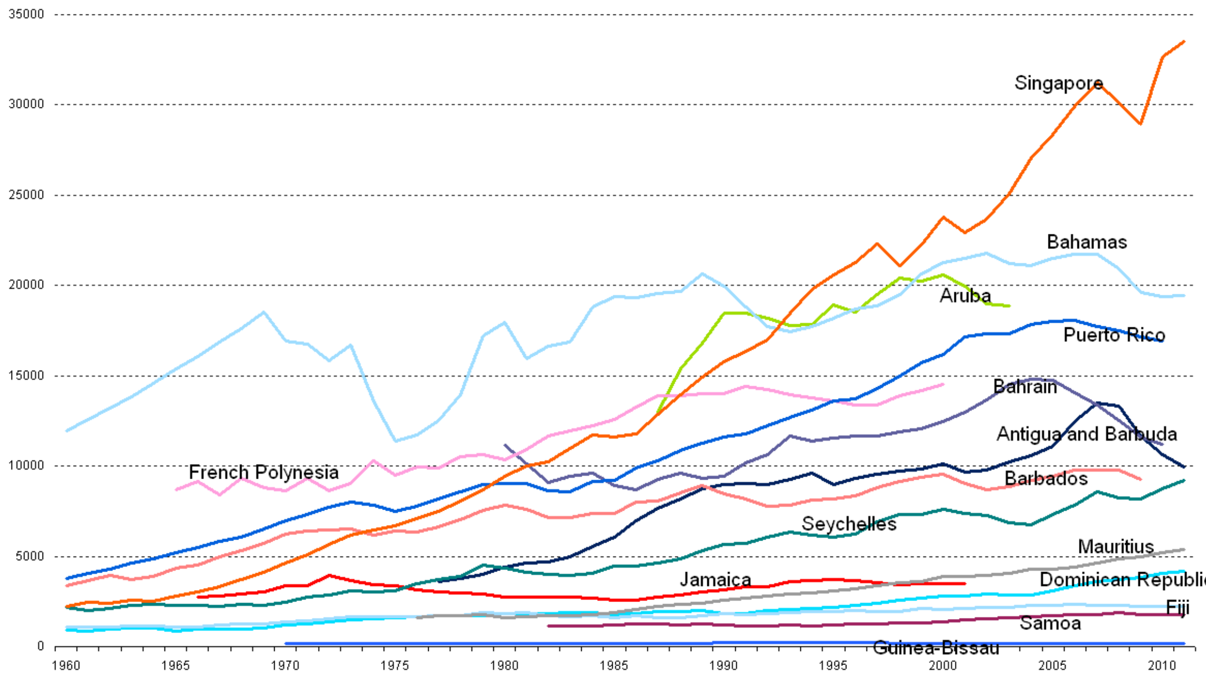


Source: World Development Indicators 2012

Note: 1) Whisker Boxes show the maximum, 3rd quartile, median, 1st quartile and minimum in GDP per capital among the group in each year; 2) No available data for GDP Per Capita from SIDS LDCs before 1970.

Figure 2 shows that there has been an increasingly widening GDP per capita range among SIDS countries since 1970s. The 10 SIDS LDCs have had very little growth for the past few decades. Meanwhile, countries such as Singapore, Puerto Rico and Bahamas have experienced significant economic growth (Figure 3). Poverty eradication remains an overarching priority in the sustainable development agenda of SIDS.

Figure 3 GDP per capita trajectories in selected SIDS, 1960-2011, Constant 2000 US$



Source: World Development Indicators 2012

Financing for Sustainable Development in SIDS

The overall financing needs for sustainable development in SIDS are very difficult to assess. Estimations or projections of financing needs could be subject to many assumptions, including ambitiousness of targets and societal goals, innovation and technology diffusion, etc. Further mobilization of financing through various channels, private and public, domestic and international, is no doubt required for sustainable development in SIDS. The financing mechanisms of the private sector direct funding to areas that are financially profitable, while public sources of financing are imperative to address market failures, particularly for achieving societal goals.

Domestic sources of financing

Domestic savings

The ratio of gross domestic savings[7] against gross fixed capital formation[8] could give a rough idea on how much of domestic investment come from domestic savings. The higher the ratio is, the more self-

[7] Gross domestic savings in the WDI database are calculated as GDP less final consumption expenditure (total consumption).
[8] Gross fixed capital formation (formerly gross domestic fixed investment) is defined in the WDI database as "land improvements (fences, ditches, drains, and so no); plant, machinery and equipment purchases, and the construction of roads, railways and the like, including schools, offices, hospitals, private residential dwellings, and commercial and industrial buildings. According to the 1993 SNA, net acquisitions of valuables are also considered capital formation."

sufficient the economy is. Figure 4 compares gross fixed capital formation as a percentage of GDP (first bar) against gross domestic savings as a percentage of GDP (second bar). 10 year average levels are calculated to eliminate the impact of annual fluctuations. Countries such as Singapore, Bahrain, Trinidad and Tobago, Papua New Guinea and Cuba have average savings ratio greater than average investment ratio, and they have higher GDP per capita. The majority of the remaining countries shown in Figure 4 have lower savings ratios than investment ratios. Six countries have negative savings rates over the period 2002-2011. Note that having much higher investment than savings does not necessarily indicate that the country is facing higher economic risks. For example, the gap could be large due to the abundance of profitable investment opportunities and the willingness of foreigners to invest. However, the comparison shows that in many SIDS domestic investment has been funded by other sources than domestic savings.

Figure 4 Domestic Savings and investment in selected SIDS