



# 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

New York 26 October 2010

Gail Hurley, Policy Specialist, UNDP: [gail.hurley@undp.org](mailto:gail.hurley@undp.org)

**United Nations Development Programme**

# Public Debt in SIDS: Introduction



*“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)*

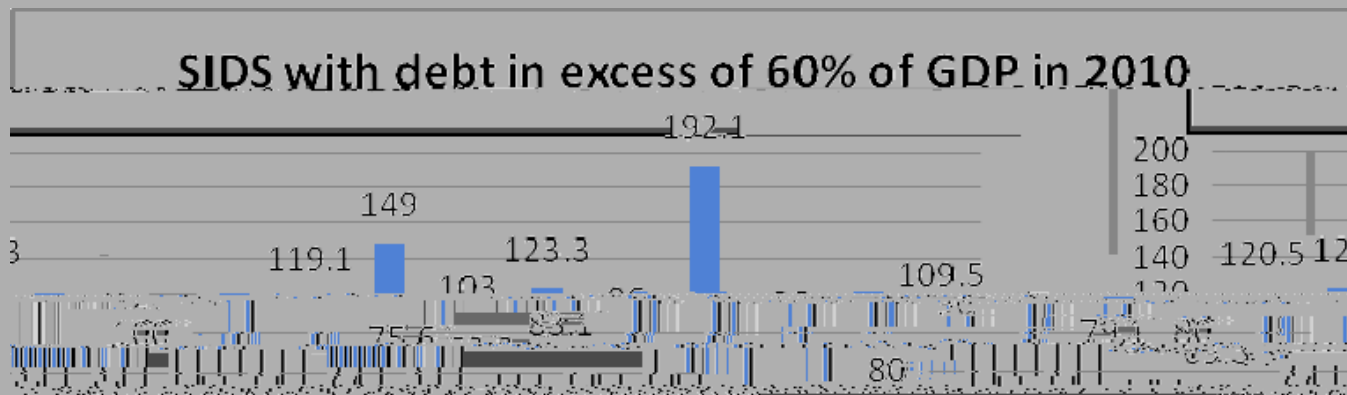
- Many SIDS register extremely high public debt ratios
- Concurrent food fuel financial crises have worsened public debt ratios
- Climate change has increased (and will further increase) SIDS' vulnerabilities to natural

ra000f 1.4324 0 TD 0 Tc <0003>T

# 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



# Public Debt in SIDS: An Overview

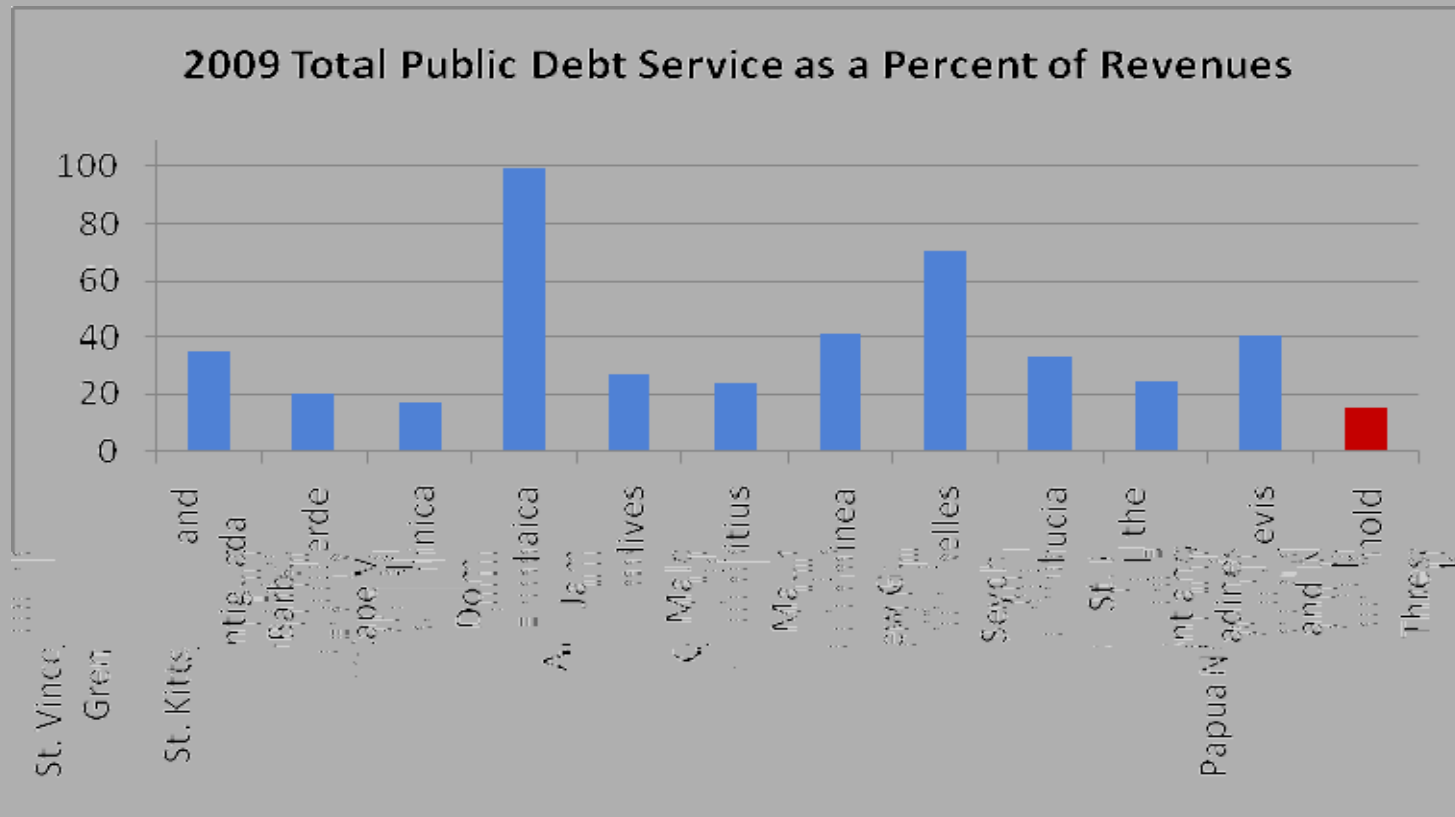


The fiscal burden

# Public Debt in SIDS: An Overview



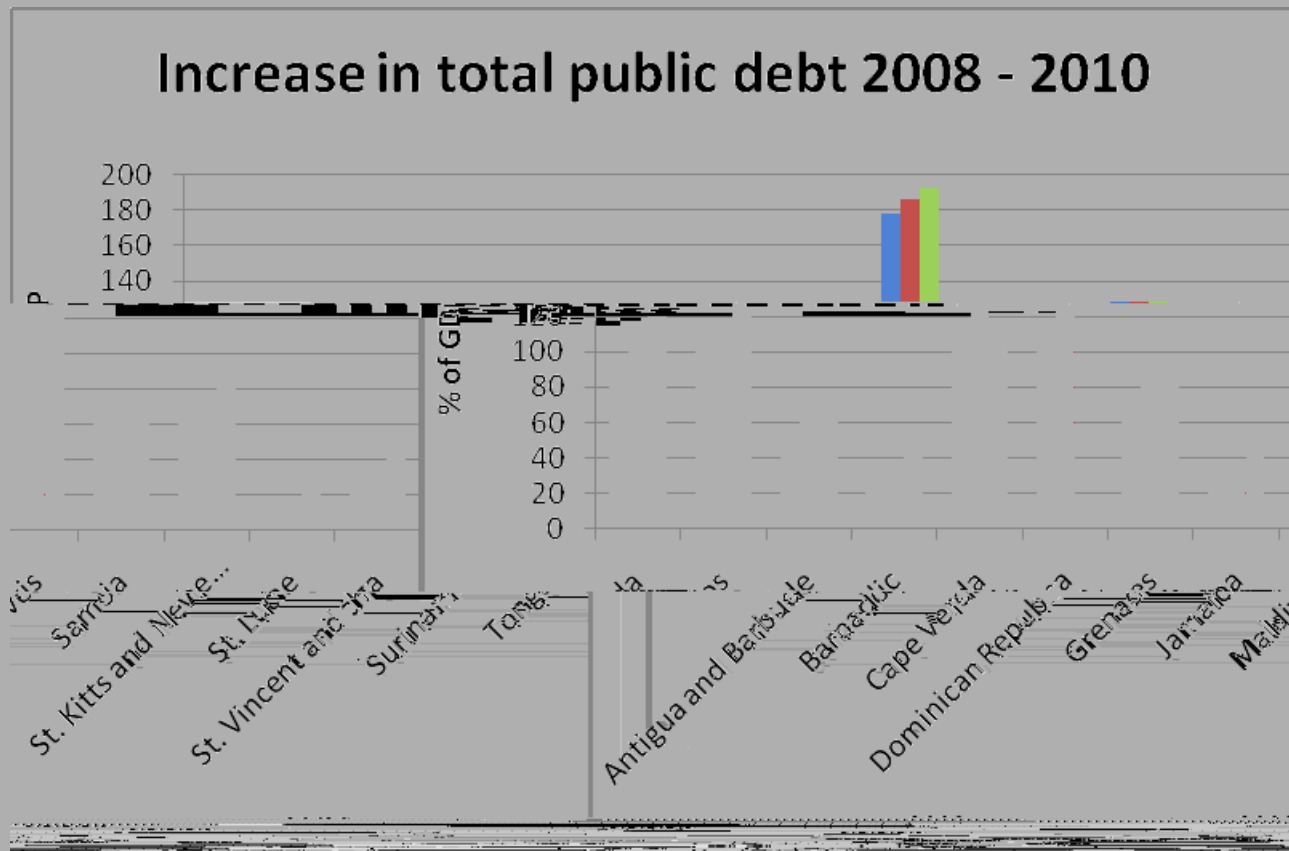
What lessons can be learned from recent trends in debt sustainability in small island developing states and other vulnerable economies



# 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





# Public Debt in SIDS: An Overview

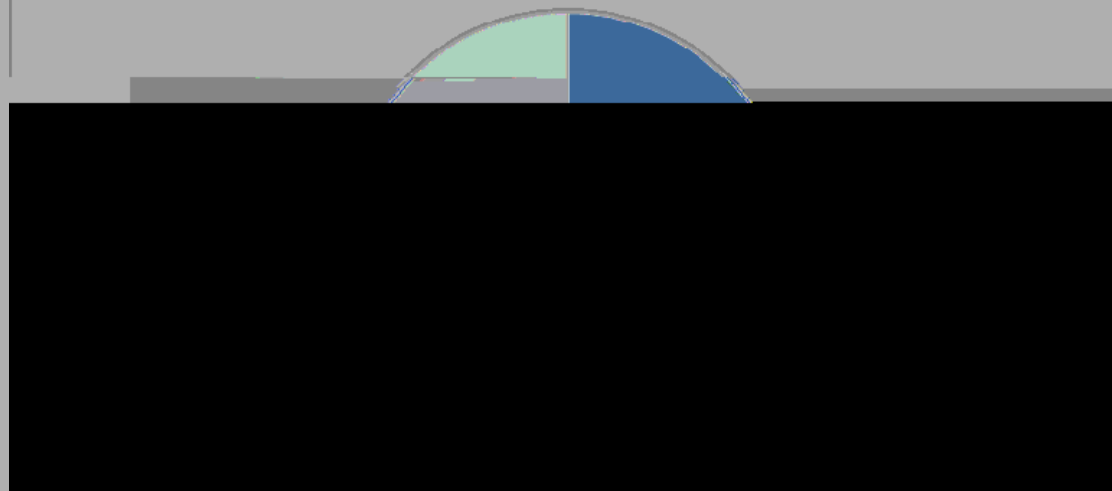
---



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)

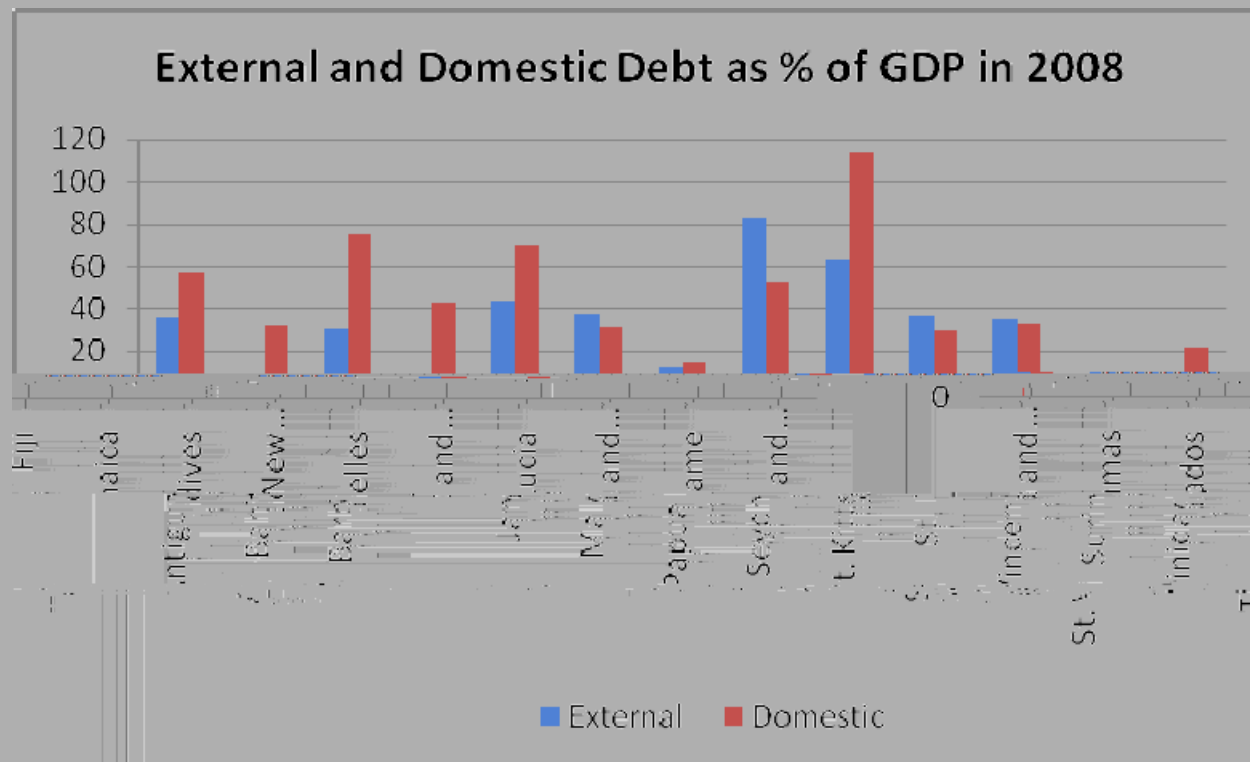




# Public Debt in SIDS: An Overview



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



# Debt Restructuring Operations in SIDS

---



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

---



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



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

## 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



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

# 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







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

*Thank you!*

Contact:

Gail Hurley, Policy Specialist, UNDP, New York: [gail.hurley@undp.org](mailto:gail.hurley@undp.org)

**United Nations Development Programme**