



# COVID-19 pandemic: Towards a blue recovery in small island developing states

26 January 2021

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Small island developing states (SIDS) are among the most vulnerable countries to the impacts of the coronavirus (COVID-19) crisis, which is disrupting key economic sectors that SIDS' undiversified and already fragile economies strongly rely upon. While they are succeeding to contain the health emergency, SIDS are faced with severe economic impacts which require bold government action and adequate international support. This policy brief: (i) highlights the impacts of the coronavirus (COVID-19) pandemic across SIDS; (ii) provides an overview of the support delivered by development co-operation providers to face the crisis; and (iii) provides suggestions to ensure that international support can lead to a fast and sustainable recovery in SIDS: a 'blue' recovery.

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## Key Messages

- While SIDS have so far been able to contain the health consequences of the COVID-19 pandemic, they are among the worst hit developing economies in economic and fiscal terms: in 2020 their GDP dropped by 6.9% versus 4.8% in all other developing countries. This is mainly due to global contractions in two ocean economy sectors that are key to many SIDS: coastal tourism and fisheries. The crisis is amplified by SIDS' structural vulnerabilities, such as over-reliance on one or two economic sectors, high fiscal deficits and public debt levels, and significant constraints to the mobilisation of both public and private finance.
- Access to fast and effective support from the international development community is vital as SIDS' public spending needs are mounting – both to respond to the health emergency and to counter the economic effects of the pandemic – while remittances and revenues, especially from key ocean economy sectors such as tourism, have collapsed.
- The international community has been extending official development assistance (ODA) to help SIDS tackle the COVID-19 crisis. Bilateral providers have mainly focused on helping to contain the health emergency. Multilateral institutions have provided the bulk of the development aid for SIDS, extending at least USD 2.8 billion in 2020 (this is a lower bound), including through new initiatives and the revision of existing rules for accessing funds. However, important gaps may remain.
- The potential stress on development resources available internationally due to the crisis makes a tailored and smart deployment of international co-operation resources more essential than ever. In SIDS this means that as well as on the health emergency and to immediate socio-economic responses, support must focus on fostering a recovery that addresses SIDS' most critical structural challenges, enhancing the resilience and sustainability of existing key economic sectors, and fostering economic diversification by unlocking new, more resilient and sustainable, development opportunities that can attract private investments and mobilise domestic resources.
- Making ocean-based sectors, that are already the backbone of most SIDS' economies, more sustainable and resilient will need to be a priority in recovery efforts, together with unlocking new, sustainable economic opportunities that can foster diversification and resilience. SIDS' vast ocean resources provide some of the most tangible opportunities for a more diverse set of economic activities. Supporting new and emerging ocean-economy opportunities in ways that foster significant linkages and multiplier effects across multiple economic and social areas will be key to achieving a fast and resilient recovery in SIDS. Such 'blue' recovery will need to be centred around:
  - Addressing the debt situation in SIDS to preserve fiscal space for investments for a sustainable and resilient recovery;
  - Enhancing the sustainability and resilience of critical and highly affected economic sectors, such as tourism and other ocean economy sectors, making sure that support across these sectors includes a climate and broader environment focus. This could be achieved through embedding sustainability requirements and standards in concessional lending and support recovery packages and measures;
  - Supporting SIDS to seize new ocean economy opportunities that can sustainably foster economic diversification and resilience, including by exploring additional long-term development co-operation schemes, such as international cost-sharing mechanisms for the conservation and sustainable use of ocean assets and schemes to enhance expertise and risk assessment for emerging ocean-related economic activities.



## Introduction

The world is being transformed by the COVID-19 crisis, whose impacts are expected to be more severe than the 2008 financial crisis and truly global in reach (OECD, 2020<sup>[1]</sup>). Global poverty is set to increase for the first time in 30 years and developing countries risk falling further behind in the Sustainable Development Goals (SDGs) (World Bank, 2020<sup>[2]</sup>). Many developing and emerging market countries are being strongly affected via historic declines in commodity prices and remittances and unprecedented reversals in capital flows, which have fuelled a deep loss of confidence and exacerbated vulnerability to other potential shocks. Several amplifying factors make developing countries particularly exposed to the effects of the pandemic. Already before the COVID-19 pandemic hit, many developing countries had been struggling with rising public and private debt levels. The record portfolio capital outflows from emerging economies and often sharp currency devaluations have made debt servicing more onerous for developing countries, exacerbating pre-existing unsustainable debt burdens. In 2020-21, global foreign direct investment could fall by as much as 40% (UNCTAD, 2020<sup>[3]</sup>). Further, high levels of poverty and inequality, more fragile health and sanitation systems, and widespread informality of the economy, all aggravate the spread and impacts of COVID-19 in developing countries (Djankov and Panizza, 2020<sup>[4]</sup>).

This policy brief focuses on small island developing states (SIDS), a group of developing countries particularly vulnerable to external shocks due to their unique structural characteristics. For SIDS, small, dispersed populations hamper the creation of sizable domestic markets and lead to capacity constraints. Their remoteness determines that as a group they are less than one third as well connected as other developing countries (OECD, 2018<sup>[5]</sup>), and this reduces their access to international markets and competitiveness. As a result, most SIDS rely on small, undiversified economies and often face high debt levels, many of them also relying on the rest of the world for remittances, official development assistance (ODA) and financial services. These economic vulnerabilities are interrelated and reinforced by the climate and environmental challenges, such as increasingly frequent extreme weather events, rising sea levels, ocean acidification, loss of ocean oxygen and ecosystem degradation.

SIDS economies are largely ocean economies. While these countries have limited land masses, they possess vast ocean resources – on average, more than 2 000 times<sup>1</sup> the size of their land masses – which are already the foundation of SIDS' economic activities, livelihoods, foreign exchange, and employment. The ocean economy includes economic sectors either directly or indirectly dependent on ocean resources. They include traditionally exploited marine resources – whether living resources (fisheries) or non-living resources (oil, gas and marine manufacturing and construction) – as well as the use of oceans for tourism, education and shipping. They also include ocean-based industries that have recently emerged because of advancements in science and technology, such as: offshore wind, tidal and wave energy; marine aquaculture; seabed mining for metals and minerals; marine biotechnology (OECD, 2016<sup>[6]</sup>). Prominent ocean-based sectors in SIDS are coastal tourism and fisheries. Coastal tourism refers to land-based tourism activities including swimming, surfing, sun bathing and other coastal recreation activities taking place on the coast for which the proximity to the sea is a condition including also their respective services. Maritime tourism refers to sea-based activities such as boating, yachting, cruising, nautical sports as well as their land-based services and infrastructures. Based on this definition of maritime tourism, and because most of tourism in SIDS is indeed connected to coastal and marine activities, the paper will refer simply to 'tourism' henceforth.

Tourism, fisheries, and other ocean-economy sectors that SIDS depend upon are increasingly negatively affected by overfishing, plastic pollution and ecosystems degradation, as well as by the impacts of climate change (more intense extreme weather events, rising sea levels, bleaching corals, etc.). Therefore, supporting SIDS to address these pressures on their ecosystems and economic sectors, and helping them

<sup>1</sup> This figure refers to the average ratio of EEZ to land mass in the 34 ODA-eligible SIDS. This ratio is highest for Tuvalu (EEZ exceeds its land mass by 28 838 times), followed by Nauru (EEZ exceeds its land mass by 14 689 times).



harness the new opportunities arising from an expanding global ocean economy (e.g. renewable energy, aquaculture) can effectively hold the key to diversifying SIDS' economies, building resilience and producing more food, more jobs and charting new pathways of low-emission, resilient sustainable development. The sustainable ocean economy has been identified as an SDG accelerator, since investments in the sustainable ocean economy will have large multiplier effects across many other economic and social areas.

This is why SIDS, who often refer to themselves as 'big ocean states', are taking a bold stance on the sustainable ocean economy. They have developed blue economy strategies and become leaders on the international sustainable ocean agenda. SIDS have called on the international community to support their ambition for sustainable ocean economies. Therefore, the international community has a golden opportunity to use COVID-19 recovery plans to effectively help SIDS unlock new opportunities and set on a path of resilient and sustainable development.

This policy brief provides three main contributions: (i) an analysis of the health and economic impacts of the COVID-19 pandemic across SIDS; (ii) an overview of the support delivered by development co-operation providers to address the COVID-19 crisis; and (iii) proposals to ensure that the international development community can effectively support a fast and resilient 'blue' recovery in SIDS.

Because of its focus on concessional resources, the SIDS covered in this policy brief are those currently eligible for ODA<sup>2</sup>, while it is acknowledged that non-ODA eligible SIDS may also be affected by the COVID-19 crisis.

## 1. Relatively contained health consequences but large economic impacts that are magnified by structural vulnerabilities

### SIDS governments managed the health emergency effectively

With approximately 261 000 infections in December 2020, SIDS represented a small share of total COVID-19 cases worldwide (0.3%), and smaller compared to their share of the world population (0.7%). As shown in Figure 1, the evolution of the COVID-19 pandemic across SIDS has been less severe than in the rest of the world. In SIDS, the case-fatality rate (1.5%) was lower than the world average (2.2%) as well as figures in industrialised economies such as Canada (2.7%), United Kingdom (3.0%) or Italy (3.5%)<sup>3</sup>. COVID-19 related deaths in SIDS amounted to 3 896, or 0.2% of the world total, as of December 2020 (Figure 1). SIDS seem, however, to be more severely affected than other vulnerable countries, such as least developed countries (LDCs), but the low level of testing and issues of underreporting in LDCs make it difficult to draw more definitive conclusions around this comparison.

This picture of SIDS as a group hides significant differences across individual SIDS. In Belize, Cabo Verde, the Dominican Republic, and the Maldives, for example, the number of cases per thousand inhabitants have been higher than the world average. Against a global trend which as of December 2020 witnessed approximately 10.7 cases per thousand inhabitants worldwide, the Dominican Republic had 15.7, Cabo Verde 21.3, Maldives 25.5 and Belize 27.1. The Dominican Republic also recorded 62% of the total

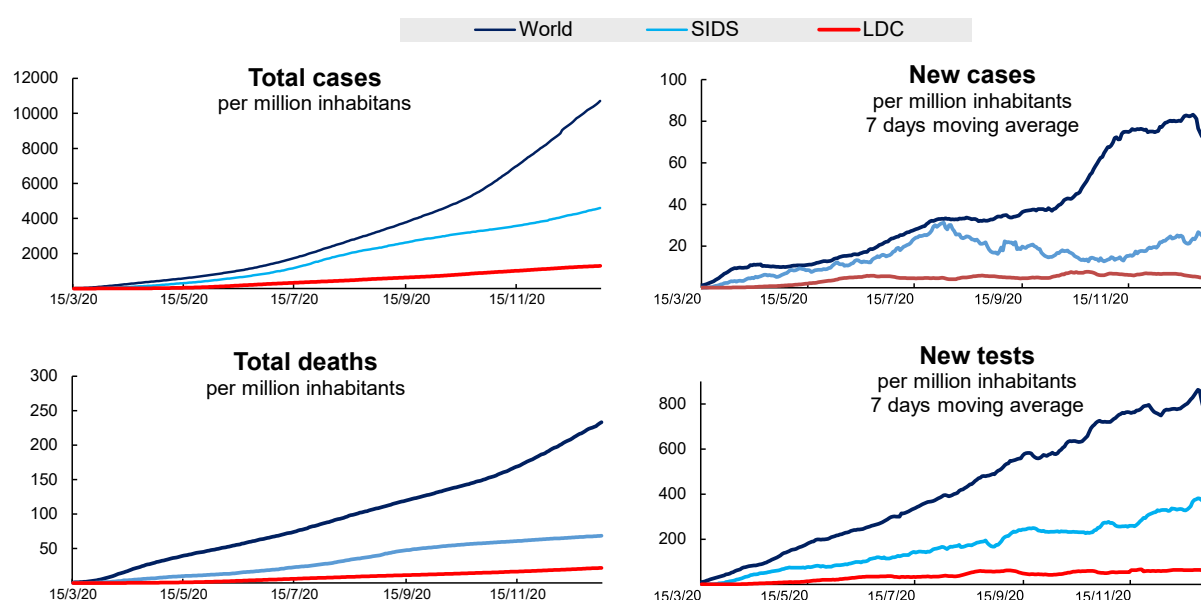
<sup>2</sup> Currently, the following SIDS are ODA-eligible: Antigua and Barbuda, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia, Montserrat, Nauru, Niue, Palau, Papua New Guinea, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Solomon Islands, Suriname, Timor-Leste, Tonga, Tuvalu, and Vanuatu. For a definition of ODA-eligibility, please refer to: <http://www.oecd.org/dac/financing-sustainable-development/development-finance-standards/dac/daclist.htm>.

<sup>3</sup> All COVID-19 data have been extracted on 30 December 2020 from Our World in Data (2020<sub>[7]</sub>).



COVID-19 related deaths in ODA-eligible SIDS. On the other hand, Pacific SIDS were weakly affected by the health impacts of the pandemic. As of December 2020, only 11 reported cases, for a total of 25 310, and COVID-19 related deaths amounted to 250, with a case fatality of 1.0%<sup>4</sup>. ODA-eligible SIDS yet to report a case include Kiribati, Micronesia, Nauru, Niue, Palau, Samoa, Tonga, and Tuvalu.

**Figure 1. Relative to their population, SIDS have had fewer COVID-19 cases and deaths than the world average**



Note: The SIDS category used for this chart includes only ODA-eligible SIDS. Data comprise the period March 15, 2020 – December 31, 2020. Source: Our World in Data (2020<sup>[7]</sup>), Coronavirus Pandemic (COVID-19), <https://ourworldindata.org/coronavirus>.

The relative success in keeping COVID-19 at bay across SIDS was due to governments' swift action to impose restrictions on travelling before the pandemic reached their shores as well as implementing regulations promoting social distancing once the virus started spreading within their borders. Timely measures contained the contagion and the number of deaths, despite the high prevalence of pre-existing health conditions such as diabetes, cardiovascular diseases and obesity that make SIDS populations highly susceptible to COVID19 (OECD, 2020<sup>[8]</sup>). This positive result stands out also in light of the additional difficulties from the financial and capacity constraints which often result in comparatively low health capabilities as measured by the Global Health Security Index (HSI) and can add particular pressures on SIDS' health systems during a pandemic (UN DESA, 2020<sup>[9]</sup>).

Starting from 12 March 2020, Antigua and Barbuda forbade foreign nationals who had travelled to a list of affected countries from entering the country. Similarly, Cuba and Fiji barred all non-resident foreigners from entering national borders. Fiji and other SIDS also imposed higher than usual quarantining periods for all incoming passengers (28 days versus the standard 14 days). In Vanuatu, strict protocols were implemented for receipt of medical and other humanitarian assistance, including the sanitation of supplies.

<sup>4</sup> This figure includes both ODA-eligible and not eligible SIDS, as reported by the Pacific Community COVID-19 Updates (<https://www.spc.int/updates/blog/2020/09/covid-19-pacific-community-updates>). Affected countries include Commonwealth of the Northern Marianas, Fiji, French Polynesia, Guam, New Caledonia, Papua New Guinea and Solomon Islands.





Social distancing measures were also strictly implemented. Common approaches to contain the spread of the virus included domestic curfews, the prohibition of large gatherings, limits to inter-island connectivity and the closure of beaches. In the case of the Eastern Caribbean Currency Union<sup>5</sup>, authorities have enforced travel restrictions, suspended cruise ship visits, closed schools and universities, adopted social distancing and expanded medical capacities, including enlarging hospitals, medical equipment, and training medical staff.

Although for the most part SIDS have effectively managed the first outbreak, the health crisis is not yet over and SIDS continue to deal with cases, some in waves, some in steady streams. This second phase requires a coexistence with the pandemic and the measures that have been put in place to safeguard the population and contain the spread of the virus represent an additional pressure on public finances.

### **The COVID-19 crisis is hitting hard the ocean economy sectors that SIDS strongly depend upon**

Although SIDS suffered moderate health impacts from the COVID-19 pandemic, they are among the worst hit countries by the associated economic crisis. ODA-eligible developing countries are expected to record an average GDP contraction of 4.8% in 2020, but in small island economies GDP is likely to shrink by a much higher 6.9% (IMF, 2020<sub>[10]</sub>). The economic blow to SIDS is expected to be significantly larger than in other groups of poor and vulnerable countries, such as LDCs and land-locked developing countries (LLDCs) (Figure 2). Some tourism-dependent SIDS are expected to experience particularly severe GDP contractions: in Antigua and Barbuda, Belize, Fiji, Maldives and Saint Lucia, GDP is expected to shrink by 16% or more, making the current crisis the worst in recorded history. For fisheries-dependent SIDS – such as Comoros, Kiribati, Marshall Islands, Micronesia and Tuvalu – expected GDP drops range between 0.5% (Tuvalu) and 4.5% (Marshall Islands). Some natural-resource dependent SIDS will also be negatively affected by the fall in commodity prices. These include Papua New Guinea and Timor-Leste, which will see a fall in GDP by 3.3% and 6.8% respectively, and where public revenues will be negatively affected by the related fall in export earnings. Amongst resource-rich SIDS, an exception is Guyana, which recorded exceptional economic growth in 2020, estimated at 26.2%, because of the rise in the price of gold.

Ocean economy sectors – such as tourism and fisheries – are being severely hit in SIDS, with the tourism sector in particular acting as a major transmission channel of COVID-19 crisis. During the 2007-08 global financial crisis, SIDS suffered more severe economic impacts than other countries because of the contraction in tourism and their over-reliance on this sector (OECD, 2018<sub>[5]</sub>). Many SIDS are particularly exposed to developments in the tourism sector as more than other countries their undiversified economies heavily rely on tourism for foreign exchange, jobs and income. For two out of three SIDS tourism accounts for 20% of GDP or more (OECD, 2018<sub>[5]</sub>), compared to 4.2% for OECD countries. Reliance on the tourism sector is particularly high in Antigua and Barbuda, Belize, Cabo Verde, Grenada, Maldives, Saint Lucia and Fiji where the total contribution of tourism to GDP exceeds 40%; while it reaches 65% in the Seychelles.

According to UNWTO, the COVID-19 pandemic has caused a 65% drop in tourist arrivals worldwide in January-June 2020 (UNWTO, 2020<sub>[11]</sub>), and the OECD estimates that the total drop in international tourism as a result of the pandemic is around 80% over the year 2020 (OECD, 2020<sub>[12]</sub>). The drop in tourism flows in January-June 2020 alone could result in a fall in international tourism receipts by USD 460 billion, more than three times the loss during the 2007-08 financial crisis (UNWTO, 2020<sub>[13]</sub>). SIDS rely to a great extent on international tourism flows and between February and June 2020, almost all SIDS had to close borders and halt international tourism completely. Due to supply chains linkages, total losses in the tourism sector can be much larger than tourism receipts alone and are estimated at USD 1.17-2.22 trillion (UN, 2020<sub>[14]</sub>).

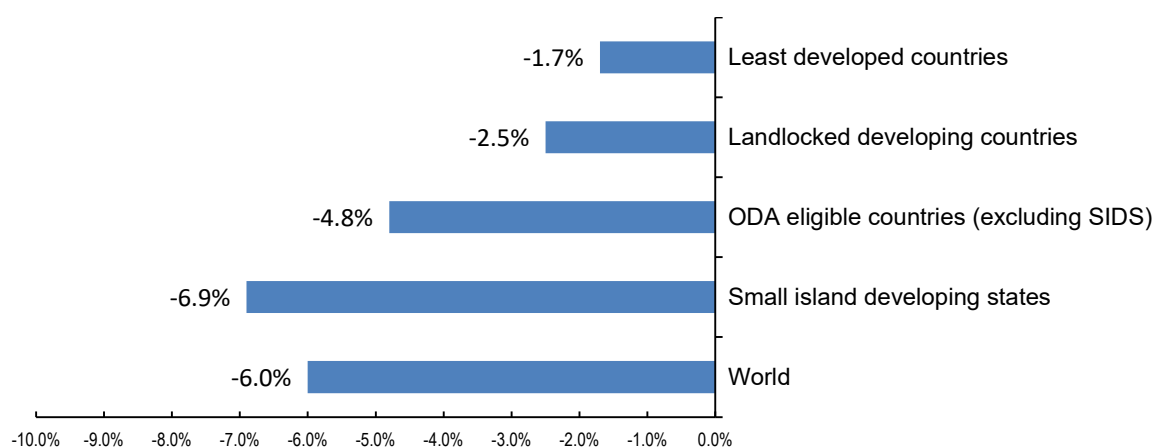
<sup>5</sup> This is comprised by eight Caribbean SIDS sharing a common central bank: Anguilla, Antigua and Barbuda, Dominica, Granada, Montserrat, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.



Depending on the speed of containment and the duration of travel restrictions and shutdown of borders, tourist arrivals might contract between 58% and 78% in 2020. Effects on tourism may be long-lasting, and the World Travel and Tourism Council (WTTC) suggests that in previous viral epidemics the average recovery time for visitors to a destination was about 19 months (WTTC, 2020<sup>[15]</sup>). These estimates were however based on a different scenario, where pandemics were localised and did not restrict global travelling to the current extent.

## Figure 2. SIDS as a group recorded the largest GDP contraction globally in 2020

Annual GDP growth – 2020 projections



Note: The percentage is calculated based on an arithmetic average of individual countries growth projections. The SIDS category only includes ODA eligible SIDS.

Source: Authors based on IMF (2020<sup>[10]</sup>), World Economic Outlook database: October 2020 <https://www.imf.org/en/Publications/WEO/weo-database/2020/October/download-entire-database>.

To understand the magnitude of the consequences of the COVID-19 pandemic on SIDS' tourism sector, Figure 3 shows the percentage change in the number of visitors in retail and recreation sites in a sample of selected SIDS during the first wave of contagion, obtained from the *Google COVID-19 Community Mobility Reports*. The chart shows a deep slump in the length of mobility for selected SIDS, with tourism-dependent countries like Antigua and Barbuda and Barbados being affected the most. Some countries like the Dominican Republic and Cabo Verde witnessed longer than usual slumps in mobility, which in September 2020 was still approximately 50% lower than the baseline of January and February 2020. Although this data also include mobility changes from residents, it shows similar trends to UNWTO estimates showing that international tourist arrivals in SIDS started dropping substantially in February 2020 (24% year-on-year) and reached a complete halt in April and May (UNWTO, 2020<sup>[11]</sup>). One year into the pandemic, no signs of a significant rebound to pre-COVID flows have been recorded.

The fisheries sector represents the backbone of many SIDS economies and it too has been significantly impacted by the COVID-19 pandemic; although to a lesser extent than the tourism sector. According to the FAO, fisheries accounts on average for 3% of GDP in SIDS, while its contribution is much larger as a source of employment and nutrition. The fisheries sector also acts as a "safety-net" in times of hardship, when other sources of employment are not available. A growing share of the population is engaging in subsistence fishing. With the closure of restaurants and the drop in tourism flows, global demand for certain types of fish has dropped, in particular for high-end products such as lobsters, oysters, bluefin tuna and mahi-mahi (OECD, 2020<sup>[16]</sup>). The reduction in global fishing efforts will add additional pressures to the balance sheet of SIDS governments, which will see an increase in budget allocation to support fishers' income and a drop in their revenues in licence access fees from foreign vessels. The latter aspect is of

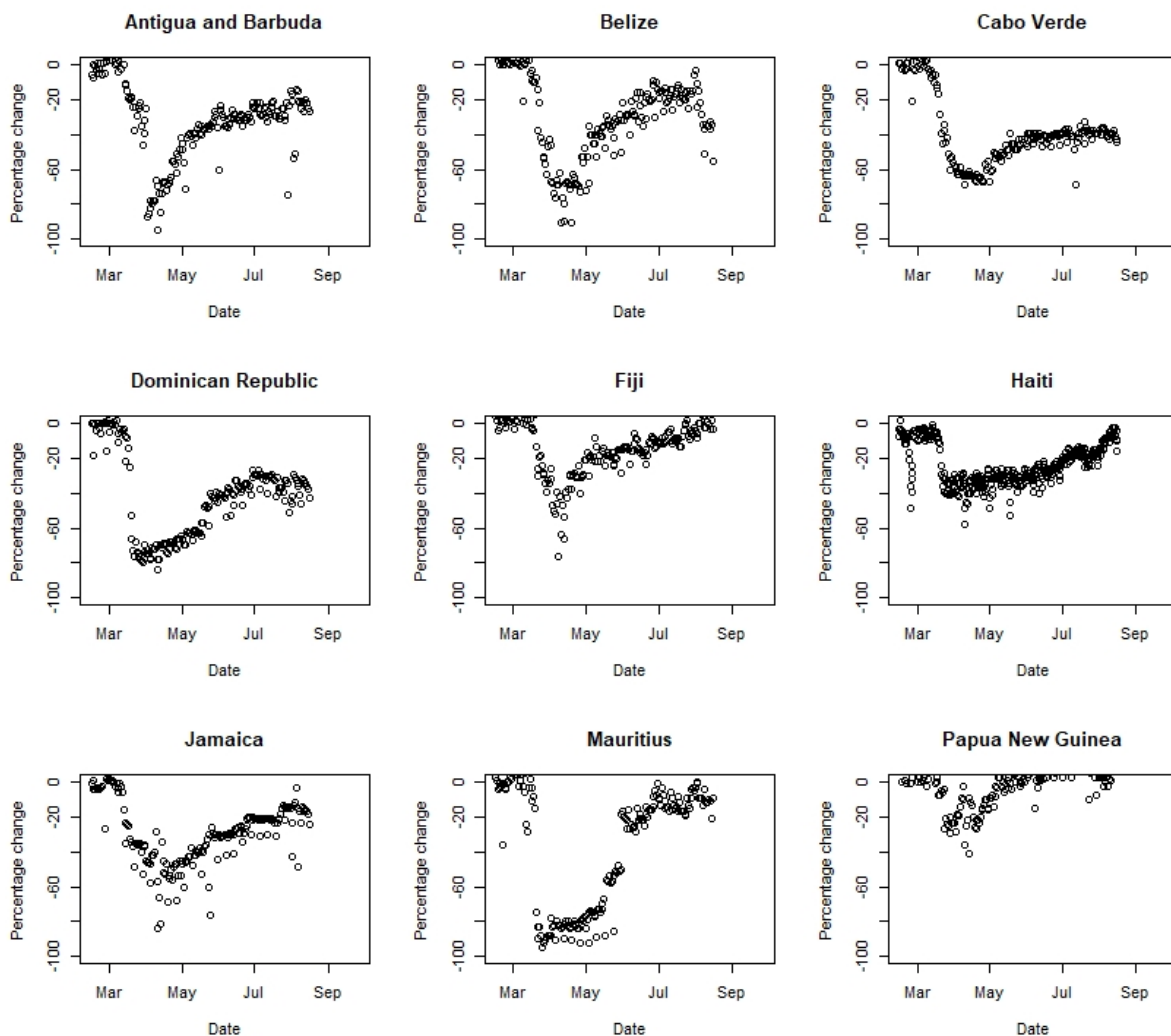


paramount importance for several SIDS. Kiribati's public revenues, for instance, depend on revenues from licence access fees from foreign vessels for up to 75% (ESCAP, 2020<sup>[17]</sup>).

If on the one hand COVID-19 reduced demand for fish products, on the other hand it is making it easier to engage in illegal, unregulated and unreported (IUU) fishing (Lehr, Loft and Kim, 2020<sup>[18]</sup>; OECD, 2020<sup>[16]</sup>). Many SIDS governments have reassigned personnel who were monitoring the fisheries sector to other COVID-19 related tasks, reducing overall supervision. In many circumstances, lockdowns prevented monitoring officials from boarding vessels (Woody, 2020<sup>[19]</sup>). The decreased law enforcement at sea and the strict safety measures imposed in ports are also making transshipment at sea easier and more convenient. This practice is however more likely to be associated with illicit fishing, leading to overfishing and lower public revenues from the sector.

### Figure 3. Lockdowns have led to a significant decrease in mobility in many SIDS

Total visitors, % change with respect to baseline



Note: The baseline day is the median value from the 5-week period Jan 3 – Feb 6, 2020. Mobility trends are calculated for places like restaurants, cafes, shopping centres, theme parks, museums, libraries, and movie theatres. It does not include grocery stores and pharmacies.

Source: Authors based on Google (2020<sup>[20]</sup>), COVID-19 Community Mobility Report <https://www.google.com/covid19/mobility/>.





### ***Large fiscal and financing impacts exacerbate SIDS' already precarious situation***

Even before the outbreak of COVID-19, SIDS were facing critical financing challenges. Private investments are generally small and volatile, owing to SIDS' exposure to disaster risks and high perceived investment risks. The often economically isolated nature of operations (due to their remoteness) also severely restricts investments because of the limited opportunities for domestic business development and for integration in global value chains. Public investments are in turn constrained by volatile domestic revenues and limited fiscal space, with several SIDS being in debt distress or at risk of debt distress. Climate risks and high vulnerability to natural disasters aggravate SIDS' ballooning debt by requiring large financial commitments to periodically address post-disaster reconstruction efforts and to finance climate adaptation measures (OECD, 2018<sup>[5]</sup>).

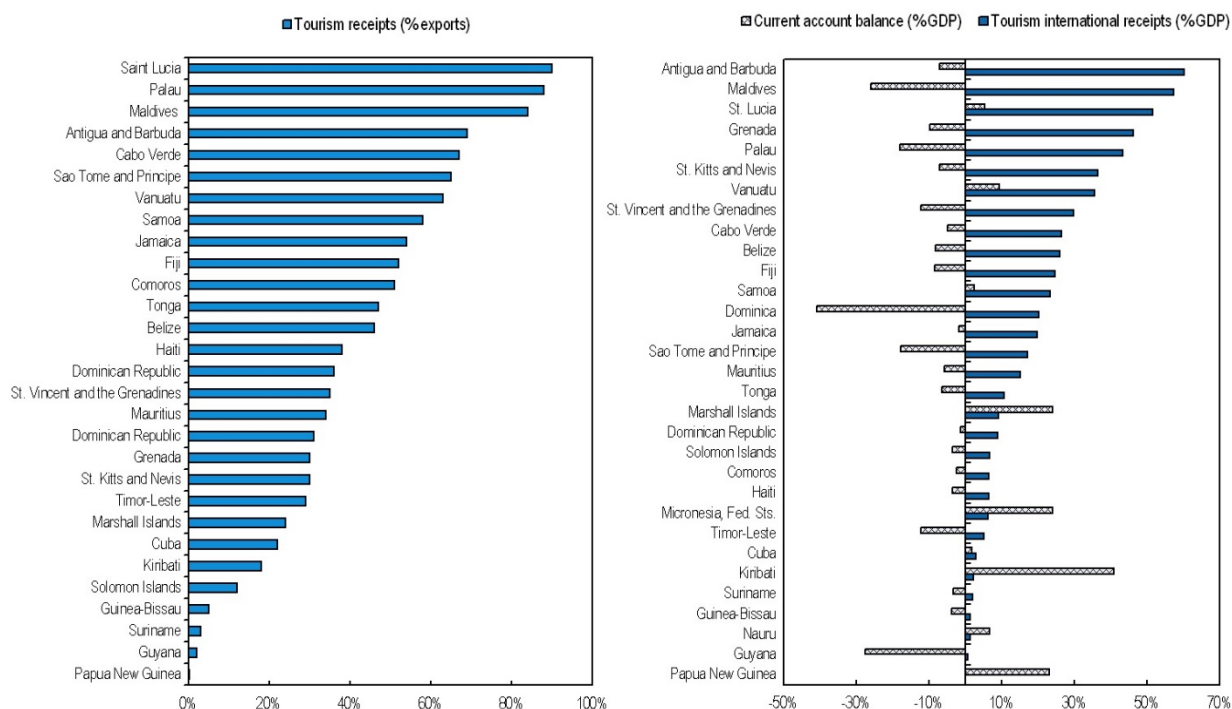
During the COVID-19 crisis, the public spending needs of SIDS have mounted – both to respond to the health emergency and to counter the economic effects of the pandemic – while remittances and revenues from key sectors have collapsed, urging governments to search for alternative sources of foreign exchange revenues and of financing necessary to service external debt, pay for imports and implement much-needed recovery measures.

Many SIDS are experiencing record amounts of revenue losses resulting from the COVID-19 pandemic, and this risks significantly aggravating SIDS' debt burdens as well as depressing public investment and recovery responses. As shown in Figure 4, international tourism receipts make up more than 80% of total exports for some countries including Saint Lucia, Palau, and the Maldives. A 25% drop in tourism receipts will result in a USD 7.4 billion or 7.3% fall in GDP for SIDS as a group; and in a GDP fall of up 16% for the Maldives and the Seychelles (UNCTAD, 2020<sup>[21]</sup>).

SIDS are also experiencing a drop in remittances, which is for many the largest source of external financing (OECD, 2018<sup>[5]</sup>). In 2019, ODA-eligible SIDS received approximately USD 15.3 billion in remittances. Remittances as a share of GDP averaged 8.3% across SIDS, with Tonga and Haiti receiving remittances worth 38% and 37% of GDP respectively (World Bank, 2020<sup>[22]</sup>). Due to the loss in jobs and wages for migrant workers, remittances to low and middle-income countries are expected drop by 7.2% in 2020, followed by a 7.5% decline in 2021 (World Bank, 2020<sup>[23]</sup>): recording the largest fall in recent history. Assuming that the average fall in remittances applies to SIDS as well, this would mean a drop of approximately USD 1.1 billion over 2020. The prolonged economic slump in advanced economies and the risk of a second wave of lockdowns will likely reduce the resources channelled back through this instrument, further aggravating the lack of external financing. However, partially as a result of the complete re-opening of economies such as Australia and New Zealand, preliminary data show that SIDS in the Pacific might suffer smaller declines in remittances (Howes and Surandiran, 2020<sup>[24]</sup>).



**Figure 4. SIDS strongly depend on international tourism receipts**

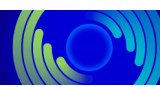


Source: Authors based on UNWTO (2020<sup>[25]</sup>), Tourism in SIDS: the challenge of sustaining livelihoods in times of COVID-19, <https://www.e-unwto.org/doi/pdf/10.18111/9789284421916> and World Bank (2020<sup>[26]</sup>), World Bank Open Data, <https://data.worldbank.org/>.

Developments in commodity prices will affect SIDS differently, negatively impacting government revenues in oil-exporting and commodity export-dependent SIDS, such as Papua New Guinea and Timor-Leste. The downturn trajectory in gas and oil prices are instead a good news for oil importers tourism-dependent countries, such as Maldives, Antigua and Barbuda and Vanuatu, providing fuel cost savings to these economies and a buffer to respond to other economic shocks (Srinivasan, Muñoz, and Chensavasdjai, 2020<sup>[27]</sup>). The appreciation of the price of gold, on the other hand, has been favourable and could ease the fiscal burden in gold exporting countries such as Guyana.

Despite pervasive fiscal constraints for most SIDS, many governments have implemented fiscal measures to mitigate the economic impacts of the COVID-19 crisis. Antigua and Barbuda increased the country's health spending to 0.5% of GDP, reduced electricity costs by 20% to the public and fuel costs to fishermen, and reopened its national borders on 4 June 2020, subject to health protocols, for returning nationals and visitors. Among the set of fiscal measures announced to support the most affected sectors, Grenada has provided payroll support for tourism and other impacted sectors, whereas Montserrat granted financial aid to vulnerable tourism sector employees. As a block, the Eastern Caribbean Central Bank approved a USD 4 million grant funding for all member countries in order to strengthen its capacity to fight against COVID19. In the tourism sector, measures put in place across SIDS aimed at ensuring SMEs survival through financial and liquidity support and at promoting job retention (UNWTO, 2020<sup>[25]</sup>). Fiji has announced a large recovery package for 2020-21, inclusive of a number of measures to revitalise its tourism sector. These measures include a travel stipend for the first 150 000 visitors and a tax cut for mid-sized tourism operators.

Some SIDS have been able to use sovereign wealth funds as a fiscal buffer to address the drop in fiscal revenues resulting from the COVID-19 crisis. This was especially the case for some SIDS in the Pacific (e.g. Kiribati, Timor-Leste, Tuvalu), that have well-established sovereign funds, created to manage natural



resources revenues, promote effective public finance management and provide a buffer against SIDS' volatile domestic revenues.

However, for most SIDS the health, economic and social responses needed to address the on-going challenges of the COVID-19 crisis exceed government budgetary capacities. Limited fiscal space and limited access to international finance hinder governments' responses, further exacerbating the social and economic consequences of the pandemic.

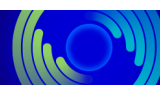
## 2. The international community is providing support but it is not tailored enough nor at scale

Even before the COVID-19 crisis, and for a number of years now, SIDS governments have been calling on the international community to provide more and better targeted development co-operation support (UN, 2014<sup>[28]</sup>). Although in recent years more sources of concessional finance have become globally available – including from global climate vertical funds<sup>6</sup> – many SIDS continue to struggle to access concessional finance, owing to capacity constraints and the complex array of accreditation and application processes to access these global funds. Access to finance is further constrained by eligibility criteria, which mainly rely on GNI per capita. This fails to capture the extent and nature of SIDS' vulnerabilities and funding needs (OECD, 2018<sup>[5]</sup>). As a consequence, today an average SIDS relies on just a single provider for 46% of their concessional finance (OECD, 2018<sup>[5]</sup>). Further, SIDS often receive funding after shocks have occurred; while more long-term and predictable funding to build resilience, break the spiral of high debt and low growth is often lacking (OECD, 2018<sup>[5]</sup>).

Over the 2009-18 period, ODA disbursements to SIDS have been stable at approximately USD 5.3 billion a year, peaking in 2010 due to the emergency response to Haiti and in 2016 because of debt relief to Cuba. ODA to SIDS' health sector had been on an increasing trend until 2013 and has since remained stable (Figure 5). Between 2009 and 2018, the average health-related yearly disbursements to SIDS as a group equalled USD 609 million, accounting for 12% of ODA disbursed to SIDS over the period. Of these disbursements, 48% targeted population policies and reproductive health, including STD control, while the remaining part was allocated for other types of health support such as basic healthcare and health policy and administrative management. In terms of geographical distribution, Caribbean SIDS have received the most health-related ODA, especially for reproductive health.

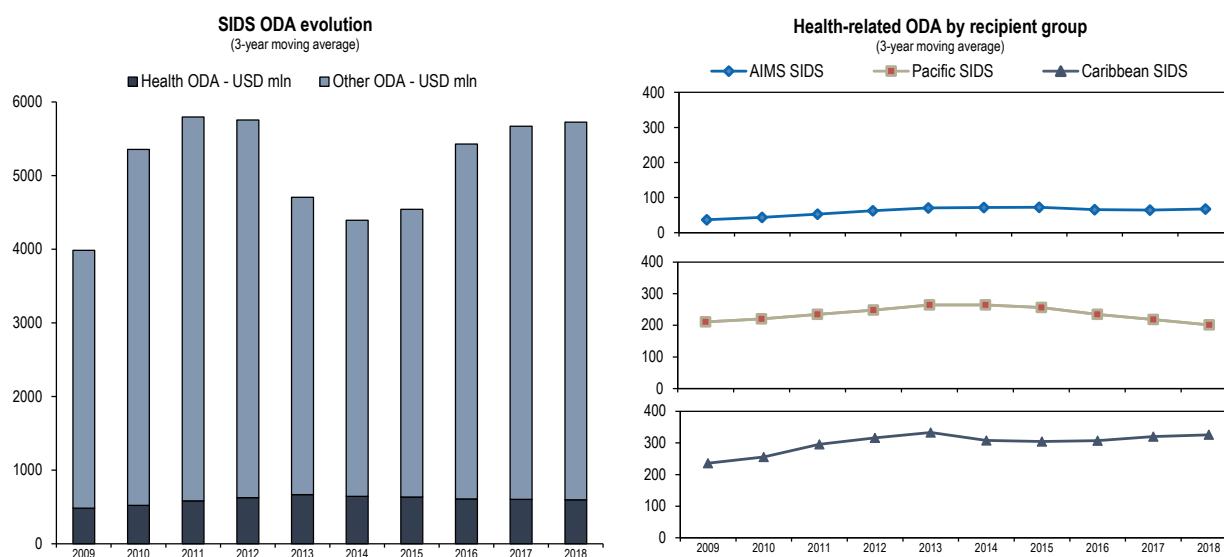
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<sup>6</sup> For example, the Simplified Approval Process Pilot Scheme (SAP) from the Green Climate Fund simplifies processes and documentation to access financing.



**Figure 5. Health-related ODA to SIDS has been stable over the last decade**

USD million - disbursements



Source: OECD (2020<sup>[29]</sup>), Creditor Reporting System (database), <https://stats.oecd.org/Index.aspx>? Note: Because the chart displays ODA amounts in a three-year moving average, the 2010 and 2016 peaks in ODA appear with a lag.

To help SIDS counter the effects of the COVID-19 pandemic, both bilateral and multilateral providers of development assistance have extended various types of support to SIDS, ranging from in-kind support, to grant assistance, to concessional lending and debt repayments postponement (further discussed below).

Data on international COVID-19 support to SIDS are still scarce and scattered. An initial data collection and analysis, summarised in Table 1, suggests that in 2020 providers of development co-operation have committed or redirected over USD 4.16 billion to support SIDS face the COVID-19 crisis. These estimates are drawn from various sources, including a survey conducted by the OECD Development Co-operation Directorate (OECD, 2020<sup>[30]</sup>), a web search to collect further information directly from the websites of bilateral and multilateral development co-operation providers and information found on the COVID-19 Pacific Aid Tracker<sup>7</sup>. These estimates are non-exhaustive and gaps may remain. Therefore the estimates in Table 1 should be understood as a lower bound of the total support provided to SIDS by the international development community during the COVID-19 crisis.<sup>8</sup>

<sup>7</sup> <https://c1acr951.caspio.com/dp/482E8000d02888e42bcd486f9644>

<sup>8</sup> Other attempts to quantify international COVID-19 support to SIDS include UN-OHRLLS estimates, which quantify this support at USD 1.1 billion as of December 2020: <https://www.un.org/ohrls/content/covid-19-sids>.

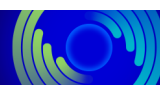


**Table 1. Multilateral and bilateral donors are providing support to face the COVID-19 emergency**

In million USD – Updated on 31 October 2020

	RFI (IMF)	RCF (IMF)	CCR T (IMF)	CDB	IADB	WB	ADB	EU	US	AU	FR	JP	NZ	CA	UK	Total	% of total
ATG				13												13.0	0.4%
BLZ				15	12			5.6								32.6	1.0%
CPV		32				5		5.6								42.6	1.3%
COM	8.08	4.05	2.47													14.6	0.4%
CUB											6					6.0	0.2%
DMA		14		2.5				1.1								17.6	0.5%
DOM	650							15.8			226.2					892.0	26.3 %
FJI						7.4	200.1	20	0.375	14.7	0.6	23.4				266.6	7.9%
GRD		22.4		5.9				1.1								29.4	0.9%
GNB			3.4													3.4	0.1%
GUY								1.1								1.1	0.0%
HTI		111.6	11.22		87	20		186.6	2.2		1.4					420.0	12.4 %
JAM	520							29.4	0.7							550.1	16.2 %
KIR						2.5	1.5	3.4	0.125	2.95						10.5	0.3%
MDV		28.9				7.3	0.6									36.8	1.1%
MHL						2.5	27.5	2.8	16.11	0.15		3				52.1	1.5%
MUS																0.0	0.0%
FSM						2.5	7.5		36			3.5				49.5	1.5%
MSR								3.2							3.24	6.4	0.2%
NRU							0.3		0.125	2.94						3.4	0.1%
NIU							0.5						3.979			4.5	0.1%
PLW							36		9.13							45.1	1.3%
PNG		363.6				20	3	11.3	3.5	121.4 83			1.81		1.2	525.9	15.5 %
LCA		29.2		10.8				6.8								46.8	1.4%
VCT		16		11.3												27.3	0.8%
WSM		22.03				8.5	24.5			6.9		26.14 7	1.8	0.033	0.026	89.9	2.7%
STP		12.29	0.39			2.5										15.2	0.4%
SLB	19	9.5	0.18			5.5	27.5	6.8		10				0.033		78.5	2.3%
SUR				8.2				1.1								9.3	0.3%
TLS								17	1.1							18.1	0.5%
TON						3.402	17.73	2.5		6.5		1.5	3.098			34.7	1.0%
TUV						2.5	1	2.3		1.96						7.8	0.2%
VUT						10	1.5	6.672		14.74	0.58	2.74	2.022			38.3	1.1%
Pacific Regional							577.3	130	34.1	7.33		2.5	6.075		2.3	759.6	
Caribbean Regional					0.75										12.95	13.7	
<b>Total</b>	<b>1197. 08</b>	<b>665.5 7</b>	<b>17.66</b>	<b>66.7</b>	<b>99.75</b>	<b>99.60 2</b>	<b>926.5 3</b>	<b>460.1 72</b>	<b>103.4 65</b>	<b>189.6 53</b>	<b>234.7 8</b>	<b>62.78 7</b>	<b>18.78 4</b>	<b>0.066</b>	<b>19.71 6</b>	<b>4162. 3</b>	

Note: Amounts include grants, concessional loans and reallocation of non-disbursed portfolios. Amounts reported in a currency different from USD have been converted using the following exchange rate: EUR/USD = 1.13; GBP/USD = 1.29.





Source: Authors based on statistical data from (OECD, 2020<sub>[30]</sub>), OECD Development Co-operation Directorate COVID responses survey, web search and analysis of official statements and announcements from the websites of bilateral and multilateral development co-operation providers and data from the Pacific Aid Tracker.

### ***Bilateral providers have mainly focused on containing the health emergency***

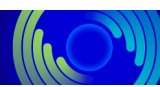
To help developing countries respond to the COVID-19 pandemic, several members of the OECD Development Assistance Committee (DAC), have increased or re-directed their development co-operation budgets. According to the results of a recent survey conducted by the OECD (2020<sub>[30]</sub>), a number of bilateral providers have focused specifically on SIDS, providing support to strengthen health systems and increase testing capacity by providing additional protective personal equipment to healthcare workers and delivering much needed mechanical ventilators and respiratory care supplies. Such DAC members include: Australia, European Union, France, Japan, Portugal, United Kingdom and United States. A number of non-DAC providers too have provided medical equipment, testing kits and financial support, mainly to Pacific SIDS.

In particular, support from the United States focused on health assistance, improved water and sanitation, infection prevention, COVID-19 case management, and laboratories. In terms of recipients, the United States provided USD 118 million to Pacific islands states (USAID, 2020<sub>[31]</sub>) and USD 20 million to the Caribbean Region (US Department of State, 2020<sub>[32]</sub>). The European Commission provided USD 352.6 million on emergency, health and economic assistance to 21 different SIDS, including USD 187 million to Haiti and a total support for Pacific SIDS amounting to USD 135 million (European Commission, 2020<sub>[33]</sub>).

The UK Department for International Development (DFID) announced an additional support of USD 3.2 million to Montserrat's 2020/21 Financial Aid allocation, in order to support the island's immediate response to COVID-19 following a detailed request and submission by Montserrat's Ministry of Finance (OECD, 2020<sub>[30]</sub>). The United Kingdom has also provided USD 2.3 million under the Pacific Conflict, Stability and Security Fund, and USD 3.8 million to the Pan-American Health Organisation (PAHO, 2020<sub>[34]</sub>) to strengthen COVID-19 health sector preparedness and response in the Pacific. Further USD 2.8 million were allocated to the World Food Programme (WFP) and others to assist the most vulnerable households and counter domestic violence across the Caribbean and USD 5.8 million to the Caribbean Development Bank (CDB) Special Development Fund to support post COVID-19 recovery in the Caribbean (Caricom Today, 2020<sub>[35]</sub>).

Portugal has provided in kind and financial assistance to Cabo Verde, Guinea Bissau, Sao Tome and Principe and Timor-Leste (OECD, 2020<sub>[30]</sub>). Australia provided rapid financial support to Pacific island governments, supplied rapid diagnostic tests and established an isolation centre in Timor-Leste. Australia has also partnered with the WFP to support food security assessments for countries across the Pacific. In June 2020, the Australian government launched its Partnerships for Recovery Programme – a dedicated strategy to support its Pacific neighbours to respond more effectively to the health, social and economic impacts of the pandemic (Australian Government, 2020<sub>[36]</sub>).

Across non-DAC providers, information on support was retrieved from the People's Republic of China ("China"), United Arab Emirates, India and Chinese Taipei. This information showed that China announced a nearly USD 4.6 million cash donation and shipments of medical aid to Fiji and other SIDS in the Pacific. China has since provided additional medical supplies to Papua New Guinea, Vanuatu, Fiji, and the Federated States of Micronesia. The United Arab Emirates sent 13 metric tons of medical supplies and testing kits to 14 Pacific island countries (Cook Islands, Federated States of Micronesia, Fiji, Kiribati, Marshall Islands, Nauru, Niue, Palau, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu) to assist medical professionals through the provision of personal protective equipment and testing supplies. Chinese Taipei provided medical supplies and personal protective equipment to Fiji, Marshall Islands, Nauru, Palau, Papua New Guinea, Solomon Islands and Tuvalu. It also contributed USD 2.2 million in grant assistance to the Marshall Islands, including for its COVID-19 Pandemic Preparedness



and Response Plan. Finally, in the context of the India-UN Development Partnership Fund, a USD 1.5 million grant was disbursed to rehabilitate six community health centres in Palau.

### **Multilateral institutions have provided the bulk of the global response for SIDS**

Several multilateral institutions have been instrumental in responding to the COVID-19 crisis in SIDS. Since the start of the pandemic, 15 ODA-eligible SIDS have accessed International Monetary Fund's support, either through the rapid financing instrument (USD 1.2 billion), the rapid credit facility (USD 666 million) or the Catastrophe Containment and Relief Trust (USD 18 million) (see Table 1). Criteria to access funding from the Catastrophe Containment and Relief Trust were reformed by the IMF in March 2020, in order to include pandemics. Funding from this Trust Fund is in the form of grants to be used for debt repayment to the IMF itself and allow to free up public resources for the immediate response to the crisis.

Regional institutions and mechanisms have been particularly responsive in providing support to SIDS. For instance, the Caribbean Development Bank is providing emergency loans to seven Caribbean SIDS to support them in the response to the COVID-19 pandemic (CDB, 2020<sup>[37]</sup>), while the Inter-American Development Bank (IADB) has provided a USD 12 million loan to Belize, in support of its COVID-19 Unemployment Relief Programme. In addition, IADB has provided a USD 60 million grant to Haiti to support the poorest and most vulnerable households and has reassigned USD 27 million from the non-disbursed balance of Haiti's current investment portfolio to support the country's healthcare system.

The Asian Development Bank (ADB) launched a USD 20 billion response package to support developing member countries in Asia and the Pacific to cope with the impacts of COVID-19, from which USD 570 million will be allocated to support COVID-19 operations in SIDS (ADB, 2020<sup>[38]</sup>). As a part of this response package, and in a joint effort with the United Nations Children's Fund (UNICEF), ADB has delivered health equipment to Cook Islands, Kiribati, Tuvalu and Vanuatu to better respond to the threats of the pandemic. Through the Asia-Pacific Disaster Response Fund, supported by additional financing from Japan, ADB also supported Pacific SIDS in containing the spread of COVID-19 through grants to Cook Islands, Kiribati, Marshall Islands, Micronesia, Palau, Papua New Guinea, Samoa, Solomon Islands, Tuvalu and Vanuatu.

Under the leadership of the Pacific Islands Forum (PIF), which includes Pacific SIDS as well as Australia and New Zealand, the Pacific Humanitarian Pathway on COVID-19 (PHP-C) was established as a regional response mechanism to improve health infrastructure and provide protective medical equipment to a range of Pacific SIDS, including Fiji, Papua New Guinea, New Caledonia, and French Polynesia.

### **Support is likely not reaching all SIDS who need it and gaps may remain**

While the estimates in Table 1 may not be exhaustive and trends may change with additional information, available data suggest that the support provided to SIDS to counter the COVID-19 pandemic is strongly concentrated on four countries: Dominican Republic, Haiti, Jamaica and Papua New Guinea, collectively receiving 70.5% of the country-allocated financial support identified in Table 1. This trend may be explained in part by the fact that these are among the most populous SIDS. However, this strong concentration may also suggest that the allocation of concessional resources to address the COVID-19 outbreak may be uneven across SIDS, with some of them facing challenges to access concessional finance at this particular time. This concentration of support on very few SIDS is also characteristic of allocations of concessional finance during 'normal times': in 2017-18, the five largest ODA recipients among SIDS received 58% of all ODA to SIDS. This is explained by multiple factors, including by a complex web of eligibilities and sometimes inconsistent treatment of SIDS across institutions, which limits access to concessional resources for many SIDS (OECD, 2018<sup>[5]</sup>).

An important part of support to Pacific SIDS was channelled through regional allocations (USD 759.6 million) while regional allocations in the Caribbean were smaller (USD 13.7 million).



### 3. Towards more effective international support for a blue recovery in SIDS

#### ***More effective and tailored development support is needed, especially in a time of crisis***

The COVID-19 crisis is global in nature, highly impacting the economies of many development co-operation providers. While the members of the OECD DAC have released a statement in which they commit to striving to protect ODA budgets (OECD DAC, 2020<sup>[39]</sup>), funding cuts may be looming, especially as the second wave of contagion aggravates the economic crisis. At the same time SIDS, as well as other developing countries, are facing tremendous needs. Therefore, pressure to address increased demands, with limited development finance resources, will inevitably result in competition for and reprioritisation of resources across policy areas and sectors. Further, the nature of the pandemic is such that even the use of available development resources can become more complex due to restrictions on mobility and the enhanced risks of deploying staff in highly-affected countries.

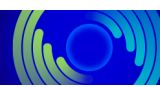
In this context of enhanced financial and logistical constraints, it is thus particularly important that development co-operation finds smart and effective ways to deliver high-impact support. This includes identifying the common ground across policy agendas and mainstreaming activities to increase effectiveness with limited resources. With regards to SIDS, the current crisis represents an opportunity to combine immediate socio-economic responses to recovery support that can unblock critical impediments, such as debt and the over-reliance on one or two economic sectors, and unlock new, more resilient, opportunities for sustainable development. As for SIDS many old impediments and new opportunities for resilient development are linked to their vast ocean resources, the following sections detail the salient features of a 'blue recovery' in SIDS, a recovery that can foster sustainability and resilience.

#### ***A blue recovery needs to chart a new path to resilience and sustainability for SIDS***

For SIDS, ocean resources are on average more than 2 000 times<sup>9</sup> the size of their land masses. Ocean-based sectors such as coastal tourism and fisheries are already the foundation of SIDS' economic activities and livelihoods and a source of foreign exchange and employment. Tourism alone accounts for over 20% of the GDP in many of them. While the COVID-19 crisis has halted several ocean-based sectors globally, the recent acceleration in ocean-based economic activities, driven by a growing need for energy, food and jobs from the ocean, will persist in connection with a growing global population. Therefore, SIDS, like other developing countries, have an opportunity to benefit from the expansion of the global ocean economy, if they pursue sustainable development models.

However, overfishing, ocean pollution, and a host of challenges linked to climate change risk threatening SIDS' wealth of maritime resources and derailing their development trajectory. As discussed in OECD/World Bank (2016<sup>[40]</sup>), rising sea levels and storm surges are already affecting coastal freshwater aquifers and critical infrastructure in SIDS. In atoll islands, this is affecting agriculture, the water supply and human health, and may compromise the ability to sustain life. Increasing ocean acidity is already causing widespread damage to coral reefs and marine ecosystems, which these countries depend on for food and tourism. In addition, as in other developing countries, current development trends are increasing SIDS' vulnerability to natural disasters. Pollution and ecosystem degradation and the extraction of coastal and marine aggregates for construction compromise natural buffers, leaving population and assets increasingly exposed. Without integrating resilience and environmental conservation into development policies, these trends will continue to increase SIDS' structural challenges and vulnerability to shocks. Building resilience to climate change and natural disasters is thus a critical part of protecting SIDS' marine

<sup>9</sup> This figure refers to the average ratio of EEZ to land mass in the 34 ODA-eligible SIDS. This ratio is highest for Tuvalu (EEZ exceeds its land mass by 28 838 times), followed by Nauru (EEZ exceeds its land mass by 14 689 times).



resources and the many benefits that they provide, and setting these countries on a path to sustainable development.

This is all the more important as many SIDS are also home to vast untapped reserves of fish stocks, marine algae and micro-organisms. Biotechnological applications or pharmaceutical uses of such marine resources could effectively be the basis for more diversified and more resilient economies. The abundance of SIDS' ocean resources could therefore be a driver of economic diversification, resilience and inclusive development. However, for this to happen, it is critical that new and traditional ocean-based economic activities use ocean resources in ways that are more sustainable, protect the environment and ensure inclusiveness. In particular, enhancing diversification should not legitimise starting new unsustainable economic activities that could have huge environmental and economic costs for both SIDS and the world ocean.

Development co-operation providers can thus turn the current crisis into an opportunity to help SIDS reduce their vulnerability to shocks owing to their over-reliance on one or two economic sectors and foster more resilient and sustainable development through a recovery that leverages SIDS abundant ocean resources. Support to the health emergency and to immediate socio-economic responses need to be accompanied by support towards a 'blue recovery' in SIDS, focusing on the following priorities:

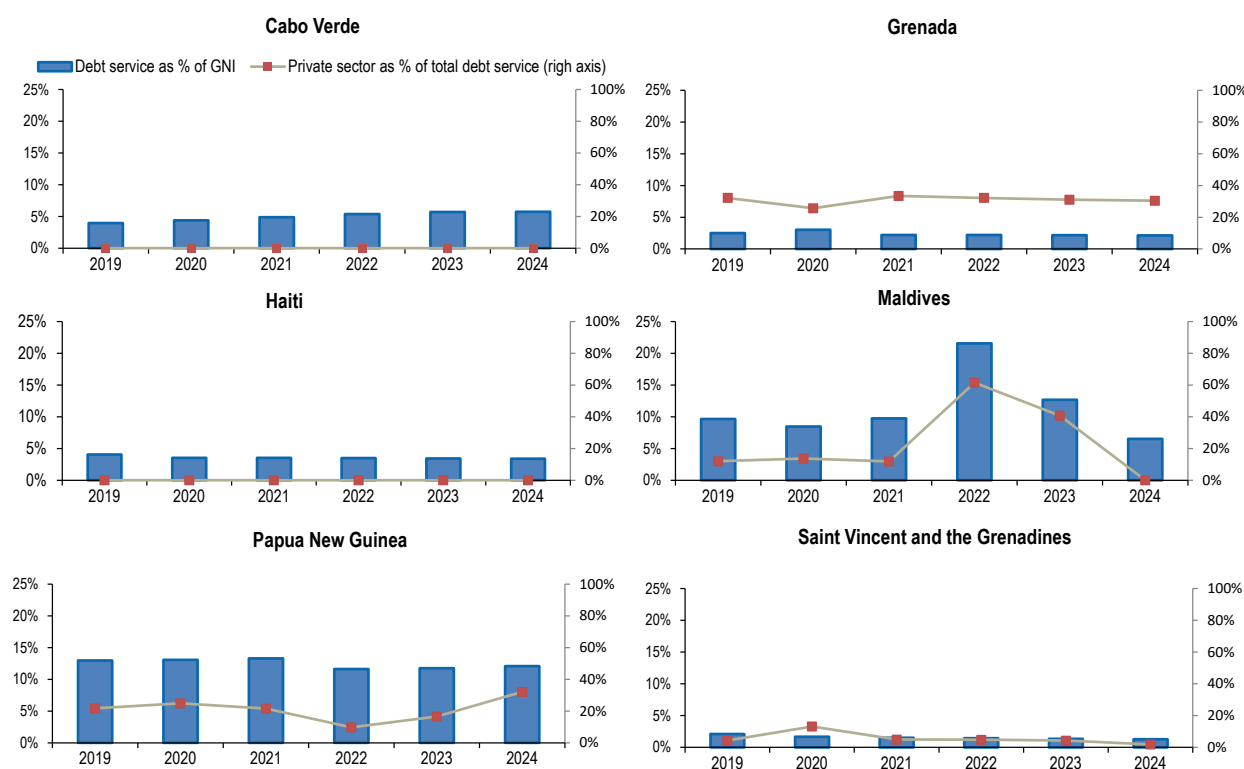
1. Addressing the debt situation in SIDS to help create fiscal space for investments for a sustainable and resilient blue recovery;
2. Enhancing the sustainability and resilience of critical and highly-impacted economic sectors, such as tourism and other ocean economy sectors, through embedding climate and sustainability requirements and standards in concessional lending and support recovery packages and other measures;
3. Supporting SIDS seize new ocean economy opportunities that can foster economic diversification and resilience sustainably, including by exploring additional long-term development co-operation schemes, such as international cost-sharing mechanisms for the conservation and sustainable use of ocean assets and schemes to enhance expertise and risk assessment for emerging ocean-related economic activities.

#### *1. Debt: time to address an old issue*

Although debt issues do not affect all SIDS to the same extent, several SIDS face long-standing debt challenges. Currently, 14 SIDS are either in debt distress or at high risk of debt distress, out of the 20 SIDS for which the World Bank and IMF Debt Sustainability Analysis is available (World Bank, 2020<sup>[41]</sup>). In 2020 and 2021, SIDS that will need to refinance considerable amounts of sovereign debt (Figure 6) include: Cabo Verde (4.9% of GNI a year), Maldives (9.7%) and Papua New Guinea (13.3%).



Figure 6. Debt service needs vary across SIDS



Note: 2019 GNI Atlas Method

Source: Authors based on World Bank (2020<sup>[42]</sup>), International Debt Statistics Database (<https://datatopics.worldbank.org/debt/sids/>)

The heterogeneity that characterises each SIDS' situation requires nuanced and tailored approaches in the types of support provided by the international community, including on debt. With regards to SIDS where the COVID-19 crisis is triggering a temporary reduction in fiscal space and economic activity and where government revenues are expected to go back to normal in the medium term, measures from the international community would mainly need to meet immediate financing needs. For other SIDS, however, the COVID-19 crisis may be worsening long-standing debt sustainability issues, which are linked to small and undiversified economies that provide small and volatile tax revenues; small and dispersed populations that lead to high public expenditures for the provision of services; and the exposure to natural disasters. In this case a more holistic and long-term sets of solutions would be needed from the international community.

At various fora, SIDS as a group have been calling on the international community for debt relief and for new ways of handling debt. During the September 2020 U.N. General Assembly, the Alliance of Small Island States (AOSIS) has called on development partners to provide additional debt relief, aid and climate finance for its members (AOSIS, 2020<sup>[43]</sup>). In the 2020 Small States Forum communiqué (Small States Forum, 2020<sup>[44]</sup>), small states ministers, of which 75% are SIDS, pointed to the need to 'reengineer[ing] the way we will look at debt financing so that it does not become a constraint in dealing with the COVID-19 pandemic and other development issues'.

The G20-Paris Club "Debt Service Suspension Initiative (DSSI)" for poorest countries (G20, 2020<sup>[45]</sup>) endorsed by the G20 Ministers is a positive step in the right direction. Under this initiative, 73 developing countries are eligible for a suspension of debt repayments to their bilateral creditors between May and December 2020. The initiative would potentially free up an estimated USD 12 billion for eligible countries, which corresponds to about 7% of all the external long-term public and publicly guaranteed long-term debt stocks these countries owed to bilateral creditors in 2018, and to about 3% of all of their total external long-





term public and publicly guaranteed debt stocks (UNCTAD, 2020<sup>[46]</sup>). The initiative has so far allowed to defer about USD 5 billion for eligible countries. Participation in the DSSI comes with a number of pre-conditions, including a request for an IMF programme<sup>10</sup>.

A total of 22 SIDS are eligible for the DSSI and, as of September 2020, 10 decided to participate: Cabo Verde, Comoros, Dominica, Grenada, Maldives, Papua New Guinea, Samoa, Sao Tome and Principe, Saint. Lucia and Tonga. Among DSSI participants, the highest potential benefits are Tonga (calculated at 1.4% of 2019 GDP), Samoa (1.2%), Cabo Verde (0.7%), and Dominica (0.7%).

At the same time, however, 11 SIDS<sup>11</sup> are not eligible for debt suspension under the G20 initiative, including 6 that have especially high public debt and debt service burdens, at over 40% of revenue on average (UN DESA, 2020<sup>[47]</sup>): Belize, Dominican Republic, Guyana, Jamaica, Mauritius and Suriname. Some DSSI-eligible SIDS that do not participate in the initiative also exhibit high risk of external debt distress: Haiti, Kiribati, Marshall Islands, Micronesia, Saint Vincent and the Grenadines and Tuvalu.<sup>12</sup>

Overall, while the DSSI can provide short-term fiscal space to SIDS currently facing liquidity problems as a result of the pandemic, it represents an incomplete way of addressing SIDS' long-standing debt issues and their vulnerability to external shocks, including climate change, which periodically affect their balance sheets and increase debt burdens. More broadly, the DSSI also exposes the shortcomings of an international system that lacks a comprehensive debt moratorium mechanism that can kick-in in times of crisis.

The DSSI is a debt repayments suspension and not a debt relief mechanism. Further, major limitations include: (i) its limited time horizon (although it has been extended to the first half of 2021); (ii) incomplete implementation of the agreement by official bilateral creditors and no private sector involvement; and (iii) as highlighted, its country coverage, which leaves out some SIDS with high public debt and debt service burdens. Negotiations to include private sector creditors in the DSSI have so far been unsuccessful, and this would be an issue for those SIDS with a high share of public debt owned by commercial creditors, which for some<sup>13</sup> stands at 50% of their public debt (OECD, 2018<sup>[5]</sup>).

Beyond the debt repayments suspension provided by the DSSI, some SIDS may need a more comprehensive approach to debt, which could either take the form of debt relief initiatives or a Sovereign Debt Resolution Mechanism, a framework designed to provide a long-term solution to collective action and creditor co-ordination problems. While both the IMF and UNCTAD produced proposals for such Sovereign Debt Resolution Mechanisms, these have encountered opposition and were never implemented (Lastra and Bodellini, 2018<sup>[48]</sup>).

A more comprehensive approach to SIDS debt relief would be a positive step for the highly indebted SIDS, as was the case for those SIDS<sup>14</sup> that benefitted from the HIPC Initiative. The heavily indebted poor countries (HIPC) Initiative helped bring down the debt of SIDS that benefitted from it from an average of

<sup>10</sup> These include an active borrowing status with the IMF (or a request for future IMF financing), the use of freed-up resources for health and economic spending in response to the Covid-19 crisis, and full disclosure of their public debt obligations (with the possible exception of commercially sensitive information).

<sup>11</sup> These are: Antigua and Barbuda, Belize, Cuba, Dominican Republic, Guyana, Jamaica, Mauritius, Montserrat, Nauru, Niue and Palau.

<sup>12</sup> What is generally mentioned as a reason for not joining, is the risk of downgrades by credit rating agencies in the event of their joining the DSSI, which would result in an increased cost of borrowing for these countries. This risk, however, would not apply for most of those SIDS, as they are not rated.

<sup>13</sup> Commercial debt represented 50% of the public debt of Jamaica, 40% of Belize's, 35% of Dominican Republic's, 34% of Grenada's, 23% of Saint Lucia's and 29% of Fiji's (OECD, 2018<sup>[5]</sup>).

<sup>14</sup> These are: Comoros, Haiti, Guinea Bissau, Guyana, and Sao Tome and Principe.



196% of GNI in 2000 to 35% in 2015, while debt levels of the other SIDS continued to increase over the same period, standing at 62% in 2015, up from 44% in 2000 (OECD, 2018<sup>[5]</sup>).

Currently, a number of proposals for debt relief have been put forth which would need to be assessed based on the specific circumstances of SIDS. These include: (i) COVID-19-related debt swap programmes, including a regional debt swap for Caribbean SIDS (UN, 2020<sup>[49]</sup>), (ii) debt exchange or conversion programmes (Bandeira, 2020<sup>[50]</sup>), and (iii) voluntary sovereign debt buy-backs (Stiglitz and Hamid, 2020<sup>[51]</sup>) (Box 1). Debt swap programmes, especially if also linked to the preservation and sustainable use of natural assets like the ocean, could potentially be promising for big ocean states like SIDS, helping to create fiscal space and direct resources towards the COVID-19 immediate response as well as fostering a blue recovery.

It needs to be noted that debt swaps, however, can be fairly complex and lengthy works of financial engineering requiring dedicated technical assistance from the international community. For instance, the debt-for-ocean swap of the Seychelles took approximately four years to be finalised (OECD, 2020<sup>[52]</sup>). Further, there are issues around the scale of these operations which could make regional approaches more feasible.

### Box 1. Debt relief proposals at the time of the coronavirus (COVID-19) crisis

The COVID-19 pandemic is putting pressure on the public finances of many developing countries. Higher healthcare spending, lower revenues from taxation, and larger resources towards social safety nets are putting a strain on governments' liquidity at a time when a solid public stimulus is required to stimulate demand. In developing countries, the economic slump generated by the pandemic is exacerbated by their precarious access to international capital markets and by the sharp fall in capital flows. With global capital flows retrenching towards safe heavens, many developing countries are struggling to refinance maturing loans, let alone to raise new funds.

Mounting fiscal deficits and higher costs to access finance are undermining Governments' ability to service maturing debt, compromising debt sustainability in many developing countries. In the short-term, a debt moratorium could aid developing countries to free up fiscal resources to counter the health effects of the pandemic, stimulate growth, create jobs and avoid a spiral of sovereign debt defaults which could bring significant social and economic impact in the long term. According to the UN proposal *Debt and COVID-19: A Global Response in Solidarity* (UN, 2020<sup>[49]</sup>), in order to be most effective, a debt moratorium should have the following characteristics not currently included in the DSSI:

- Eligibility should be extended beyond IDA countries.
- All types of creditors should be involved, including multilateral, bilateral, and private.
- Repayment schedules should take into account a country's ability to achieve SDGs.
- A cut-off date should be set, after which new financing is excluded from future debt restructurings.

Beyond the immediate relief brought by the debt moratorium, over the medium term additional measures could be implemented to ensure a more comprehensive debt sustainability over the long term. These measures include:

- **COVID-19-related debt swap programmes** through which official creditors agree to forgive a portion of a country's debt in exchange for SDG investment (UN, 2020<sup>[49]</sup>). In this context, ECLAC has proposed to swap Caribbean external debt for annual payments into a resilience fund.



- **Debt exchange or conversion programmes** through which developing countries' sovereign debt is exchanged for new concessional bonds guaranteed by a multilateral bank with triple A rating (Bandeira, 2020<sup>[50]</sup>). Alternatively, this programme could be financed through the Special Drawing Rights. A detailed proposal is being developed by the United Nations Economic Commission for Africa (UNECA).
- **Voluntary sovereign debt buy-backs** to reduce debt of countries in debt distress at relatively low cost. Buy-backs should be handled by an ad hoc international facility housed within the IMF. Developing countries seeking to restructure their debt will identify the sovereign bonds they would like the facility to buy back on their behalf. As a condition for debt relief, benefitting countries should be required to invest the equivalent of these savings into projects to counter poverty, climate change, etc. (Stigliz and Hamid, 2020<sup>[51]</sup>).

Source: Authors based on UN (2020<sup>[49]</sup>), Debt and COVID-19: A Global Response in Solidarity ([https://reliefweb.int/sites/reliefweb.int/files/resources/un\\_policy\\_brief\\_on\\_debt\\_relief\\_and\\_covid\\_april\\_2020.pdf](https://reliefweb.int/sites/reliefweb.int/files/resources/un_policy_brief_on_debt_relief_and_covid_april_2020.pdf)); Bandeira (2020<sup>[50]</sup>), UNECA wants to pool African debt to negotiate with creditors (<https://jornaleconomico.sapo.pt/en/news/uneca-quer-agrupar-divida-africana-para-negociar-com-credores-584635>) and Stigliz and Hamid (2020<sup>[51]</sup>), Averting Catastrophic Debt Crises in Developing Countries: Extraordinary challenges call for extraordinary measures ([https://cepr.org/sites/default/files/policy\\_insights/PolicyInsight104.pdf](https://cepr.org/sites/default/files/policy_insights/PolicyInsight104.pdf))

## 2. Sustainability requirements and standards in concessional lending and recovery packages

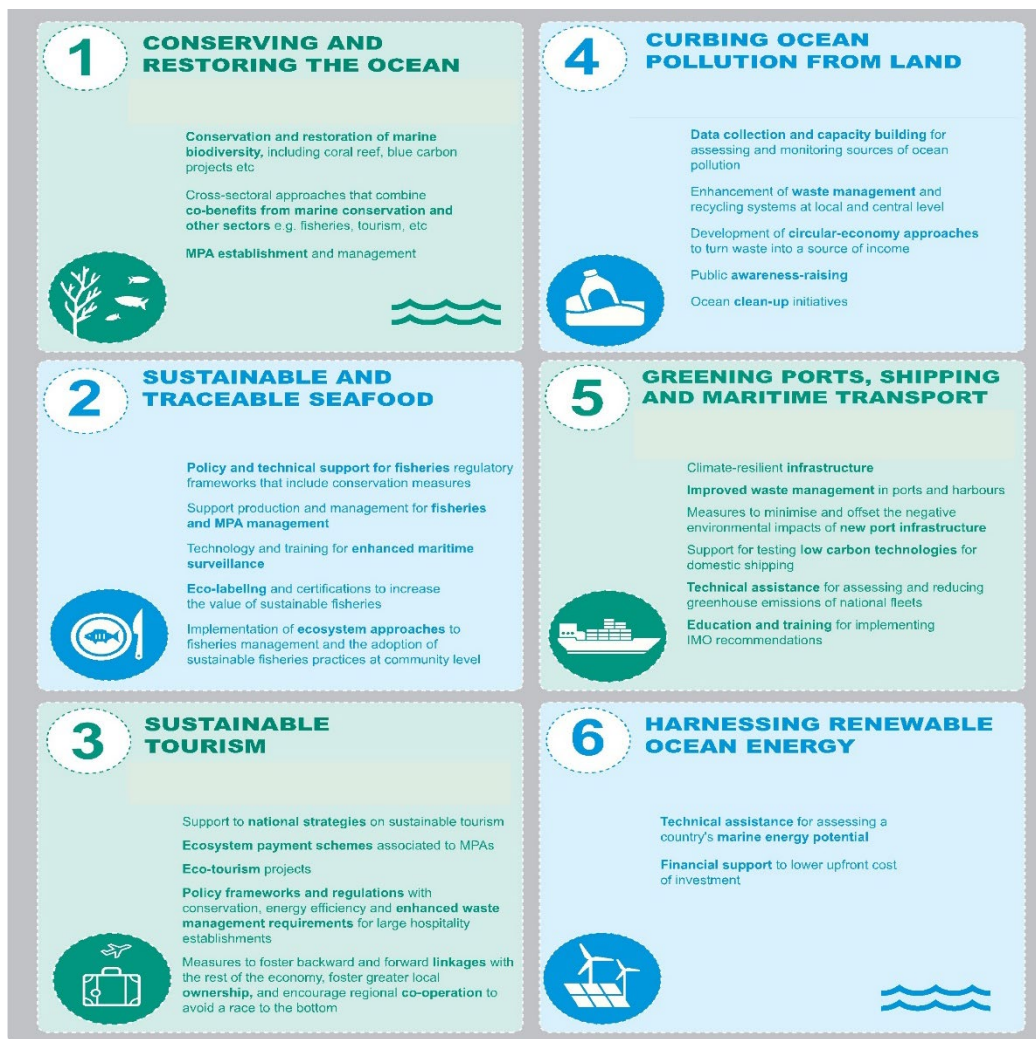
Beyond health emergency responses, recovery packages offer a unique opportunity to invest across sectors to build low-emission, climate resilient and inclusive economies. As SIDS are particularly prone to extreme weather events and shocks, investments need to consider adaptation and physical resilience in the face of a rapidly changing climate and increasing climate impacts. Sustainability and resilience efforts need to advance all three dimensions of sustainable development: social, economic and environmental.

SIDS are particularly dependent on ocean resources and ocean-based sectors. Including sustainability and resilience requirements in cross-sectoral concessional lending and recovery packages would mean linking the loan interest rate or subjecting the provision of a loan/support to meeting, or improving over time performance against sustainability and resilience criteria. The 'sustainability' of finance and investments in the ocean would entail multiple dimensions (OECD, 2020<sup>[52]</sup>; 2020<sup>[53]</sup>) owing to the fact that the ocean economy is made up of diverse sectors, and improving sustainability in each of them can imply a very different range of actions. Actions to enhance sustainability range from climate actions to lower emissions, adapting to sea-level rise and other climate change impacts, and adopting practices that avoid and minimise negative effects on marine ecosystems, to actively conserving and restoring natural ecosystems. Also, synergies and trade-offs exist across these dimensions that need to be taken into account; for example, where off-shore renewable energy reduces emissions may negatively impact ocean ecosystems.

Figure 7 focuses on six sectors of a sustainable ocean economy to highlight investment areas that contribute to enhancing sustainability and resilience. These six areas are of general relevance to SIDS, although each country could prioritise a different set of ocean-based sectors according to its assessment of opportunities, comparative advantage and national interests. Development partners should make efforts to align their support towards the sectors identified in each country's national development plan.



Figure 7. Investment in strategic areas can enhance the sustainability and resilience of SIDS' ocean economy



Source: Adapted from OECD (2020<sup>[52]</sup>), Sustainable Ocean for All: Harnessing the Benefits of Sustainable Ocean Economies for Developing Countries <https://doi.org/10.1787/bede6513-en>.

Among existing ocean-based sectors, focusing recovery packages on restarting as well as transforming the **tourism sector** will be particularly important. The tourism sector has a high climate and environmental footprint. Mass tourism can generate large environmental impacts due to increased use of local resources as well as creating waste that puts under pressure the already fragile waste management system in SIDS. On average, 85% of the Caribbean region's wastewater goes untreated into the ocean due to lack of adequate infrastructure (Robin et al., 2019<sup>[54]</sup>). These sources of pollution are projected to increase as populations, coastal cities, and tourism continue to grow. The tourism sector also requires heavy energy and fuel consumption, increases waste production and its growth over recent years has put marine and land ecosystems under increasing stress and challenged the achievement of the Paris Agreement targets. Recent studies over the past 10 years have estimated that tourism's contribution to global GHG emissions ranged between 5% and 8% (OECD, forthcoming<sup>[55]</sup>).

However, tourism can have positive or negative impacts depending on how it is planned, developed and managed (UNWTO, 2012<sup>[56]</sup>). For instance, currently the tourism sector also contributes to the conservation efforts and the livelihoods of local communities of many countries: the UNWTO estimates





that 14 African countries generate about USD 142 million in protected-area entrance fees. The protracted closure of tourism activities resulted in large income losses for many protected areas and the communities living around them, which often have no alternative sources of income nor access to social safety nets.

It is thus of paramount importance that the international development community takes the current crisis as an opportunity to provide support to SIDS to restart the tourism sector on a more sustainable footing, so that it contributes to social and economic development within the carrying capacities of ecosystems and socio-cultural thresholds. In particular, the international development community can help:

- Mitigate the socio-economic impacts of the crisis, by providing support to affected households and businesses;
- Support safety measures and health protocols for a gradual restart of tourism activities and to restore tourists trust compatibly with developments in the pandemic;
- Support national strategies and plans for sustainable tourism that set clear targets and requirements such as zoning, protected areas, environmental rules and regulations, labour rules, agricultural standards, and health requirements (particularly for water, waste and sanitation), establish clear “rules of the game,” and define the operating climate for investment.
- Enhance the social sustainability of the tourism sector and ensure strong local returns. Increasing the involvement of local communities, especially those who are financially deprived, in the tourism value chain can contribute to the development of the local economy and to poverty reduction. The extent of direct benefits to communities and poverty reduction will largely depend on the percentage of tourism needs that are locally supplied. Therefore, development co-operation providers should focus on fostering backward and forward linkages with the rest of the economy and promoting greater local ownership, for instance through support to education, training and support for the introduction of specific requirements, development partners can support local tour operators, locally owned businesses, and local suppliers in other sectors such as agriculture, food processing, handicrafts, trade, transport, and recreation and entertainment.
- Enhance the environmental sustainability of the tourism sector, by providing support for public and private investments in low-carbon transport options, resource-efficient buildings and infrastructure, renewable energy and systems for waste management and wastewater treatment.
- Include support for marine and terrestrial protected areas in financial support packages for COVID-19 recovery to support jobs and livelihoods in local communities. Such support should also address future economic risks by contributing to tackle biodiversity loss and climate change; safeguarding ecosystem services, such as clean water, crop pollination, pest control, and more, and reducing the risk of new zoonotic diseases that could turn into pandemics.

### *3. Additional long-term development co-operation schemes to promote sustainability and resilience of SIDS economies*

Development co-operation providers need to provide more coherent and tailored support to help SIDS emerge stronger from this COVID-19 crisis, including by unlocking new, more resilient, opportunities for economic diversification and sustainable development. This means better access to the policy evidence, science and financing needed to understand and harness new opportunities and challenges linked to the development of ocean-based sectors, as well as the interactions and synergies across these sectors and with the rest of the economy.

A recent publication (OECD, 2020<sup>[52]</sup>) explores in detail avenues for enhancing development co-operation support in this area, two suggestions are recalled here for possible new co-operation schemes to ensure that untapped ocean resources are sustainably used and conserved.

First, new development co-operation schemes may be required to strengthen developing countries' expertise and access to policy evidence and science for the integrated and cross-sectoral management of





ocean resources and an adequate assessment of the risks and rewards of economic opportunities, especially emerging ones, so as to effectively integrate, from the outset, community interests and environmental concerns in decision-making and achieve a sustainable use of resources. An 'ocean for development co-operation scheme' could help developing countries more effectively manage their commercially exploitable marine resources by providing support for achieving fair commercial deals and concessions. Such support should also focus on assisting developing countries assess the risks and potential gains from new market opportunities, including by involving coastal communities. These schemes would be very relevant at a time when the value of ocean resources is increasing as they open up for commercial exploitation, especially through emerging industries such as marine biotechnology and pharmaceuticals.

Second, there could be scope for an international cost-sharing mechanisms to conserve ocean resources and compensate SIDS for the foregone revenues from industrial activities (such as deep seabed mining and others) with potentially high destructive environmental impacts extending well beyond SIDS' national borders, and global consequences for the ocean's ability to regulate climate, store carbon, and provide livelihoods and food. The exploitation of marine and seabed resources for new ocean-based extractive sectors could produce short-term revenues for individual developing countries. However, financial gains may be highly concentrated and difficult to reconcile with inclusive development. Destructive environmental impacts, meanwhile, could be huge and extend well beyond national borders.

## Conclusion

SIDS have so far been able to contain the health consequences of the COVID-19 pandemic, but in economic and fiscal terms they are among the worst-hit developing economies. Governments have implemented fiscal measures to save lives and ensure the economic survival of households and businesses. As the crisis continues to unfold, there is a risk that public finances may not be able to continue providing such support. The combined effect of a rise in public expenditures together with an unprecedented drop in public revenue from hard-hit ocean economy sectors risks significantly aggravating SIDS' pre-existing debt burdens as well as depressing public investment and recovery responses.

Access to fast and effective international support becomes vital. Bilateral providers of official development assistance (ODA) mainly focused on the health emergency while the multilateral institutions provided a broader range of support and extended the bulk of financial resources. Total support for the COVID-19 crisis to SIDS in 2020 is conservatively estimated at USD 2.8 billion.

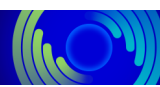
A 'blue recovery', enhancing the resilience and sustainability of key economic sectors, and fostering economic diversification by unlocking new, more resilient and sustainable, development opportunities could be pursued by: (i) addressing SIDS' longstanding debt issues; (ii) embedding sustainability requirements and standards in concessional lending and recovery packages; and (iii) helping SIDS seize new, sustainable opportunities, including through new long-term development co-operation schemes, such as international cost-sharing mechanisms for the conservation and sustainable use of ocean assets and schemes to enhance expertise and risk assessment for emerging ocean-related economic activities.

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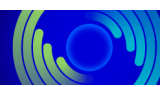
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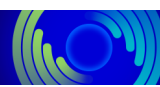
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## Annex 1.A. List of small island developing states

A number of lists defining SIDS exist, including those established by: (i) the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS) comprising 52 SIDS; (ii) the Alliance of Small Island States, comprising 39 SIDS; and (iii) the UN Conference on Trade and Development, comprising 29 SIDS. The World Bank Group defines small states as countries that: (a) have a population of 1.5 million or less; or (b) are members of the World Bank Group Small States Forum.

Because of its focus on the international development co-operation response to SIDS during the COVID-19 crisis and how this can be enhanced, this policy brief takes into consideration the 33 SIDS that are currently (2020) eligible for official development assistance (ODA). They are: Antigua and Barbuda, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia, Montserrat, Nauru, Niue, Palau, Papua New Guinea, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Solomon Islands, Suriname, Timor-Leste, Tonga, Tuvalu, and Vanuatu.

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