



AOSIS STATEMENT ON DEBT

SIDS on the frontline

The Alliance of Small Island Developing States (AOSIS) expresses solidarity with all countries in the fight against COVID-19 pandemic. AOSIS emphasizes that all efforts in this regard must be coordinated and guided by the best available science to protect the most vulnerable amongst us.

The rapid evolution of COVID-19 from a health crisis to a profound development crisis has exposed the existing structural vulnerabilities of our small island developing states and our people to multiple and multilayered negative effects. Like the rest of the world, SIDS are now in a severe recession, the magnitude of which has not been experienced since the Great Depression. Compared to global contraction of around 4.9 percent, some of our countries will see a contraction of their GDP from between 8 to as much as 15 percent or more in the next six months of 2020¹. Our economies are in freefall; recovery is not expected for years.

The consequences for the sustainable development of SIDS as envisioned in the SAMOA Pathway and the 2030 Agenda will be severe. The economic contractions now experienced will have far reaching and enduring consequences for poverty eradication, employment, growth and social welfare. In addition, because we are so heavily indebted and must borrow more in order to avert a total collapse of our economies and societies, we are at high risk of entrenching our public debt vulnerability. The result will turn back development by decades.

COVID-19 magnifies the SIDS challenges

By our very nature, small island developing States are highly vulnerable to global exogenous shocks. The structure of our economies and our intrinsic structural characteristics, such as a narrow resource base, remoteness, scarcity of natural resources and dependence on food imports, as well as the intrinsic limits to our ability to attain benefits from economies of scale continue to heighten our economic and financial risk exposure.

All this is systematically exacerbated by our high environmental vulnerabilities, which exposes our people, economies, and territories to the incessant and increasingly devastating impacts of climate change. With the impacts of COVID-19 buffeting these structural challenges, we find ourselves in the midst of the perfect storm.

¹ <https://www.un.org/en/un-coronavirus-communications-team/covid-19-shocks-too-big-handle-small-island-nations-un-warns>

Tourism accounts for up to 40 percent of GDP in many of our countries. The global lockdown and widespread restrictions on travel has collapsed our tourism industry and resulted in immediate negative impacts on tax revenue, foreign exchange earnings, and employment. There is a domino effect to this collapse that pervades all other sectors and has severely debilitated our fragile economies. When food prices are affected by global shocks and supply chains destabilized, the poor are hit the hardest. For SIDS, the result is a derailment of our growth and macroeconomic stability and the resulting bloating of current account imbalances.

According to the UN Department of Economic and Social Affairs, *“since 2000, the trade deficits of these [SIDS] economies as a group has persistently been at 2-3 times higher than the developing countries’ median, often translating to large and persistent current account deficits”*². SIDS, are constrained by limited capacities and intrinsic vulnerabilities, therefore rely on tourism revenues, remittances, foreign direct investment and external borrowing to refinance outstanding external debt obligations, pay for imports, recover from disasters, invest into development and maintain a dignified standard of life for our citizens. The dramatic and sudden loss of these sources of income due to the Pandemic has made an already unsound situation unbearable.

The fact is that SIDS can ill afford to borrow their way to recovery; it is untenable. SIDS’ external debt stocks reached USD 50.4 trillion in 2019, compared to USD 29.3 trillion in 2009, an increase of around 70 percentage points. Relative to our combined GDP, our external debt burdens have continued to rise from 51 per cent in 2009 to 61 per cent a decade on, with some SIDS obviously looking at much higher country-level external debt-to-GDP ratios. By now, our external debt obligations amount to more than 172 per cent (or near double) of our export revenues, compared to around 100 per cent in 2011. Almost a quarter of our export earnings still go towards servicing our annual external public debt obligations. We have recorded some hard-won successes, for example stabilizing the share of government revenues that goes to servicing external debt obligations to around 10 per cent of those revenues on average.³ But such achievements may be short-lived, in particular given that it has been impossible for us to build-up international reserve cushions that could possibly cope with the kind of global crisis and Pandemic we face now. In fact, over the past decade our short-term external indebtedness has grown much faster than our international reserves, indicating high vulnerability in this regard.

This COVID-19 Pandemic has thrown SIDS into a socio-economic and financial quagmire. The dearth of effective global solutions to help us out of this quagmire is worrying. Instead, SIDS are left to navigate a minefield of complex and bureaucratic frameworks, and institutions in which we are under-represented, thus resulting in SIDS bearing disproportionate opportunity costs, and facing intransigent power imbalances.

It is plain to see that without systemic change and immediate and tailored policy action the risks for a protracted debt crisis in SIDS are all but certain.

² <https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-64-the-covid-19-pandemic-puts-small-island-developing-economies-in-dire-straits/>

³ UNCTAD Secretariat calculations based on World Bank, IMF and national sources.

A call for action

For our Alliance immediate relief and long-term recovery are vital. And although over different timespans, both are complementary. The way we aid vulnerable economies today will ultimately decide whether we can attain the future we want. Every action delayed is a future left more uncertain.

We support the calls made by the UN Secretary General and UN Conference on Trade and Development for debt relief. We support the actions adopted by the international community for debt service suspension for poor developing countries. Unfortunately, these are insufficient to address the challenges facing SIDS during this pandemic.

Our Alliance calls on all relevant major stakeholders, inter alia, the World Bank Group, the International Monetary Fund, multilateral and regional development banks, bilateral creditors and other private creditors, to take immediate and substantial actions that will allow SIDS to manage the unfolding crisis caused by the COVID-19 pandemic and address our grave socio-economic impacts, while preserving our sustainable development achievements and commitments, and reinforce our resilience to climate change.

These actions should include the design of new and the enhancement of existing financial instruments to provide debt relief including through debt cancellation, debt suspensions, debt rescheduling and restructuring, as well as other support measures.

We specifically call for:

Short-term responses

1. An urgent coordinated global response to ensure necessary hard currency liquidity support to SIDS on the scale required to combat the COVID-19 crisis. International financial institutions should re-examine their eligibility criteria for SIDS' access to concessional loans and grants. No SIDS should be prevented from accessing resources. Alternative and additional measures should be developed to allow effective access to resources on concessional terms.
2. Debt service suspension on public external debt or temporary standstills on external public debt should be extended for at least a two-year period, for those that request such forbearance. This is in line with calls made by the UN Secretary-General, UNCTAD, and other developing countries. These moratoriums should also apply to legal remedies from creditors. This can help to keep non-cooperative and litigious creditors at bay. Nonetheless, where legal impediments are present, creditors and debtors should, in the first instance, try to cooperate in working out viable solutions.
3. Private creditors to join debt suspension initiatives, such as through debt cancellation and debt suspensions. This serves two purposes. It avoids the use of official sources of debt relief, that are severely strained, to pay-off private sector debt. It also presents a holistic approach to the crisis where private debt far outweighs public debt in some SIDS.

Medium-term responses

4. A multilateral debt workout mechanism to reduce external debt to a sustainable level in the medium term. While the temporary suspension of external debt obligations to external bilateral creditors helps in the short-term, the mere suspension of debt service payments and accruing interest could lead to an exacerbated situation. More systematic, transparent and coordinated steps towards restructuring external debt obligations are critical. Unless a longer-term solution is agreed on, a protracted debt crisis looms.
5. Global action to address the pressing challenges of de-risking and the maintenance of critical correspondent banking relationships in SIDS is required. For many SIDS, it is essential that they retain access to these banking relationships in the medium-term to keep their economies afloat. This issue has severely destabilized the financial sectors of many SIDS and has in some cases stymied economic growth and progress. In our efforts to bolster future economic stability, it is imperative that SIDS can effectively engage in the global financial system.

Mid to Long-term responses

6. A SIDS vulnerability assessment. SIDS income profiles belie our endemic vulnerability. We advocate for a system that provides appropriate responses through different channels – bilateral, regional, or multilateral, that addresses the special circumstances and vulnerabilities of SIDS.
7. A toolkit of alternative solutions into the medium-term, innovative financial instruments should be explored, such as debt swap mechanisms, with the aim of contributing to a long-term and comprehensive solutions towards debt sustainability.
8. Alignment of recovery packages with the Paris Agreement. While the Pandemic and climate change are two different crises, what is required to build resilience and recover better to the former can dually serve SIDS in building resilience to face the unrelenting and growing impacts of climate change most severely dealt to SIDS.

A Holistic Approach

The massive global economic restructuring underway right now has presented us with a chance for transformation which ought to be better for people and planet. We must make the best use of this unique opportunity to pursue a holistic approach to address the numerous challenges we face simultaneously, while advancing our sustainable development aspirations in order to make the most efficient use of our resources. We must resist any attempt to return to the pre-pandemic environmentally unsustainable development path, but rather capitalize on the opportunity to build back better. Business as usual has placed us in the precarious situation that we are in today, and our recovery efforts should aim to take us to a more sustainable and resilient future.

COVID-19 further illustrates the longstanding claims by SIDS that rising economic losses due to disasters and the subsequent cost of recovery and reconstruction deplete public financing earmarked for [investment into] development. It demonstrates the systemic nature of risk and highlights the need to invest in prevention and risk reduction.

SIDS need a Compact; a Compact to deliver debt relief and increase resilience financing. As the UNDP notes, (t)his will augur well in disrupting the vicious circle of uncertainty, debt-dependency and unrealized sustainable development potential. This, therefore, is the time for donor countries to, finally, honor their collective commitment and deliver Official Development Assistance to developing countries in full, and unconditionally. Channeling a significant amount of the pledged ODA now could capitalize this plan.

SIDS also call for the waiver of unilateral coercive measures that place overwhelming burdens on already struggling economies. During a pandemic, keeping these measures in place is little more than blind disregard for humanity. We therefore join the UN Secretary-General's call for the waiving of unilateral sanctions imposed on countries and call for global concerted action to this effect.

SIDS need support to urgently to avert a looming development and humanitarian emergency because we simply do not have the means nor, do we have the access to do so. We lack liquidity, we lack fiscal space and we lack the leverage to revise the terms by which we can access concessional finance or restructure debt.

SIDS need solutions and international, coordinated support.