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Mapping the Economic Consequences of Covid-19 in Small Island Developing States (SIDS)

Further to the written procedure launched on 16 July 2020, no comments have been received from Delegations by the 24 July 2020 deadline. This summary record is now considered approved, issued as FINAL and declassified.

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Key findings:

- **SIDS with higher GNI per capita levels are not necessarily more resilient to confront the present crisis.**
- **LDC-SIDS and the most ODA-dependent SIDS are better protected against the economic consequences of the Covid-19 crisis.**
- **Less ODA-dependent Middle/Upper-income SIDS seem to be those SIDS that could suffer the most from the economic consequences of the Covid-19 crisis. This increases the probability of having a SIDS becoming the first ODA graduate to be reinstated onto the DAC List of ODA Recipients.**
- **The DAC could usefully explore warning mechanisms and multidimensional indicators that monitor the 'quality' of growth. This would help DAC members to better prepare ODA graduation and adjust their engagement and portfolio strategies in line with development's multidimensionality.**

This note will exclusively consider the economic consequences of the Covid-19 crisis in SIDS-ODA recipient countries[1]. Direct effects in the health sector, even if of great importance not only in SIDS but in all developed and developing countries, will be the subject of a separate SIDS-focused health sector note.

SIDS face significant economic challenges exacerbated by the Covid-19 pandemic.

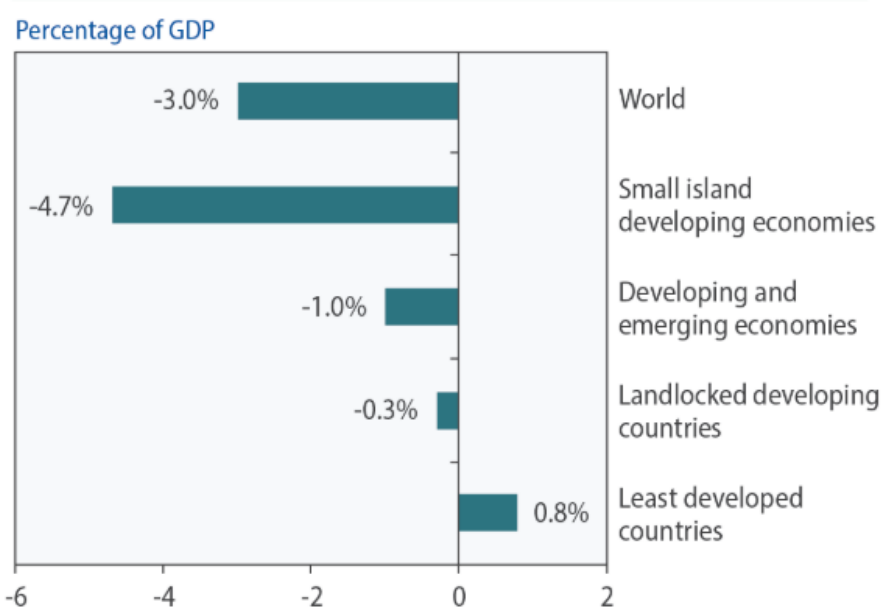
From an economic point of view, with low diversification, constrained fiscal spaces and scarce economic mitigating possibilities, recent projections estimate that SIDS will suffer even more significantly than other countries from the Covid-19 crisis. Figure 1 illustrates that SIDS should see their GDP decrease by 4.7% in 2020, where other groupings such as LLDCs should see a drop of 0.3% in their average GDP, LDCs are expected to grow 0.8% and more broadly all developing countries should see a decrease of 1% in their GDP.

The Covid-19 pandemic is affecting not only SIDS' fragile sanitary systems, but more broadly their entire economic situation. As highlighted in several studies (OECD/GFDRR, 2016[1]), (OECD, 2018[2]), SIDS have to deal with environmental vulnerabilities (higher exposure to climate change effects due to their low altitude above sea levels and high risk of weather catastrophes such as cyclones and flooding); small size (small markets); and remoteness. But in addition, they suffer from (i) low economic diversification

[1] Thirty-three such countries are currently included in the DAC List of ODA Recipients. These 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. Seychelles and Cook Islands recently graduated from the DAC List (in 2018 and 2019, respectively). Seychelles was added to the present analysis in order to take advantage of the wealth of data available. Cook Islands was unfortunately not included because of unavailability of some data. For more details see the methodological annex.

(some are highly dependent on tourism[2], or affected by a drop in export revenues because of the resounding worldwide fall in demand for raw materials); (ii) high dependence on remittances (expected to decline because of the worldwide unemployment crisis); (iii) debt stress situations; as well as (iv) volatility of private income flows (FDIs are expected to decrease worldwide by 30%-40% in 2020 and many SIDS follow the tax haven model that implies high short-term volatility of private inflows).

Figure 1. SIDS should suffer more significantly than other country groupings from the Covid-19 crisis.



Source: UNDESA calculations (UNDESA, 2020[3])

Estimating the exposure to the economic consequences related to the Covid-19 crisis in SIDS

In order to estimate the relative exposure to economic consequences of Covid-19 in SIDS, this note proposes a very simple indicator that can classify SIDS from less to more crisis-exposed economies. This indicator is proposed to be used for information and as a general tool for DAC members to guide their crisis responses, and more broadly, suggest future avenues of work (e.g. vulnerability indicators) and more importantly, policy indications for long-term responses[3].

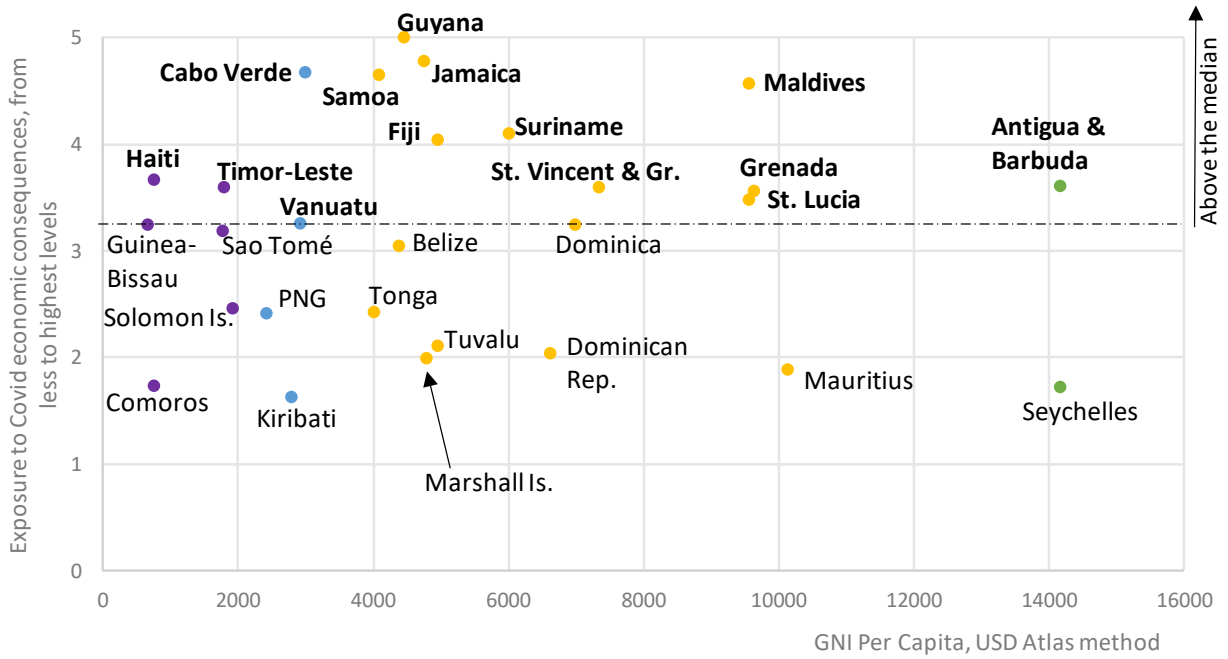
The relative importance of remittances, tourism, natural resource revenues, debt, and external private inflows into GDP were all variables taken into account in order to measure the Covid-19-related economic consequences in SIDS. In fact, remittances in SIDS can represent as much as 37.6% of GDP in Tonga, natural resource revenues can reach 33% of GDP in Suriname, tourism revenues 70% of

[2] For a detailed analysis of the Covid-19 effects on the tourism sector in Caribbean countries see (IDB, 2020[9])

[3] Indeed, finely tuned adjustments could be added to the calculation's methodology, as for example, the evaluation/use of different weighting for the different variables. In developing the indicator further, one could also include environmental, size, remoteness, human well-being variables (e.g. gender equality), among others.

GDP in Cook Islands, FDIs 15% of GDP in Guyana, and external debt reaches levels as high as 122% of GDP in Jamaica[4].

Figure 2. SIDS with higher GNI per capita levels do not necessarily show less exposure to Covid-19-related economic consequences



Note: Purple dots represent LIC and LDC-SIDS, blue dots LMIC-SIDS, yellow dots UMIC-SIDS and green dots HIC-SIDS. Bolded country names are those above the median.
Source: Author's calculations. See methodological note in the annex.

The exposure to Covid-19 economic consequences indicator shows that SIDS with higher GNI per capita levels are not necessarily more resilient to confront the present crisis.

The exposure indicator's computation shows that countries such as Guyana, Jamaica, Cabo Verde, Samoa, the Maldives, Suriname, and Fiji could see their economies suffer the most from the Covid-19 crisis. These seven countries are placed at the most exposed quintile of countries (Table 1, far-right column). Additionally, with Haiti, Antigua & Barbuda, Timor-Leste, St. Vincent and the Grenadines, Grenada, St. Lucia and Vanuatu, they represent the fourteen SIDS countries with an exposure indicator over the

[4] Low economic diversification is measured by (i) the importance of tourism in GDP and (ii) the importance of total natural resource revenues as a % of GDP; the importance of remittances is measured by the sum of remittances as a share of GDP; (3) the different SIDS' debt situations are measured by the sum of their respective external debt as a percentage of GDP; and (4) SIDS' private inflows importance is measured as the last 3-year average of FDIs inflows in the country as a percentage of GDP and the occurrence of being black- or grey-listed as a tax haven in the EU 2020 list of taxation files. Every variable received the same weight when making the calculations, with the exception of FDIs and the 'dummy' tax haven existence model variable, each divided by two (to make together one variable with the same weight as the others). See more details in the methodological annex.

median for the list of SIDS for which it was possible to make the calculations[5]. (See bolded countries' names in Figure 1 and in Table 1).

Interestingly, not all of the six LDC-SIDS countries in this study (Comoros, Haiti, Guinea-Bissau, Sao Tomé and Principe, Solomon Islands, and Timor-Leste) are among SIDS that should suffer the most from the economic effects of the Covid-19 crisis: only two are above the median (Haiti and Timor-Leste), and none figure in the most exposed quintile[6]. (See Table 1).

Table 1. Most exposed SIDS to Covid-19 dire economic consequences are UMIC-SIDS

Less exposed Ranking from 0.99 to 0 Quintile 1	Ranking from 1.00 to 1.99 Quintile 2	Ranking from 2.00 to 2.99 Quintile 3	Ranking from 3.00 to 3.99 Quintile 4	Most exposed Ranking from 4.0 to 5.0 Quintile 5
	Marshall Islands (UMIC)	Solomon Islands (LMIC/LDC)	**Haiti** (LIC/LDC)	**Guyana** (UMIC)
	Mauritius (UMIC)	Papua New Guinea (LMIC)	**Antigua & Barbuda** (HIC)	**Jamaica** (UMIC)
	Seychelles (HIC)	Tonga (UMIC)	**Timor-Leste** (LMIC/LDC)	**Cabo Verde** (LMIC)
	Comoros (LMIC/LDC)	Tuvalu (UMIC)	**St. Vincent & Grenadines** (UMIC)	**Samoa** (UMIC)
	Kiribati (LMIC)	Dominican Republic (UMIC)	**Grenada** (UMIC)	**Maldives** (UMIC)
			St. Lucia (UMIC)	**Suriname** (UMIC)
			Vanuatu (LMIC)	**Fiji** (UMIC)
			Dominica (UMIC)	
			Guinea-Bissau (LIC/LDC)	
			Sao Tomé & Principe (LMIC/LDC)	
			Belize (UMIC)	

Note: Bolded countries are SIDS with an exposure indicator over the median. LDC-SIDS are indicated in purple.
Source: Author's calculations. See methodological note in the annex.

These results are confirmed, and complement, recent studies that show that LDCs should suffer less than other developing country groupings (e.g., LLDCs and SIDS) (UNDESA, 2020[3]) **.** As shown in Figure 1, (purely) LDCs should see GDP growth of 0.8% on average, while SIDS should see their GDP decrease by 4.7% while LLDCs should decrease by 0.3%[7]. Why do we see such results? One could think that more fragile countries, such as LDCs, should suffer the most from an external shock-led economic crisis. Nevertheless, two hypotheses could explain such results: 1) with less developed economic structures and subsistence economies lowly exposed to external fluctuations (self-feeding agriculture economies), LDCs have 'less to lose' compared to other developing countries when facing demand-shocks crises such as Covid-19; and 2) as LDCs are more dependent on ODA, and ODA especially to LDCs is not particularly expected to decrease even under the present crisis, LDCs have a sort of financial mattress that other countries do not -- ODA to LDCs represents around 70% of their total external inflows, compared to only around 10%, on average, for other developing countries (OECD, 2015[4]).

[5] For twenty-eight countries it was possible to compute the exposure indicator. However, for the Cook Islands, Cuba, Micronesia, Montserrat, Nauru, Niue and Palau the unavailability of one or more of the variables made it impossible to calculate the indicator.

[6] Note that Solomon Islands and Sao Tomé and Principe are both scheduled to graduate from the LDC grouping in 2024.

[7] Forthcoming research also suggests that among all developing countries economic growth in LICs will be the least affected (OECD, Forthcoming[10])

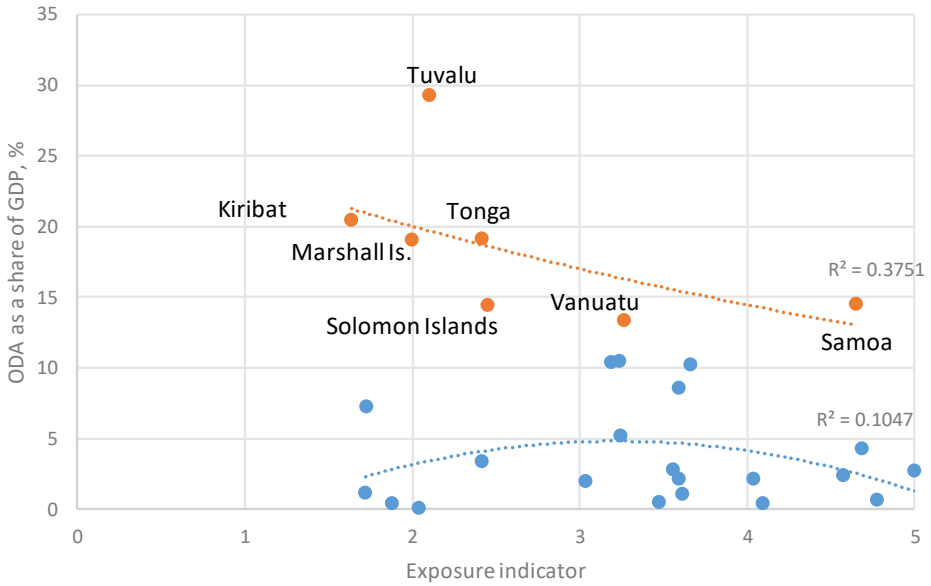
Since ODA to SIDS is on average more significant than ODA to other developing countries (representing around 23% of their total external flows versus 10%, respectively (OECD, 2015[5])), the next section explores the correlation between ODA dependency and the Covid-19 exposure indicator.

The role played by ODA in SIDS should not be neglected when evaluating their exposure to the Covid-19 economic consequences.

On average, SIDS receiving higher levels of ODA as a share of GDP will be less affected, in term of economic consequences, by the Covid-19 crisis. If development co-operation continues to be delivered in a business-as-usual manner, not only LDC-SIDS but also highly ODA-dependent SIDS (regardless their GNI per capita level) will suffer less from the crisis. Indeed, they benefit from a 'security' or 'anti-cyclical' role played by the significant international co-operation flows received. (Figure 4).

However, this also means that SIDS 'in the middle' could be most affected, trapped by the economic consequences of the Covid-19 crisis. In light of the results obtained, it could be expected that Middle/Upper-income SIDS, relatively less ODA-dependent, will be those suffering the most from the crisis.

Figure 3. Regardless their income per capita, ODA-dependent SIDS are better protected against the economic consequences of the Covid-19 crisis



Note: This chart plots the results obtained when crossing the variables 'Exposure to Covid-19 economic consequences indicator' to the 'ODA as a share of GDP' – the latter used as a proxy of ODA-dependency. To better explain their behaviour the results were clustered through the least square method, resulting in trend lines.
Source: Author's calculations

What does Figure 3 tell us?

Because their behaviour looks different (in terms of their exposure to the Covid-19 economic consequences vis à vis ODA dependency), two SIDS clusters emerge. Fitting better, the orange group of observations, through its trendline, shows an inverse relationship between the variables: the more ODA-dependent a SIDS is, the less exposed it is to the economic consequences of the crisis, and as ODA dependency declines, the exposure grows. This is the case for SIDS showing an ODA-to-GDP ratio above 11%.

The rest of the observations, represented in blue, are more erratic and did not respond to any specific behaviour. Even if a trend line can be drawn, the R^2 is low, that is, there is a low correlation between the variables. But even so, an important conclusion can be deduced: for countries with ODA dependency ratios below 5% (this excludes LDCs[8]) there is no strict correlation between the variables. For these countries, the level of ODA dependency does not translate into greater or less exposure to the crisis' economic consequences. (Note that, for a better reading of the chart, countries represented by the blue dots are not explicitly mentioned in the figure but are instead listed in Table 2 below.)

Table 2. SIDS receiving higher levels of ODA as a share of GDP will be less affected, in term of economic consequences, by the Covid-19 crisis.

Cluster	Country	ODA as a share of GDP, %	Country income grouping
Higher ODA-dependency	Kiribati	20.5	LMIC
	Marshall Islands	19.1	UMIC
	Samoa	14.5	UMIC
	Solomon Islands	14.5	LMIC/LDC
	Tonga	19.1	UMIC
	Tuvalu	29.3	UMIC
	Vanuatu	13.4	LMIC
Lower ODA-dependency	Antigua and Barbuda	1.1	HIC
	Belize	2.0	UMIC
	Cabo Verde	4.3	LMIC
	Comoros	7.3	LMIC/LDC
	Dominica	5.2	UMIC
	Dominican Republic	0.1	UMIC
	Fiji	2.2	UMIC
	Grenada	2.9	UMIC
	Guinea-Bissau	10.5	LIC/LDC
	Guyana	2.7	UMIC
	Haiti	10.2	LIC/LDC
	Jamaica	0.7	UMIC
	Maldives	2.4	UMIC
	Mauritius	0.4	UMIC
	Papua New Guinea	3.4	LMIC
	Sao Tome and Principe	10.4	LMIC/LDC
	Seychelles	1.2	HIC
	St. Lucia	0.5	UMIC
	St. Vincent and the Grenadines	2.2	UMIC
	Suriname	0.4	UMIC
	Timor-Leste	8.6	LMIC/LDC

Note: World Bank thresholds: LIC: <USD 995; LMIC: USD 996-3895; UMIC: USD 3896-12055; HIC: > USD 12055. (World Bank, 2018[6])
Source: World Bank indicators (DT.ODA.ODAT.GN.ZS and NY.GNP.PCAP.CD) last available data.

[8] The countries with ODA-to-GDP ratios around 10% are all LDCs.

Towards a better understanding of development's multidimensionality to reconcile the different agendas of DAC members

The present findings show that under certain circumstances (such as the current Covid-19 crisis) economies that looked relatively robust are in fact quite vulnerable. As demonstrated in this note, a proximity to ODA graduation, at least for SIDS, does not necessarily mean that these countries are less vulnerable than other SIDS when facing the Covid-19 crisis, nor that their previous achievements are sustainable or irreversible. Also, the indicator suggests that the SIDS that one would expect to be the most vulnerable (i.e., LDC-SIDS) will not in fact suffer the most economically from this crisis.

A better understanding of the different factors involved in the development dynamics or 'development multidimensionality' could be of significant help to guide DAC members in supporting developing partners[9]. Indeed, the various co-operation agendas (e.g., from the US journey to self-reliance to Ireland's LDC-centred agenda, through more technical assistance-centred approaches) have a role to play and would be best informed and deployed with diagnostics underpinned by the broadest possible view of development challenges, recognising that these challenges differ from one country group to the next.

[9] As previously recommended, the DAC [should] explore the 'warning mechanisms and multidimensional indicators [that] monitor the 'quality' of growth… [for] DAC members to better prepare ODA graduation together with partner countries… and adjust DAC engagement and portfolio strategies … in line with development's multidimensionality". See (OECD, 2020[8])

Annex:

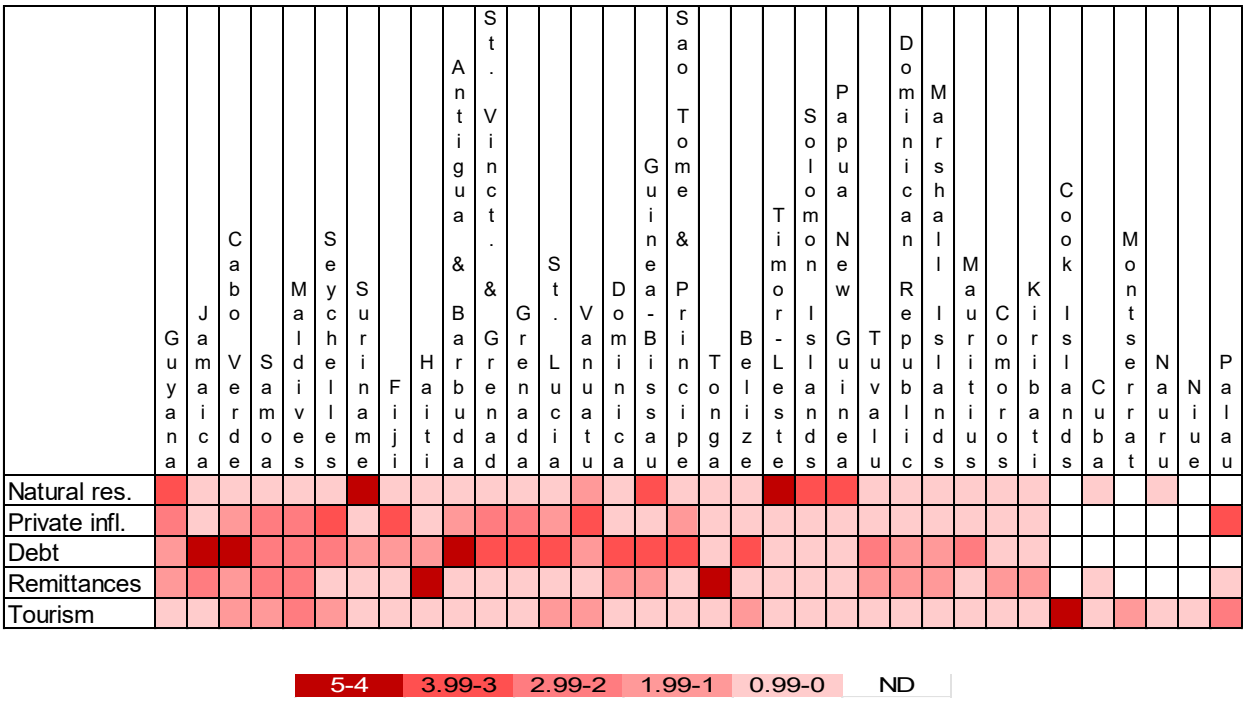
The exposure to the Covid-19 economic consequences indicator in SIDS was calculated through five components, each of them ranked from 0 to 5, where 5 represents, in each case, the less beneficial situation. Each of the indicators has the same weight and their sum makes up the final composite indicator.

The five components are as follows:

1) Importance of tourism as a share of GDP (source https://tcdata360.worldbank.org/indicators/tot.direct.gdp?indicator=24648&viz=line_chart&years=1995,2028);
2) Importance of total natural resource revenues as a share of GDP (source World Development Indicators, indicator NY.GDP.TOTL.RT.ZS);
3) Importance of remittances as a share of GDP (source: World Bank staff calculation based on data from IMF Balance of Payments Statistics database and data releases from central banks, national statistical agencies, and World Bank country desks);
4) Importance of the external debt as a percentage of GDP (source: IMF database and https://www.imf.org/external/pubs/ft/dsa/pdf/2018/dsacr1812.pdf; https://www.imf.org/external/pubs/ft/dsa/pdf/2017/dsacr17360.pdf); and
5) SIDS' private inflows importance measured by i) the last 3-year average of FDIs inflows in a country as a share of GDP (source: World Development Indicators, indicator BX.KLT.DINV.WD.GD.ZS, and the occurrence of being black- or grey-listed as a tax haven in the EU 2020 list of taxation files --if not listed, quoted 0, if grey listed quoted 2.5 if black-lested, quoted 5, source: https://ec.europa.eu/taxation_customs/sites/taxation/files/eu_list_update_18_02_2020_en.pdf). The FDIs and the tax haven existence model variable, each divided by two, make together one variable with the same weight as the others four variables.

Coverage: Twenty seven out of thirty-three listed SIDS countries, plus one already graduated, that is twenty-eight countries. These are Antigua and Barbuda, Belize, Cabo Verde, Comoros, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Papua New Guinea, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Solomon Islands, Suriname, Timor-Leste, Tonga, Tuvalu and Vanuatu. Seychelles and Cook Islands recently graduated from the DAC List (in 2018 and 2019, respectively). Seychelles was added to the present analysis in order to take advantage of the wealth of data available. Cook Islands was unfortunately not included because of unavailability of some data.

Figure.4. Exposure to the Covid-19 economic consequences in SIDS by component



Source: Author's design

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