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UNCTAD Strategy to support Small Island Developing States

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Contents

About UNCTAD

UNCTAD is the UN's leading institution dealing with trade and development. It is part of the UN Secretariat and has a membership of 195 countries, one of the largest in the UN system.

UNCTAD supports developing countries to access the benefits of a globalized economy more fairly and effectively by providing economic and trade analysis, facilitating consensus-building and offering technical assistance to help developing countries use trade, investment, finance and technology for inclusive and sustainable development.

Executive Summary

Small Island Developing States (SIDS) have made substantial socioeconomic gains over the years, despite multiple development challenges. While past discourses and development partnerships in support of SIDS exclusively focused on their geographical and demographic sizes, as well as remoteness from international markets, SIDS also face systemic risks and uncertainties, as well as structural vulnerabilities and underdeveloped production structures with little or no supply networks. Besides frequent natural disasters and threats of sea level rise induced by climate change, of which SIDS bear a disproportionate burden, their excessive reliance on imports and limited access to concessional loans have made SIDS overly indebted and structurally vulnerable to external shocks.

This UNCTAD strategy is developed building on the longstanding support and partnership of UNCTAD with SIDS along with its primordial three-pillar functions: policy research and analysis, technical cooperation and capacity building as well as intergovernmental deliberation and advocacy. It is designed to effectively address the multiple and systemic vulnerabilities of SIDS by sustainably harnessing their comparative advantages and unlocking key binding constraints to their development. What is urgently needed is a new development model, combined with a revamped global partnership in support of their development efforts as outlined and discussed in this strategy document. The strategy aims to maximize synergies and exploit a paradigm shift in development policy towards building socioeconomic resilience by fostering productive capacities and structural economic transformation and enhancing SIDS' international economic engagement with an aim to achieve inclusive growth and sustainable development. The new development model, as discussed in this strategy, should blend robust sectoral and economy-wide actions.

It is framed along the pillar intervention strategy, which includes: (i) building productive capacities; (ii) enhancing connectivity, reducing transport costs, and promoting sustainable and resilient transport; (iii) facilitating customs modernisation (ASYCUDA); (iv) facilitating digital transformation; (v) supporting investment, including FDI; (vi) taping the potential of the ocean economy; (vii) supporting private sector development; (vii) supporting the mobilisation of external financial resources; and (ix) advancing South-South cooperation to enhance development strategies and economic integration, (x) implementing trade facilitation reforms. These will be mapped and realigned with sectoral interventions covering tourism, the blue economy, agriculture, manufacturing, and other services sectors, including, financial intermediation, banking, ICTs, and real estate, etc., and through a new generation of revamped international support mechanisms (ISMs). The full and effective implementation of this comprehensive strategy also seeks innovative financing mechanisms, clearly defined incentive structures and new development financing models that recognize structural vulnerabilities, systemic risks and the fragility of SIDS. It will be implemented by UNCTAD in areas within its expertise and comparative advantages.

1.
Background: The State of SIDS' economies

There are 39 Small Island Developing States (SIDS) which are members of the United Nations, representing 20% of the UN membership. Although they are characterised by small geographic and demographic sizes, they are home to substantial biodiversity, controlling the area of nearly 30% of all oceans. This offers as many opportunities for their development, for example through the exploitation of their Exclusive Economic Zones, as imposes challenges. Sustainably harnessing their comparative advantages, while minimizing risks and uncertainties facing them resulting from their small size and remoteness, requires a new development model and a revamped global partnership in support of their development efforts.

This strategy aims to maximize synergies and exploit such a paradigm shift for socioeconomic resilience building in SIDS by fostering productive capacities and structural economic transformation, as well as international economic engagement, for achieving inclusive growth and sustainable development. The new development model for SIDS should blend robust actions to address climate change and environmental degradation, which disproportionately affect SIDS, while at the same time addressing their structural economic vulnerabilities and underdevelopment. SIDS also need a new generation of international support mechanisms (ISMs) that could effectively respond to their multiple vulnerabilities, relieve key binding constraints to development, and, more importantly, help them to sustainably harness their comparative advantages. For example, the transfer of appropriate technology to mitigate the impact of climate change, incentives to protect biodiversity by improving the health of oceans, and agreeing on non-debt-creating development finance models are critically important for SIDS. The overall aim of such a blended approach towards SIDS' development is to accelerate their socioeconomic transformation and ensure prosperity and improved standards of living for their citizens.

SIDS are a heterogeneous group of countries, with diverse geographic, demographic, and economic characteristics. For the purpose of this document they are divided into several sub-categories depending on their geographic location and economic characteristics, namely, Pacific SIDS, Caribbean SIDS, Atlantic and Indian Ocean SIDS (African SIDS + Maldives), and the overlapping category of LDC SIDS.[1] This heterogeneity is illustrated, for example, by the fact that overall the Caribbean SIDS are more developed (with an average per capita GDP of US$ 10,915 in 2019) than the Pacific SIDS (US$ 3,405) and African SIDS (plus Maldives) (US$ 6,812).[2] There is also a large gap between the largest and the smallest SIDS economies. The GDP of Trinidad and Tobago in 2019 (US$ 23.8 billion) was over 500 times higher than that of Tuvalu (US$ 0.045 billion).

In terms of geography, the Caribbean SIDS are more closely located vis-a-vis each other (i.e. within the Caribbean Sea) than the Pacific SIDS (within the Pacific Ocean) or the African SIDS (within the Atlantic and Indian Oceans). This heterogeneity exists also within the categories; e.g. the Pacific Melanesian SIDS have substantially larger land areas than the Pacific Polynesian SIDS. All these features contribute to SIDS economic strengths and weakness and their respective capabilities. For example, while some SIDS have maximised development gains through investment, and export and structural transformation through knowledge and technology intensive services, and some others have also improved their socioeconomic conditions, eight SIDS continue to belong to the United Nations' category of LDCs.

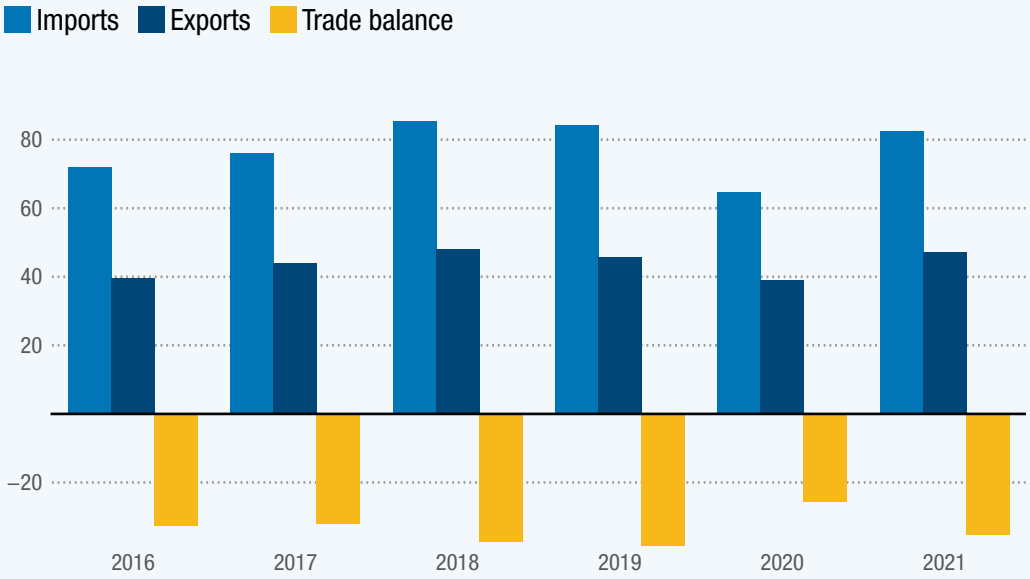
Overall, SIDS play a marginal role in the global economy. In terms of the share in global GDP, it stands at 0.4%, with the Caribbean SIDS being responsible for the overwhelming majority of more than 80% of this contribution (in 2021, UNCTADstat 2023). In terms of total international merchandise trade, they contribute 0.3% (in 2022, UNCTADstat, 2023). In terms of the share of World FDI inflows, they constitute 0.2% (WIR, 2022). The limited role of SIDS in the global economy is not surprising considering their share in the world's population of less than one percent.

Nevertheless, the trade to GDP ratios of SIDS is comparatively high, with the average exceeding 100%. The magnitude of this ratio reflects the fact that SIDS are small open economies that rely heavily on trade. It also reflects their vulnerability to external factors including economic shocks and the volatility of growth and prices. The extent of trade dependency varies among SIDS with some countries such as Fiji, Maldives, Nauru, Seychelles, Solomon Islands, Tuvalu, and Trinidad and Tobago recording high trade to GDP ratios and others such as Comoros, Jamaica, Palau, St. Kitts and Nevis, St. Lucia, Timor-Leste and Tonga having lower ratios. There is no general common pattern that distinguishes the structure of SIDS' trade. Both exports and imports vary widely from one country to another, although in some cases, SIDS show some commonalities in terms of their trade flows and composition.

[1] Atlantic and Indian Ocean SIDS: Cabo Verde, Comoros, Guinea-Bissau, Mauritius, São Tomé and Príncipe, Seychelles (African SIDS), and Maldives. Caribbean SIDS: Antigua and Barbuda, Bahamas, Barbados, Belize, Cuba, Dominica, the Dominican Republic, Grenada, Guyana, Haiti, Jamaica, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Pacific SIDS: Cooks Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Palau, Papua New Guinea, Samoa, Singapore, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu (source: UNOHRLLS). LDC SIDS: Comoros, Guinea-Bissau, Haiti, Kiribati, São Tomé and Príncipe, Solomon Islands, Timor-Leste, and Tuvalu, (Source: UNOHRLLS). Please note that Bahrain was taken out of the group of SIDS in April 2023 at the request of the member State, whereas Singapore has been omitted in further analysis and proposed strategy.

[2] US$, constant 2015 prices.

Figure 1
Merchandise trade of SIDS: Exports, imports and trade balance



Source: UNCTADstat (2023)

Overall SIDS (excluding Singapore) are import-driven economies. This phenomenon led to large deficit in their trade balance which ought to be financed from their international reserves, FDI, ODA or import credits. In 2018 and 2019, SIDS' trade deficits were proportional to their exports. Persistent and long-term trade deficits can lead to microeconomic and macroeconomic instabilities. Systemic vulnerabilities of SIDS' economies also expose them to external shocks.

In terms of composition, the top five import items of SIDS are petroleum and petroleum products; road vehicles; cereals, electrical apparatus, and appliances. Likewise, their top five exports include non-monetary gold (excl. gold ores and concentrates); gas (natural and manufactured); metalliferous ores and metal scrap; petroleum, petroleum products and related materials; and fish, crustaceans, molluscs. SIDS trading partners are also extremely limited with the United States, China and Australia absorbing the bulk of their exports and serving as the source of substantial amount of SIDS' imports. Structurally, SIDS' economies depend on the services sector, including tourism, financial services, real estates, with services dominating their GDP and exports. While the high-skills, knowledge and technology-driven services sector offers maximum socioeconomic gains, SIDS that dependent on a few traditional services sectors, such as travel and tourism, as well as remittances are excessively vulnerable to external shocks, be it natural disasters, economic and financial crises and health related challenges (such as COVID-19). For SIDS, their comparative advantages in the services sector lie in the intensification of shifting towards knowledge-, skills- and technology- intensive services such as ICT-based services, data transfer and digitisation, banking and insurance services, and medical services (health tourism), among others.

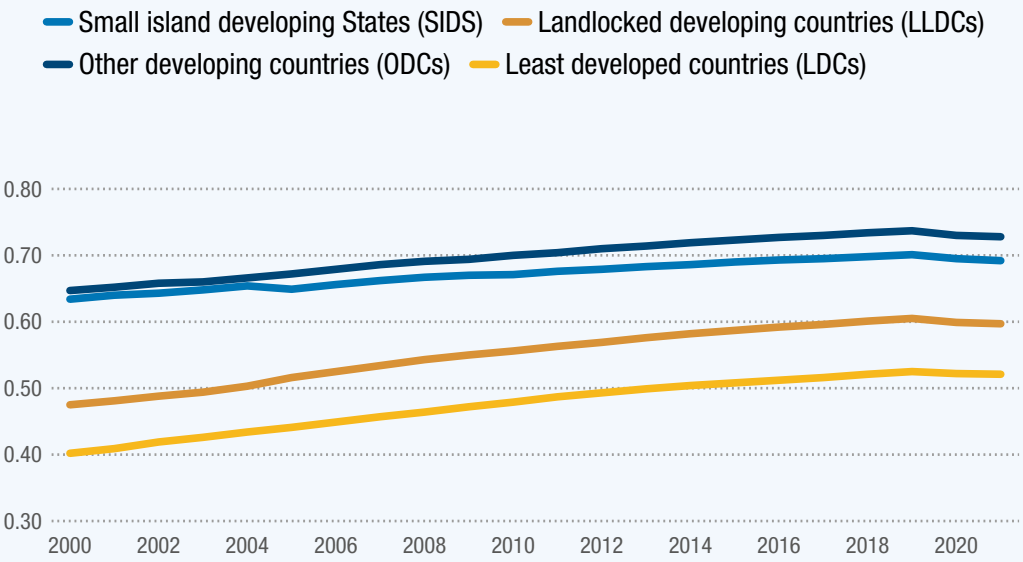
The new development and partnership model in favour of SIDS should also take into account such gaps and limitations in their economic and trade structures, ecological and environmental challenges, as well as the needs and aspirations of SIDS for inclusive growth and sustainable development. These should also include fostering a dynamic and vibrant private sector and the transfer of technology which enable SIDS to maximize their comparative advantages and to unlock the most pervasive binding constraints to their development. These are elaborated in subsequent sections of the present strategy.

As indicated, SIDS are highly dependent on the export of services. In 2019, SIDS exported US$ 26 billion worth of services, of which US$ 20 billion were travel services. Services exports accounted for 25% of the GDP of the group, compared to 18% for other developing economies. Additionally, they represented 60% of SIDS' total exports of both goods and services. Nevertheless, the contribution of SIDS to global services trade is predictably low, accounting for only 0.4% of the total in 2019 (UNCTAD, 2021a).

Mixed progress in the midst of systemic and structural vulnerabilities

Although eight SIDS are also LDCs, some SIDS have achieved comparatively higher levels of income per capita (e.g., Bahamas and Saint Kitts and Nevis), thanks to the growth and expansion of services, particularly tourism services. Overall, despite the multiple development challenges facing them, SIDS have improved key socioeconomic indicators and fostered vibrant institutions, including improved governance, progress which demographically and geographically larger developing countries often struggle to realise.

Figure 2
Human development in SIDS, LDCs, LLDCs and ODCs
(as measured by the Human Development Index – HDI)



Source: UNDP 2022.
Note: No HDI data available for Nauru and Tuvalu.

In a few SIDS, agriculture and fisheries play an important role in driving growth and structural transformation. Indeed, despite the numerous challenges, systemic risks and vulnerabilities facing them, SIDS are characterised by relatively high average Human Development Index (HDI) scores (Figure 2) (UNDP, 2022). SIDS show an increase in average HDI values from 0.63 in 2000 to 0.69 in 2021, thereby reaching higher levels than the LDCs' average of 0.40 and 0.52, and landlocked developing countries (LLDCs') average (0.48 and 0.60) over the same period. Even in the Human Development Index where SIDS generally have registered a better performance than LDCs and LLDCs, they are still below the level in other developing countries (ODCs).

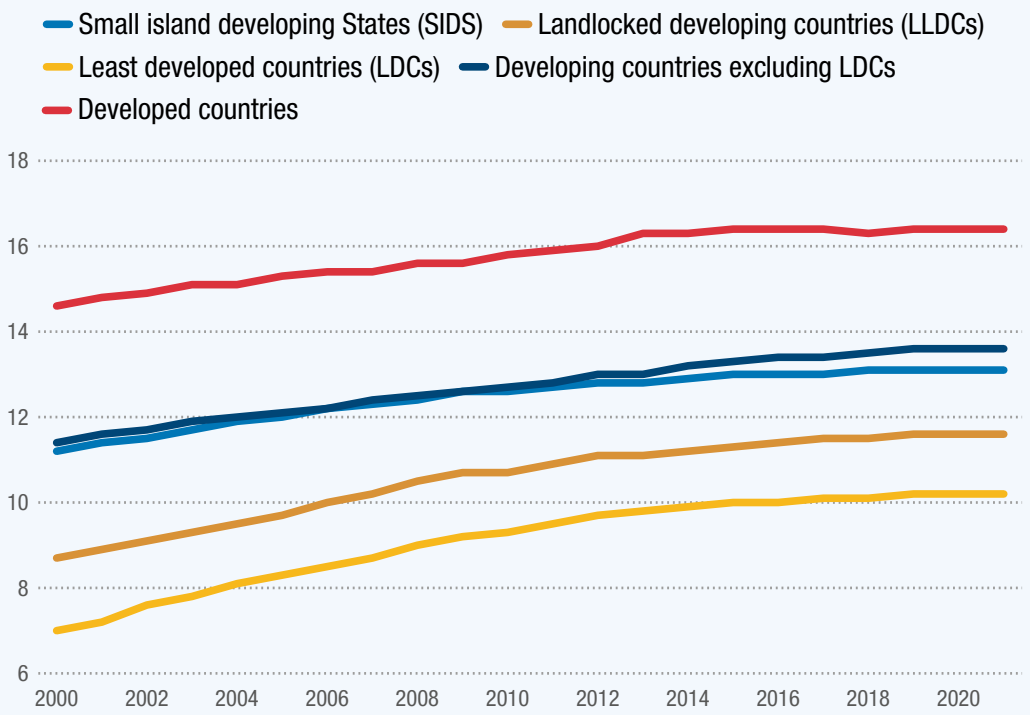
Nevertheless, taking into consideration SIDS vulnerabilities, as discussed below, even substantial socio-economic gains as portrayed by the economic and social indicators do not guarantee SIDS sustainable development. Therefore, a holistic and comprehensive approach to support SIDS is necessary. Moreover, the performance of SIDS may mask weaknesses in some areas. For instance, life expectancy at birth has improved significantly in SIDS as a group, although there are stark variations between SIDS that belong to the LDC group and those that do not. Overall, as with LDCs and LLDCs, improved life expectancy in SIDS is largely driven by exogenous factors (such as better access to vaccinations, improved drugs or better development assistance targeted to the health and education sectors) rather than endogenous factors (such as capabilities to produce drugs and vaccines domestically or to finance education and health through domestic resources mobilisation).

Another important indicator level performance within the human capital formation that SIDS need to pay particular attention to is the expected year of schooling.3 SIDS started on equal footing with ODCs, however, in later years their performance has been diverging downward instead of converging with related improvements. The expected years of schooling of the working age population is critically important for fostering productive human capital and improving other socioeconomic indicators such as reduced teenage pregnancy, better awareness of family planning, improved level of skills and competencies of young graduates entering the labour markets, better jobs and higher incomes, better awareness about and information of health services, nutrition, and hygiene to avoid the risk of sickness. Improving the number of expected years of schooling means shifting the policy focus and resources from the current gross-enrolment centred tendencies towards school completion, the acquisition of better skills, and a focus on knowledge formation and an enhanced education strategy. SIDS also need to build their endogenous capabilities through a better allocation of R&D in healthcare and the provision of health services.

As can be seen from Figure 3, in 2022, the average years of schooling for SIDS was 13, against 11 for LLDCs and 10.2 for LDCs. However, this is lower than the average of ODCs (about 14 years), European economies (17 years), or developed economies (16 years), and some of the top performing nations such as Australia (22 years). Fostering productive capacities and structural economic transformation requires the formation of a healthy, skilled and knowledge centred workforce, as well as targeted investment in R&D and higher expected years of schooling.

[3] Expected years of schooling is statistically defined by the United Nations Development Programme (UNDP) as the number of years a child of school entrance age can expect to receive education, if the current age-specific enrolment rates persist throughout the child's schooling.

Figure 3
Comparative expected years of schooling in SIDS, LDCs, LLDCs, ODCs and developed countries



Source: UNCTAD 2023a.

2. Contextualising key development and sectoral challenges in SIDS

The main challenges faced by SIDS concern:

(a) A lack of resilience and vulnerability towards external shocks

In the times of global economic shocks, globalisation and economic opening up, as well as integration of production processes through the international value chains, economies become more vulnerable towards external shocks, as economic crises are swiftly transmitted from one corner of the world to another. Even those whose role in the international economic interaction is limited, such as SIDS, are inevitably affected. Their small size and undiversified economic structures make SIDS particularly vulnerable to these external economic shocks – global and regional financial and economic crises, fluctuations of global prices of certain goods and commodities and trade volumes, as well as shifts in global demand for certain services (e.g. tourism), due to, for example, a global recession and/or other external factors such as the COVID-19 pandemic.

SIDS are especially vulnerable to natural disasters, as well as climate change, due to a strong exposure to meteorological hazards and rising sea levels. On average, 13% of Pacific SIDS' land lies below 5 metres above sea level. In the Maldives, Kiribati and Tuvalu, 99% of land lies below 5 metres above sea level., Their size, as well as the high density and concentration of population, and high per capita costs of roads, ports and airport infrastructure also introduce other risks. For small countries, the per capita costs of post-disaster reconstruction can be exorbitant. In combination with limitations to diversification and resilience building against external shocks, external debt grows, and debt servicing capacity weakens when exports drop dramatically, such as during the COVID-19 crisis. According to the available data, natural disasters and their related costs have steadily increased over the past 40 years. The worst natural disasters, measured by damage relative to GDP, have almost exclusively occurred in SIDS (except Mongolia). The three worst hit countries since 1970 have been SIDS (Tonga, Antigua and Barbuda, Samoa) (UNCTAD, 2022a). As a result, SIDS face routinely higher interest premia on their external borrowing costs due to climate risks (Buhr and Volz, 2018).

Moreover, critical coastal transport infrastructure in SIDS, notably ports and airports, being lifelines for external trade, food and energy security, as well as tourism, are projected to be at high and increasing risk of coastal flooding, from as early as in the 2030s, (Monioudi et al., 2018) unless effective adaptation action is taken. In the absence of timely planning and implementation of requisite adaptation measures, the projected impacts on critical transport

infrastructure may have broad economic and trade-related repercussions, (EDF, 2022). In the light of what is at stake, accelerated action both on mitigation and adaptation will be key, as will progress on an implementing Loss and Damage funding arrangements agreed at COP 28. Flexible and adaptive infrastructure, systems and operations, and engineered redundancy to improve resilience are needed, as are other technologies to avert, minimize and address loss and damage in coastal zones (UNFCCC, 2020). However, important knowledge gaps remain concerning vulnerabilities and the specific nature and extent of the exposure that individual coastal transport facilities may be facing (Asariotis et al., 2018) Funding is urgently needed for evidence-based risk and vulnerability assessments at facility level, which is critical to avoid maladaptation. In addition, there is an urgent need to step up capacity-building and climate adaptation finance, including in the form of grants (UNCTAD, 2022d). Estimated adaptation costs in developing countries are 10 to 18 times higher than current public adaptation finance flows, and the adaptation finance gap is widening (UNEP, 2023). To increase levels of preparedness and help mitigate impacts, there is also an important need to upscale support for Early Warning Systems as recognised by the WMOs Early Warning for All Action Plan (UNDRR, 2022).

(b) A lack of diversification, remoteness, smallness and lack of international economic interaction

Small domestic markets, undiversified economies, usually limited endowment in natural resources, and remoteness from the global markets, renders SIDS unattractive from the perspective of international capital and, hence, as a destination for foreign direct investment (FDI). Thus, SIDS are unable to become a part of global and regional value chains and this impacts their ability to advance development efforts, as engagement with the global economy – through, for example, international trade and sharing global and regional production processes – is of particular importance for any contemporary development model. The challenges are exacerbated by SIDS significant dependence on international trade. Therefore, SIDS need a clearly defined and export-orientated strategy that enables them to tap into their comparative advantages. Their production and export strategies need to take into consideration the ocean economy and the related green export opportunities, the development of marine-based nutraceuticals and pharmaceuticals, as well as opportunities for developing plastic substitutes. This could have a positive impact on local production, diversification efforts and resilience building.

As far as remoteness and isolation are concerned, the importance of maritime and air transport cannot be overstated. They play a pivotal role in supporting economic performance, trade and productive sectors, such as tourism and fisheries, and sustainable development. Nonetheless, SIDS transport sector encounters heightened vulnerability to a range of challenges, including high transport costs and limited maritime connectivity. These factors not only undermine their export competitiveness but also impact their import compared to other regions or groups of countries. Digital technologies have the potential to help SIDS overcome their remoteness to engage in international trade, so digitalization readiness is of paramount importance. There are large differences in connectivity and digitalization readiness among SIDS. The countries that are better connected have higher incomes and digitalization plays a larger role in their economies (ITU, 2024). At the other end of the spectrum, the SIDS with the lowest rates of ICT use and ownership and lowest affordability scores, are mostly LDCs. This diversity underlines the need to design tailored approaches to achieve universal and meaningful connectivity, backed up with technical cooperation related to building the ability to participate in e-commerce and the digital economy. SIDS

should consider policies to ensure that imported devices and telecommunications are affordable, and to explore exports of ICT services and digitally deliverable services as a way to create and capture value in the digital economy.

SIDS are also marginalised in international liner shipping networks, with low liner shipping connectivity levels. SIDS face delays at ports and heavy reliance on indirect connections that often require several transhipments moves.[4] Concentrated markets in shipping together with low trade volumes and imbalances in flows are also undermining SIDS transport connectivity. Among the 50 least connected economies globally, 37 are SIDS.[5] During the pandemic, SIDS experienced interrupted shipping services leading, in some cases, to shortages of foodstuffs and fresh food (UNCTAD, 2021b).

(c) Debt sustainability and ability to access financing

Despite low economies of scale and weak absorptive capacities, official development assistance to SIDS, on average, accounted for about 30% of their central governments' expenditure during the 2010-2021 period. However, this average value masks variations across SIDS. For some SIDS, the dependence on ODA is excessively high, for example, 40% in Fiji (in 2021), 50% in Guinea Bissau (in 2020), 127% in the Marshall Islands and 196% in the Federated States of Micronesia (in 2020). For SIDS that are in the upper middle-income category, their access to multilateral concessional finance is limited, hence, their external development finance approach gradually leads to an external debt build-up.

Consequently, SIDS are among the most indebted developing countries in the world. In view of the increased funding needed to achieve the sustainable development goals (SDGs) and to finance climate change adaptation and mitigation, debt is already a problem in many developing countries. In 2022, external debt accounted for 78.5% of their GDP and for 144.6% of their export revenues (of good and services, including tourism) compared to average ratios of 28.8% and 100%, respectively, for all developing countries. According to the joint World Bank – IMF Debt Sustainability Analysis (DSA) for Poverty Reduction and Growth Trust (PRGT) eligible countries, as of February 2023, most PRGT-eligible SIDS were at high risk of or already in debt distress (including Comoros, Dominica, Guinea-Bissau, Haiti, Kiribati, Maldives, Marshall Islands, Micronesia, Papua Nova Guinea, Samoa, Saint Vincent and the Grenadines, Tonga and Tuvalu, Grenada and São Tomé and Príncipe.

Of the total external debt in SIDS, long-term debt accounts on average for 67.7% in 2022. Public and public guaranteed debt (PPG) debt is the main component of long-term external debt in most SIDS, accounting for 56.4% of the total on average. However, there are a few exceptions, such as Mauritius, the Solomon Islands and Trinidad and Tobago, where 62.4%, 61% and 65.4%, respectively, of the long-term external debt was owed by private borrowers in 2022.

Regarding the creditor composition of the PPG debt, traditionally, lower-middle income economies (Cabo Verde, Comoros, São Tomé and Príncipe, the Solomon Islands, Timor-Leste, Vanuatu) depend relatively heavily on official multilateral and bilateral creditors (UNCTAD, 2022a). The role of private creditors is only important in a few countries, such as Jamaica and Dominican Republic, where around 60% and 76%, respectively, of the PPG debt is owed to bond holders in 2022.

[4] https://unctad.org/topic/transport-and-trade-logistics/review-of-maritime-transport

[5] https://www.g77.org/geneva/statements/061923b.html

Given the large share of public debt and the importance of the public sector in SIDS, due to their small market size, the public sector is particularly vulnerable to multiple shocks (UNCTAD, 2022a). As a result, financial resources, which otherwise could have been diverted into productive uses and channelled towards programmes and policies to support sustainable development and social spending, are used to pay back debt. At the same time, a viscous cycle forms as the cost of subsequent borrowing becomes higher, given countries' already high levels of indebtedness. It is, thus, no surprise that access to finance is a challenge for businesses in SIDS, particularly those in rural areas or those run by women and young people.

(d) Environmental degradation, biodiversity loss and overfishing, and climate change

Climate change, pollution and biodiversity loss are set to remain among the biggest challenges of the next decades affecting SIDS, and in particular the ocean economy they depend on for development. The high and rapidly growing levels of marine litter, including plastic litter and microplastics, represent a serious environmental problem on a global scale, negatively affecting marine life and biodiversity, ecosystems, livelihoods, fisheries, aquaculture, maritime transport, recreation, tourism and other sectors of the ocean economy. Current estimates indicate that about 11 million tons of plastic enter the ocean each year. The annual global production of plastics was about 400 million tons in 2020, and production is expected to double by 2040 and increase by 2.5 times by 2050 if the current consumption rate continues (ISO, 2022 in UNCTAD, 2023b).

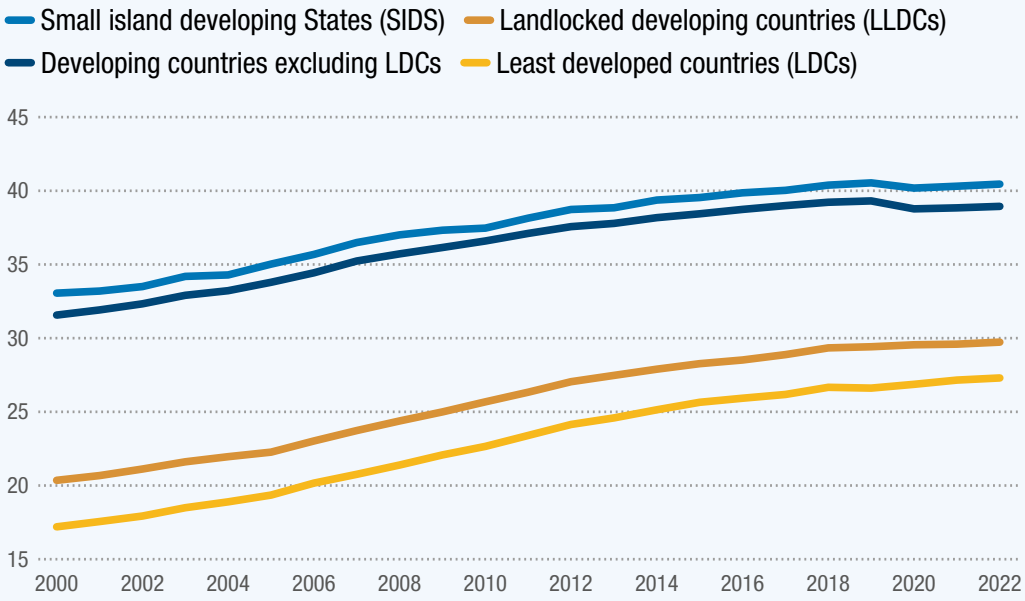
Moreover, over the past decades, overfishing caused by overcapacity, inadequate management of the fishery sector, and illegal, unregistered and unreported (IUU) fishing, has been particularly problematic. Pollution and habitat degradation, which are driven largely by ineffective management, a lack of data, and a lack of relevant policies and their enforcement, have also impacted marine fisheries. Constraining factors in SIDS also include a lack of institutional and human capacity in both the public and private sectors, complexities of inshore fisheries management, post-harvest losses, poorly developed safety regulations for fishing vessels, poor national quality infrastructure, including inadequate sanitary regulations and control, as well as underdeveloped national fishing industries when concerned with the harvesting and processing of offshore resources. Based on FAO's analysis of assessed commercial fish stocks (FAO, 2022), the share of fish stocks harvested within biologically sustainable levels decreased from over 90% in 1974 to 65.8% in 2017 worldwide. Another significant driver of overcapacity and overfishing are harmful fisheries subsidies, which not only deplete fish stocks but also undermine economic opportunities for small-scale artisanal fishers and threaten the livelihoods and food security of coastal communities (UNCTAD, 2023b).

3. SIDS' productive capacities

An analysis of SIDS' productive capacities[6] reveals the specific challenges and vulnerabilities experienced by different groups of SIDS.

The overall assessment of SIDS' productive capacities, utilizing the Productive Capacities Index (PCI), shows the strengths of this group of countries in terms of their national, economy-wide productive capacities, as compared to LDCs, LLDCs, and ODCs (Figure 4). Productive capacities are an important foundation for the country's capabilities to advance structural transformation and economic diversification, achieve greater poverty reduction and sustainable development, as well as build resilience against external shocks.

Figure 4
Productive capacities
(As captured by the PCI)

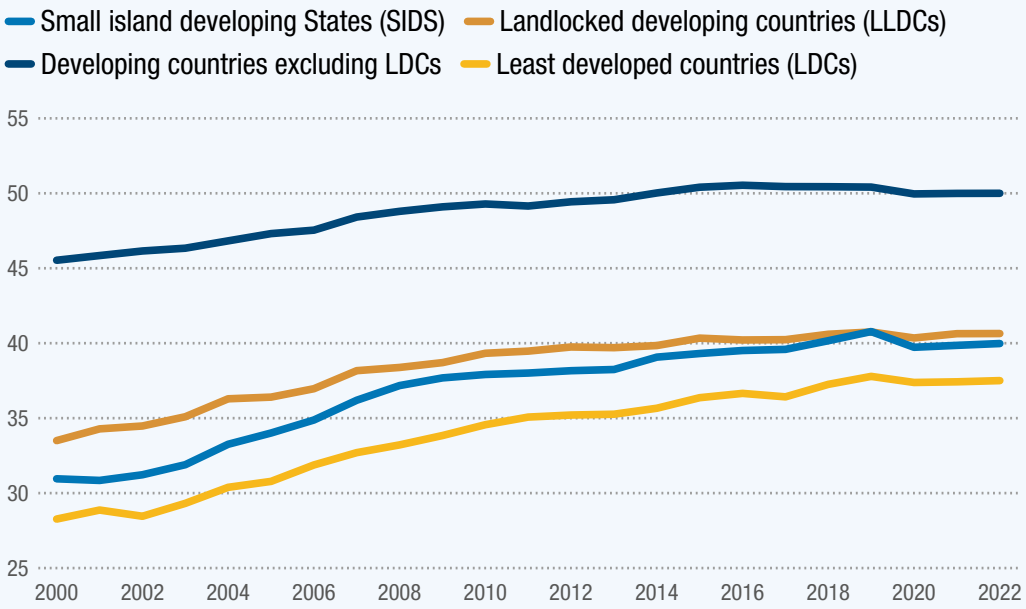


Source: UNCTAD 2023a.

[6] UNCTAD defines productive capacities as the productive resources, entrepreneurial capabilities and production linkages that together determine a country's ability to produce goods and services that will help it grow and develop. UNCTAD uses the Productive Capacities Index (PCI), which relies on eight components – Natural Capital, Human Capital, Transport, Energy, ICT, Institutions, Private Sector and Structural Change – to measure gaps in productive capacities (UNCTAD, 2006).

Nevertheless, despite relatively strong productive capacities, SIDS continue to face substantial development challenges. As explained above, some are related to climate change and limited resilience, and some are related to their limited participation in the global economy or low levels of economic diversification. The component level analysis of the PCI shows that they fare relatively worse in Structural Change (see Figure 5), that is the ability to advance structural transformation from low to high value-added economic activities, which would bring effective poverty reduction through better paid jobs and building domestic wealth.

Figure 5
Structural Change (PCI)

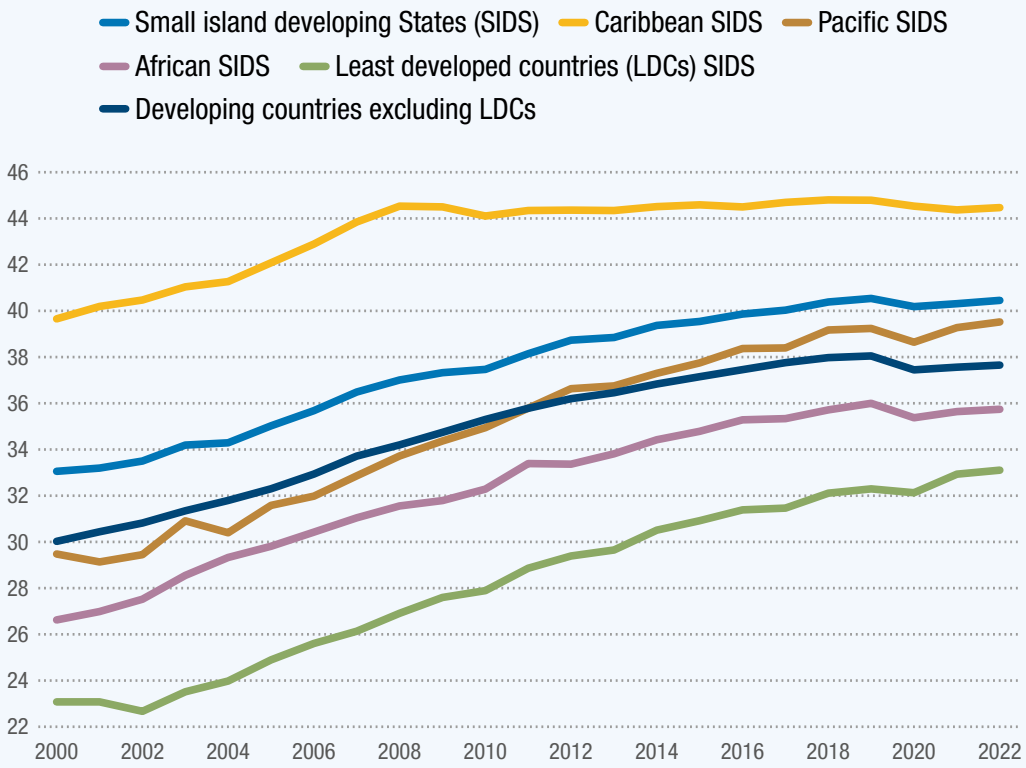


Source: UNCTAD 2023a.

The picture is more nuanced when particular groups of SIDS are examined (Figure 6).

Caribbean SIDS have achieved the highest PCI scores out of all SIDS, except for Private Sector and Natural Capital components, overtaking ODCs in all but two PCI components (Structural Change and Natural Capital). The worst performance in productive capacities has been recorded by SIDS, which are also LDCs, with all PCI component values being the lowest, with the exception of Transport, Private Sector and Natural Capital, where in the latter two components, the LDC SIDS overtook ODCs. The performance of African and Pacific SIDS has been mixed, with African SIDS performing better than the Pacific SIDS in ICT, Natural Capital and Structural Change, whereas their performance was on par in the Human Capital component. Pacific SIDS have recorded the highest score among SIDS and ODCs alike in Private Sector.

Figure 6
Productive capacities among SIDS (PCI)



Source: UNCTAD 2023a.

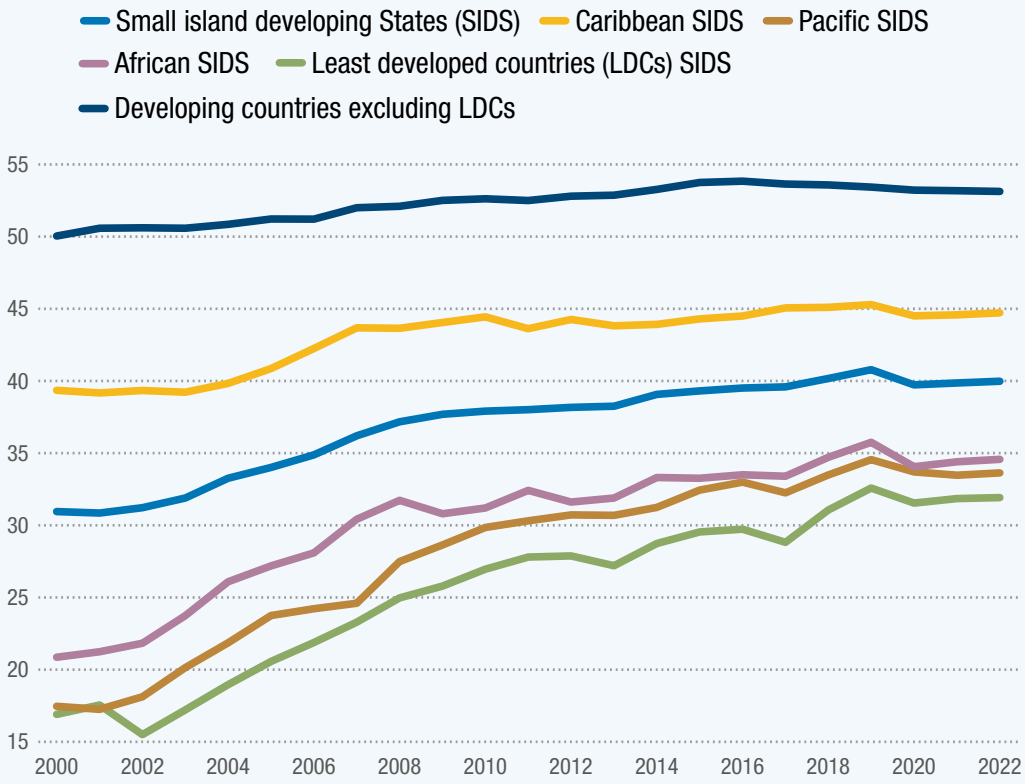
Based on this analysis, policy measures designed and implemented in response should consider the following factors:

(a) Structural change remains the biggest challenge for the development of all SIDS;

(b) SIDS which are also LDCs require the most complex support in building their productive capacities, followed by African SIDS. This refers particularly to challenges in institution building, human capital building, ICT, energy and transport infrastructure development and the development of the private sector;

(c) Pacific SIDS must be supported particularly in ICT infrastructure and human capital development.

Figure 7
Structural change among SIDS (PCI)



Source: UNCTAD 2023a.

4. UNCTAD's mandates specific to SIDS

Overall, it is the **SIDS Accelerated Modalities of Action (SAMOA) Pathway** which guides the UN system's support for SIDS. The **Bridgetown Covenant** further explains the role of UNCTAD, which highlights that the organization should continue its work in assisting SIDS to address the persistent trade, investment and development challenges that they encounter, including through the implementation of the SAMOA Pathway. Particular attention to SIDS should be paid in the context of economic transformation and diversification. The role of UNCTAD is thus to support SIDS, most notably in addressing their specific vulnerabilities, building resilience and promoting structural economic transformation and productive capacities (art. 127(iii)) and contributing to the discussion within the United Nations system on an appropriate multidimensional vulnerability index for small island developing States, including on its potential finalization and use (art. 127(uu)) (TDB, 2021a).

Overall, the mandates in the Bridgetown Covenant of relevance to priority areas of support, concern vulnerability indices (art. 127(uu)), debt vulnerability (indicated in art. 32), climate-friendly trade and production strategies (art. 127(ll)), balanced health and trade agendas and policies (art. 127(k)), the impact of the multilateral trading system (art. 127(e)), the transformation of productive sectors, and digital economy (art. 127(gg),(ii)), investment (art. 127(j)), growth and development of MSMEs (art. 127(r, i-iii)), sustainable oceans-based economies (art. 127(nn)), sustainable and resilient air and maritime transport (art. 127 (t), trade facilitation regional integration, services, creative economy (art. 127(ee)), climate change adaptation and disaster risk reduction (DRR) for transport infrastructure in (art. 127 (v-iii)) (UNCTAD, n.d.).

Consistent with this call, **the SIDS Ministerial Declaration to UNCTAD 15** (TDB, 2021b) elaborates the key trade and development concerns of SIDS and areas in which UNCTAD should undertake work to address those concerns:

- Continued work on vulnerability indices, with a view to ensuring that SIDS can access the support required to recover from and build resilience to external shocks;
- Continued work on debt issues, recognising that AOSIS Leaders[7] have called for more progressive approaches that provide expanded debt relief to SIDS;
- Research and technical analysis on the impact of the multilateral trading system and its rules on SIDS;

[7] Alliance of Small Island States. See: https://www.aosis.org/

- Work with other bodies, both within and outside the United Nations system, to promote the adoption of balanced health and trade agendas and policies, recognising the negative impact that health challenges facing SIDS have on productivity;
- A seminal role in the multilateral process underpinning a United Nations Secretary-General led initiative to agree on guiding principles for a new generation of international support measures aimed at reducing SIDS' vulnerabilities to systemic shocks and enhancing their resilience;
- Continued efforts to mainstream in its work the cross-cutting issue of gender equality and empowerment of women and girls;
- Strengthened technical support to the efforts of SIDS to address infrastructure gaps and build more diversified, sustainable and resilient economies. This could be achieved by undertaking work in the following areas:
    - (a) Growth and development of microenterprises and small- and medium-sized enterprises (MSMEs) in SIDS;
    - (b) Promotion of foreign direct investment in SIDS;
    - (c) Development of the green economy, including the renewable energy sector, and green industrialization to expand the productive base of SIDS;
    - (d) Advancement to a sustainable ocean-based economy;
    - (e) Promotion of creative industries;
    - (f) Attraction and retention of skilled migrants;
    - (g) Technological progress as an engine of innovation and smarter economic specialisation in SIDS;
    - (h) Development of the digital and knowledge economy and eTrade readiness;
    - (i) Implementation of trade facilitation reforms;
    - (j) Trade and food security;
    - (k) Sustainable and resilient air and maritime transport (UNCTAD, n.d.); and
    - (l) Promotion of South-South economic cooperation and integration to support SIDS.

Moreover, the **Nairobi Maafikiano** (TDB, 2016), which focuses on moving towards an inclusive and equitable global economic environment for trade and development, additionally emphasizes an operational methodology for, and policy guidelines on, mainstreaming productive capacities in national development policies and strategies, including through the development of productive capacity indices, so that productive capacities are placed at the centre of national and international efforts to address the specific needs and challenges. In cooperation with other relevant international organizations and other stakeholders, it urges supporting SIDS in advancing Sustainable Development Goal 14 in the design and implementation of regional and/or national economic development strategies for the conservation and sustainable use of oceans and their resources, seeking to promote sustainable trade in ocean-based sectors, including through the analysis of fisheries subsidies that lead to overcapacity and overfishing and subsidies that contribute to illegal, unreported and unregulated fishing and the challenges they pose to developing countries, particularly in connection with the conservation of marine resources and food security. The Maafikiano also specifically mandates UNCTAD to continue to assist developing countries in enhancing the sustainability and climate resilience of their transport systems and infrastructure, including coastal transport infrastructure and services and transport corridors; and to contribute to policy dialogue and cooperation mechanisms in support of sustainable transport, climate change adaptation and disaster risk reduction for transport infrastructure, services and operations, including collaborative efforts to support and strengthen the conservation and sustainable use of oceans and their resources (TDB, 2016).

UNCTAD's **Technical Cooperation Strategy** provides guidance as to how the organisation can provide support to SIDS under this pillar of its work. UNCTAD's comparative advantage relates to its ability to produce solutions and tools, jointly with its partners, with a view to (a) defining policies for the structural transformation of economies from a development perspective, and (b) proposing governance tools (software solutions, regulatory frameworks, institutional reform and legal instruments, sharing of experiences and good practices) that can be adapted according to the needs of beneficiaries. Its technical cooperation is focused on the development of human, institutional and productive capacities to boost export capabilities of beneficiary countries. In addition, UNCTAD technical cooperation is meant to be demand-driven and based on beneficiaries' needs and priorities. Programme design, formulation and implementation are to be carried out in close consultation with beneficiaries and funding partners (TDB, 2022a).

Following the COVID-19 pandemic, UNCTAD revisited its development approach to SIDS by emphasising the importance of addressing vulnerabilities related to climate change, COVID-19, debt, and economic vulnerability (TDB, 2022b).

5.
The Strategy's objective

Drawing on the analysis of SIDS' economic situation, their development challenges and the mandates entrusted in UNCTAD to support SIDS, the overall objective of this Strategy is to facilitate SIDS' sustainable development, structural transformation, economic diversification and international economic engagement, as well as their resilience building. The strategy also aims at sustainably harnessing SIDS' comparative advantages while minimizing risks and uncertainties facing them resulting from their small size and remoteness. The overall aim is to maximize synergies and foster socioeconomic resilience through the building, maintenance and use of productive capacities, advance structural economic transformation and enhance their international economic interaction, for achieving inclusive growth and sustainable development. The proposed development model for SIDS should blend robust actions to address systemic risks, uncertainties, and socioeconomic vulnerabilities to exogenous shocks. This calls for a new generation international support mechanisms (ISMs) that effectively respond to their multiple vulnerabilities, relieve key binding constraints to development, and, more importantly, help them to sustainably harness their comparative advantages.

The implementation of the strategy will be through UNCTAD's ahead-of-the-curve research and its demand-driven technical cooperation. The strategy has identified a number of necessary pillar interventions and economic sectors, which require support for their development.

6. Pillar interventions

The interventions described below are complementary to each other and constitute a decisive strategy facilitating SIDS sustainable development through a holistic and comprehensive approach focused on productive capacities, structural transformation, economic diversification, international trade, investment, digital transformation, and the mobilisation of external financial resources.

6.1. Building productive capacities:

Summary of the Programme to Build Productive Capacities:

- ***Identify gaps, limitations and challenges to productive capacities, structural transformation and economic diversification.***
- ***Design and implement a holistic, economy-wide programme to address the gaps and facilitate the development of critical economic sectors based on comparative advantages.***
- ***Train policymakers, national technical experts, private sector entities, academia and civil society actors in addressing gaps in productive capacities and facilitating structural transformation and economic diversification, and enhancing economic resilience.***
- ***Strengthen SIDS' statistical capacity for improving data collection on and measurement of productive capacities and related vulnerabilities.***

Productive capacities are necessary to advance structural transformation and economic diversification, as well as achieve sustainable development. They are critical in building resilience against external shocks. Therefore, strategies to promote structural transformation in SIDS should be built on enhancing productive capacities, in support of the identified comparative advantages, with a focus on the development of an efficient institutional framework, favourable conditions for doing business, high-quality, robust and viable ICT networks and an efficient transport infrastructure, as well as schools, training centres, research institutes and universities to foster human capital.

Therefore, UNCTAD's work on building productive capacities in SIDS will aim to assist countries to:

- Formulate and implement alternative policies and options to address trade and development challenges through long-term, multi-sectoral productive capacities development programmes;
- Build domestic productive capacities to enable accelerated and more inclusive and sustainable development, which can reduce poverty and inequality;
- Achieve beneficial integration into the global economy and international and regional trading systems;
- Diversify their economies, including by adding value to make them less dependent on commodities;
- Limit their exposure to volatility in financial systems and managing external debt burdens;
- Attract and benefit from foreign direct investment (FDI) and make FDI more development friendly;
- Increase access to digital technologies, including ICTs;
- Foster private sector development, promote entrepreneurship, technology transfer and innovation;
- Enhance linkages between small and large firms to help local firms move up the value chain;
- Speed up the flow of goods across borders and territories;
- Propose regulations that improve competition; and
- Adapt to and mitigate the impacts of climate change.

Within the programme to build productive capacities, UNCTAD's intervention areas will include:

(a) Analysis of the country's productive capacities and gaps thereof, utilising the Productive Capacities Index (PCI);
(b) Building capacity among policymakers, statisticians, development policy experts and practitioners to adequately respond to the identified development challenges;
(c) Preparing and implementing holistic country-specific programmes to build productive capacities, advance economic diversification and restructure the economy through closing gaps in the identified productive capacities, as well as enhancing structural economic transformation.

The programmes' priority areas may also encompass:

(d) Investment promotion, investment policy making;
(e) Green value chains' development;
(f) Support to micro- small- and medium-sized enterprises;
(g) Trade facilitation and transport logistics; and
(h) ICT, e-trade and eGovernance strategy development and implementation and technological capacity building.

The implementation of the specific country programme and its components in these areas will be designed to maximize synergies and coherence among one another, towards the programme's main objective. With the help of the PCI, the focus areas can be identified, and a coherent intervention can be built on an evidence-based platform. The simultaneous implementation of the programme components throughout the duration of the programme will involve the participation of multiple national stakeholders (government, private sector, academia and civil society, among others). The ultimate objective is to equip beneficiary countries with policy tools, as well as human and institutional capacities to formulate and implement sound policies and strategies, enhance inclusive and sustainable economic development, reduce poverty and accelerate the process of fostering productive capacities and structural economic transformation. These are key to realize the development objectives of national policy documents and visions, as well as to make steady progress towards the SDGs. Moreover, this cannot occur through single and sparse technical assistance activities. In consultation with donors and beneficiary countries, UNCTAD will develop comprehensive programmes with the necessary priority areas constituting the programme components.

6.2. Enhancing connectivity, reducing transport costs, and promoting sustainable and resilient transport:

Summary of interventions:

- ***Provide support for continuing and expanding the work on sustainable and smart ports, resilience building, climate-change adaptation and disaster risk reduction (DRR) for transport infrastructure, decarbonisation, connectivity, transport costs and trade competitiveness, transport, logistics, and supply chains.***

- ***Strengthen the capacity of SIDS to address transport and logistical challenges and broader sustainability and resilience aspects, including better access to affordable finance for transport infrastructure, services and logistics.***

Enhancing connectivity, including transport connectivity, is critical for SIDS development. As SIDS are unable to benefit from economies of scale, feature small land areas, economies and markets, and often suffer from an insufficient economic base for manufacturing processes, their transport and logistics are more challenging and more costly. Remoteness means that SIDS are also positioned at significant distances from markets and sources of supply and are marginalised from the main shipping routes and networks. Insularity heightens SIDS dependency on maritime and air transport for access, trade, and mobility. The challenges resulting from these features are further amplified by several emerging trends, including (a) ever larger ship sizes, especially container carriers which raise scale issues; (b) more stringent requirements for faster, safer, more reliable and cost-effective logistics; (c) fuel costs and energy price volatility; (d) fossil fuel energy dependency and the need to transition to low carbon fuels and low carbon transport systems including shipping; and, (e) climate change impacts.

Shipping and air transport are the main lifelines of SIDS and addressing challenges that undermine this sector is critical (UNCTAD, 2015). Yet, their unique features make them more prone than any other region or country grouping to disproportionately high transport costs, low shipping/transport connectivity, reduced export competitiveness and prohibitively priced imports. Ports and other key coastal transport infrastructure assets and operations in SIDS are particularly vulnerable to the impacts of natural hazards and climate variability and change. Associated risks, vulnerabilities and costs may be considerable, especially for the most vulnerable groups of countries, with low adaptive capacity, such as SIDS (UNCTAD, 2019). Further ambition is needed to progress in national-level adaptation planning, finance, and implementation in SIDS. Coherent and supportive policy and legal frameworks on climate change adaptation and DRR have a key role to play in this context, by creating a level playing field and galvanizing effective action on the ground (UNCTAD, 2020).

UNCTAD is already carrying out a range of activities aimed at supporting SIDS to address the many challenges facing their transport and trade. Underpinned by its three pillars of work, namely research and analysis (including data compilation and statistics and maritime country profile), consensus building/intergovernmental machinery/forum for policy debate and expert discussions, and technical assistance and capacity building, UNCTAD has been contributing significantly to advancing the sustainable, low-carbon and resilient maritime transport agenda. This includes extensive work on climate change adaptation, resilience building and DRR for seaports and other key coastal transport infrastructure in SIDS (see: e.g. UNCTAD, 2018).

To continue these efforts, UNCTAD will:

- Deliver and expand on the ongoing work on sustainable and smart ports, resilience building, climate change adaptation and DRR for critical transport infrastructure, decarbonisation, connectivity, transport costs and trade competitiveness, transport, logistics, and supply chains.
- Strengthen capacity building and SIDS specific research/data that address transport and logistics challenges (costs, connectivity, competition, efficiency, productivity, access to finance) and broader sustainability and resilience aspects, energy transition and energy efficiency, decarbonisation, ocean/marine sustainability, blue economy objectives).

Key activities will include: organizing expert meetings, workshops, and forums to raise awareness and improve the understanding of key issues/themes and to formulate solutions; research and analysis in support of informed and sound policy making in the transport and logistics of SIDS; devising strategies that can promote controlling and mitigating costs at port level and inland, support a smooth and affordable energy transition in ports and shipping and promote decarbonisation in shipping, as well as climate change adaptation and DRR for critical transport infrastructure, and generally, ensure greater resilience in the face of shocks (UNCTAD, 2022b) whether economic, environmental, sanitary or other training and capacity building tools (UNCTAD, 2022b); promoting partnerships and collaboration for more sustainable and resilient transport and logistics in SIDS; improving access to investment and finance in sustainable transport and logistics, including through innovative sustainable finance and PPPs; improving data availability and quality for SIDS to ensure more informed and reliable impact assessment studies and monitoring progress and performance.

6.3. Managing and expanding the Automated System for Customs Data (ASYCUDA):

Summary of interventions:

- ***Continuously enhance and increase the services delivered, including by additional government agencies and automating their processes in the Single Window.***
- ***Implement Automated System for Relief Consignments (ASYREC).***

The Automated System for Customs Data (ASYCUDA) is a computerised customs management system that covers most foreign trade procedures. It handles manifests and customs declarations, along with accounting, transit and suspense procedures. It also generates trade data that can be used for statistical economic analysis. The ASYCUDA software has been developed by UNCTAD.

ASYCUDA is also a demand-driven technical cooperation programme. Its activities include implementing its systems in SIDS and ensuring their sustainability through raising capacity of national teams. As of the end of 2022, ASYCUDA systems run or were being implemented in 102 countries and specifically in 41 SIDS.[8] In Pacific SIDS, ASYCUDA and customs administrations are currently implementing and enhancing ASYCUDAWorld to improve the efficiency of customs clearance processes and harmonise customs operations across 15 Pacific Islands. Single Window systems based on ASYCUDA technology are currently running in Barbados, Jamaica, Timor-Leste and Vanuatu. National teams in cooperation with ASYCUDA experts are continuously enhancing and increasing the services delivered, by including additional government agencies and automating their processes in the Single Window.

In response to SIDS vulnerability towards climate change and subsequent natural disasters, ASYCUDA developed ASYREC, the Automated System for Relief Consignments. The system is currently being piloted in Vanuatu and its launch is scheduled for 2024. ASYREC provides for the smooth and efficient coordination of humanitarian relief imports. Of utmost importance for the humanitarian aid coordination mechanism and the Global Logistics Cluster, the tool ensures that the humanitarian response to an emergency crisis proves logistically timely and effective.

6.4. Facilitating digital transformation:

Summary of interventions:

- ***Facilitate technical assistance and capacity building in e-commerce and the digital economy.***
- ***Support sectoral research and analysis, and advocacy.***

SIDS face significant challenges related to ICT infrastructure as well as their readiness to engage in e-commerce and the digital economy. Many SIDS have limited access to reliable and affordable internet connectivity and ICT hardware, electricity, and transportation and other e-commerce logistics infrastructure. This can make it difficult for businesses therein

[8] Among the 41 SIDS are UN member States as well as territories which are not independent.

to access online markets and customers and can hinder the growth of e-commerce and the digital economy. Many SIDS have also limited human capital in the areas of technology and e-commerce, including software developers and data scientists. Digital literacy can also be a challenge for businesses and individuals, particularly in rural areas. This can be an additional obstacle for accessing and using digital platforms and technologies effectively or developing effective e-commerce strategies. Moreover, many SIDS have limited access to modern payment systems, which can make it difficult for businesses to offer or process online transactions.

In order to advance structural transformation and sustainable development, as well as create jobs, science, technology and innovation policy needs to play a key role. It is through STI (science, technology, innovation) that any country develops options for diversified development and improvement in value addition by sector and the entire economy. Where scale and resource availability are limited, strong consideration should be given to both digital technologies, as well as innovation where digital and traditional technologies may merge and accelerate growth and improve value addition. This will require efforts in policy coordination between various domains – for example between agriculture and ICT – as well as capacity-building for digital and entrepreneurial skills.

UNCTAD's E-commerce and Digital Economy Programme helps developing countries, including SIDS, to overcome the challenges of e-commerce and the digital economy. Accordingly, UNCTAD will:

- Provide technical assistance: UNCTAD provides technical assistance to help countries develop diagnostics studies, policies and strategies that promote e-commerce and the digital economy and provides support in policy coordination and implementation. It also provides country support to improve relevant statistics and review national legal framework for e-commerce.
- Facilitate capacity building: The E-commerce and Digital Economy Programme provides training and capacity-building initiatives to help policymakers to develop the skills and knowledge necessary to overcome challenges and benefit from opportunities of e-commerce and the digital economy, for instance in the area of measuring the digital economy, or in improving the legal and regulatory framework for e-commerce.
- Support research and analysis: UNCTAD conducts research and analysis on e-commerce and the digital economy, including on SIDS, for example, through the Pacific Edition of the Digital Economy Report (UNCTAD, 2022d). This research can help to inform policy decisions and identify best practices.

A dedicated Programme covering all Pacific SIDS – the Pacific Digital Economy Programme – jointly implemented by the United Nations Capital Development Fund (UNCDF) and the United Nations Development Programme, in close collaboration with the Pacific Islands Forum Secretariat, has since 2021 been delivering research and capacity-building activities to countries in the region.

UNCTAD will also:

- Support advocacy: UNCTAD advocates for the interests of developing countries, including SIDS, in international discussions and negotiations related to e-commerce and the digital economy, for example, in the international group of experts on e-commerce. This can include advocating for policies and regulations or promoting collaboration between governments, the private sector, and development partners, such as through the "eTrade for all" initiative.

- Within the TrainforTrade programme, continue facilitating the blended learning strategy to boost the digital economy: This four-year project promotes digital transformation for its expected effects on better integration into the multilateral trading system, sustainable development, economic diversification, MSMEs promotion, and the reduction of SIDS' vulnerability to shocks. The strategic goal is to foster the creation of secure and efficient digital economies through three pillars: the design of collective rules, the availability of data, and the creation of a trustable administrative system. A total of three courses specifically designed for SIDS' needs will be delivered by 2025. In early 2023, 320 participants from 34 SIDS followed the first course devoted to "digital identity for trade and development". The two next courses will focus on the legal aspects of e-commerce and digital trade statistics.

6.5. Supporting investment:

Summary of interventions:

- ***Review investment policies and international investment agreements to attract higher levels of FDI for sustainable development.***

- ***Support SIDS' investment promotion agencies to facilitate investment in SDG-related projects.***

- ***Facilitate FDI attracting to SIDS through promotion activities, cooperation and partnerships.***

Many SIDS are struggling to diversify their economies and fail to attract investment in sectors other than tourism and fisheries. Reliance on FDI is heterogeneous among SIDS, with SIDS in the Pacific attracting little FDI, relative to those in Africa and the Caribbean. The COVID-19 pandemic had a severe impact on FDI flows to SIDS and in 2021 investment flows were not yet back to pre-pandemic levels.

Therefore, UNCTAD will:

- Through its Investment Policy Review Programme, continue to assess the investment policies and strategies of SIDS to help attracting higher levels of FDI, while ensuring greater development benefits. Several SIDS (including Cabo Verde, The Seychelles and Haiti) have recently benefitted from the programme. Further requests for investment policy reviews have been received.

- Continue reviewing international investment agreements (IIAs). The reviews have been completed for several SIDS, including recently Cabo Verde, Seychelles and Guinea-Bissau.

- Provide support to SIDS' investment promotion agencies (IPAs) to promote and facilitate investment in Sustainable Development Goals related projects. This includes policy advice, capacity building of IPA staff, the exchange of best practices, assistance in the design of investment promotion strategies for specific target sectors like renewable energy, health, agribusiness and the blue economy, and the development of online investment guides to promote and facilitate investment (iGuides). The iGuides online platforms, designed by UNCTAD and the International Chamber of Commerce, provide international investors with essential up to-date information on rules, economic conditions, procedures, business costs and investment opportunities in several SIDS. Likewise, UNCTAD digital investment platforms which show detailed information on import, export and transit procedures and allow countries to comply with article 1 of the Bali agreement (WTO, 2013), were launched or expanded with new procedures in several SIDS.

- Partner with organisations that help attract investment to SIDS, such as the Caribbean Association of Investment Promotion Agencies and the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group, and organise joint meetings. This includes events at UNCTAD's World Investment Forums to promote investment into SIDS, such as meetings on target sectors like the blue economy and technical discussions, e.g. a summit roundtable on investment guarantees, to exchange views on the impediments to mobilizing private capital for projects in SIDS.

6.6. Facilitating the ocean economy's sustainable development and trade:

Summary of interventions:

- ***Prepare Trade and Environmental Reviews, the Ocean Economy and Trade Strategies, National Green Export Reviews, and Blue BioTrade assessments and strategies.***

- ***Enhance work on the circular economy and addressing plastic pollution.***

The ocean economy constitutes an important factor in SIDS' international trade's development, with the objective to move towards a sustainable Blue Economy. In support of the ocean economy's sustainable development, UNCTAD follows the BioTrade Principles and Criteria: (i) conservation of biodiversity; (ii) sustainable use of biodiversity; (iii) equitable benefit sharing; (iv) socioeconomic sustainability; (v) legal compliance; (vi) respect for stakeholders' rights; and (vii) clearly defined tenure and access to resources, as well as UNCTAD's ocean economy Pillars, which are based on the trade-related targets of Goal 14 and UNCTAD's mandate on ocean and seas. They include: (a) Economic and Trade pillar: · Promote sustainable economic growth in key ocean sectors; · Sustainably trade and market access for oceans-based products and services; · Seek to enable connectivity for people and markets; · Increase value addition; · Strengthen value chains integration and forward and backwards linkages with relevant goods and services production; (b) Environmental pillar: · Sustainably access and use of living and non-living resources within safe ecological limits; · Apply the precautionary and ecosystem approaches; · Seek to address climate change mitigation and adaptation; (c) Social pillar: · Incorporate the maintenance of coastal populations livelihoods, specially of small scale and artisanal fishermen; · Consider local employment sources; · Respect access and tenure and rights over marine resources by local communities; (d) Scientific and technology pillar: · Incorporate low carbon

activities and technologies; · Promote investment in applied R&D; · Seek to enable access to knowledge, transfer of technology and knowledge cooperative frameworks; and (e) Governance pillar: · Include regulatory and policy obligations under UNCLOS and other United Nations treaties and soft law, in compliance with Multilateral Trade and Fisheries Agreements (WTO, UNCTAD and FAO), in line with national development priorities/ plans (including marine spatial planning); · Promote interagency and intergovernmental cooperation (internal, regional or multilateral) (UNCTAD, 2017).

In this context, UNCTAD will continue preparing:

- Trade and Environment Reviews;
- Ocean Economy and Trade Strategies for SIDS;
- National Green Export Reviews (NGERs);
- Blue BioTrade assessment and strategies.
- Creative economy outlooks and strategies

UNCTAD will also:

- Intensify its work on policies to address plastic pollution, with an aim to create plastic substitutes. The research, capacity building and international consultations will seek to identify specific opportunities and needs for SIDS on how the ocean and circular economy can support efforts to end plastic pollution (including under the multilateral processes in the United Nations and at the WTO), identify main plastic waste and pollution management challenges and provide an in-depth analyses of the role of plastic substitutes and how local natural materials can be used to scale up their production.

6.7. Supporting private sector development:

Summary of interventions:

- ***Upgrade local entrepreneurs' skills in business activities taking into consideration the SIDS aspirations.***
- ***Support the SIDS in developing national entrepreneurship strategies.***
- ***Map the business sector capabilities with the economic and developmental needs of SIDS.***

The private sector is key to structural transformation, economic diversification and resilience building in SIDS. Continuous improvements in productive capacities ought to engage the private sector as an integral component of achieving sustainable development. Therefore, it is imperative that SIDS are characterised by a robust, domestically owned private sector composed of micro-, small- and medium-sized enterprises. These enterprises will be responsible for facilitating sectoral development and can have decisive impact on the effectiveness of pillar interventions such as digital transformation, and enhanced connectivity. Moreover, they are at the core of SIDS' engagement in the global economy through international trade, FDI inflows (including their intensity, quality and strategic orientation) and insertion in global and regional production value chains. The effects of structural transformation and economic diversification, and the degree of innovation of the national economies will be determined by the robustness of the private sector. The supply of productive jobs also depends critically on a well-functioning private sector and

well-organized labour market. At the same time, it is important to note that private sector in SIDS was significantly affected by the COVID-19 pandemic, due to some sectors such as tourism being put on almost complete hold following global travel restrictions and prevention measures. Local businesses in developing countries suffered the most, as they were unable to tap into similar types of support provided by advanced countries to their multinationals.

Therefore, UNCTAD will provide:

- Training for existing and potential entrepreneurs through the Empretec entrepreneurship training programme, as well as training of trainers on the delivery of the Empretec training workshops (ETW) and training of master trainers to train more trainers for the country.
- Capacity building for national institutions to become National Empretec Host Institution.
- Mapping (research) of the entrepreneurship ecosystems in SIDS to pave the way for their National Entrepreneurship Strategies (NES) in line with the Entrepreneurship Policy Framework (EPF) methodology.
- Linking Empretec trained entrepreneurs to other projects on the ground, providing dedicated tools and linkages to access finance.
- Support to women digital entrepreneurs in SIDS through the eTrade for Women initiative.

6.8. Supporting the mobilisation of external financial resources:

Summary of interventions:

- ***Enhance the understanding in SIDS on how to diagnose funding gaps and reconcile them with external financial sustainability.***
- ***Strengthen the capacity of SIDS to design policies that would enable mobilisation of affordable external financial resources for a greener, more equal, and sustainable development without jeopardising external financial sustainability.***

UNCTAD is currently implementing a Development Account project entitled Mobilizing external financial resources beyond COVID-19 for greener, more equal and sustainable development in selected vulnerable SIDS in Africa and Latin America and the Caribbean. The project focusses on SIDS in two regions especially affected by the COVID-19 pandemic, Africa and Latin America and the Caribbean. While SIDS are a diverse group of countries, they share environmental and socioeconomic challenges that make them 35 per cent more susceptible to economic and financial shocks than other developing countries. Moreover, they had to respond to these challenges with limited policy space and less financial, technological and policy design capacities than many other developing countries, while also being affected by the vicious and reinforcing cycle between climate degradation and development performance. In the aftermath of the pandemic, the path to greener, sustainable, and more equitable recovery is likely to be even more challenging and requires that the underlying structural fragilities that existed before the COVID-19 outbreak be addressed, including the developing finance gap.

In this context, the project's objective is to strengthen the national capacities of beneficiary SIDS to mobilize affordable external financial resources for greener, more equal and sustainable development. This will support sustainable development beyond the COVID-19 pandemic and help achieve climate priorities while ensuring external financial sustainability. Underlying reasons for the current inability to secure such finance will be identified and appropriate mechanisms to address them devised within the capabilities of these countries. In this way, the activities will have a positive impact on the development of sectors mentioned in the next section, depending on the particularities of each beneficiary SIDS.

To achieve this objective UNCTAD aims to:

- Enhance the understanding in beneficiary SIDS on how to diagnose funding gaps and reconcile them with external financial sustainability. This will be achieved based on seven outputs, including the elaboration of a climate change cost report for each beneficiary country, the enhancement of the Sustainable Development Finance Assessment (SDFA) Framework (developed under the DA Project Response and recovery: Mobilizing financial resources for development in the time of COVID-19), the elaboration of a SDFA report for each beneficiary country, and the provisions of country analysis of the regulatory, institutional, and market-related changes required to facilitate innovative financial instruments.
- Strengthen the capacity of SIDS to design policies that would enable mobilisation of affordable external financial resources for a greener, more equal, and sustainable development without jeopardising external financial sustainability. This will be achieved based on four outputs, including the presentation and discussion of the national external financial strategies and the implementation of a priority actions derived from the roadmap on the implementation of innovative financial instruments for achieving climate-related SDGs in beneficiary countries.
- Improve the knowledge and information on the outcomes of the project following dissemination. This will be achieved through regional workshops and a final publication detailing overall learnings and the usefulness of the innovations adopted in the project. Information sharing will serve to provide financial strategy and roadmap that could be provided in the future for non-beneficiary countries.

Success in these areas will have ramifications for the resources available to achieve the sectoral goals discussed below in Section 7.

6.9. Using South-South and Triangular Cooperation to enhance development strategies and economic integration:

Summary of interventions:

- ***Support SIDS in economic cooperation and integration with other developing countries.***
- ***Promote peer learning and policy experience sharing among SIDS.***
- ***Supporting SIDS in "South-led" global economic governance mechanism.***

The Global Financial Crisis of 2008-2009 and the recent COVID-19 pandemic resulted in cascading crises, which exposed the structural vulnerabilities of SIDS, particularly overreliance on limited industries and external economic engagement. Therefore, diversifying economic structure and expanding the range of external economic partners, including from other developing countries, are essential to enable SIDS to access diversified markets, investment and financial flows, technologies, and value chains. Furthermore, formulating better development strategies that adapt to both local specificities and evolving external situation is needed to assist SIDS to take effective actions in response to the external shocks. Moreover, despite heterogeneity among SIDS, they share some common challenges and comparative advantages. Peer-learning and experience sharing will therefore enhance the institutional capacities of SIDS in designing development strategies and improve the coordination of economic policies among SIDS at regional level, which may reinforce their efforts in promoting South-South cooperation.

Therefore, UNCTAD will:

- Through its Programme of Economic Cooperation and Integration among Developing Countries, continue to facilitate SIDS to benefit from South-South cooperation, including enhanced regional integration such as regional value chains among SIDS, strengthened economic cooperation with other developing countries, and improved engagement in south-led global economic governance mechanism.
- Based on the platform and network on South-South peer-learning which covers broad policy areas such as macroeconomic framework, trade and GVC/RVCs, industrial policies including green industrialisation, digital transformation, development financing and debt sustainability amongst others, UNCTAD will continue to support SIDS to improve policy making through experience sharing among SIDS and with other developing countries.
- Building on established partnership with South-led global economic governance mechanism such as South Summit, BRICS, G77, Southern development banks, UNCTAD will assist SIDS in engagement with those mechanisms and in addressing the concerns of SIDS related to international economic and development agenda.

6.10. Implementing trade facilitation reforms:

Summary of interventions:

- ***Support trade facilitation reforms to improve SIDS' international trade.***

Trade facilitation aims at making cross-border trade of goods faster, cheaper and more transparent, while at the same time maintaining efficient compliance controls such as ensuring collection of duties, taxes, and observing product standards. Trade facilitation is recognised as a critical element in national trade policy and therefore a fundamental factor in the national development framework.

Trade facilitation reforms can assist SIDS make international trade procedures more transparent and predictable, promote good governance, generate better quality employment, strengthen information technology capabilities and generally modernise societies by bringing about benefits related to administrative efficiency. These reforms are also a prerequisite for SIDS to join global value chains and start trading out of poverty.

In terms of trade facilitation reforms, according to WTO data on the implementation of the WTO Trade Facilitation Agreement, SIDS implementation is lower than the general implementation rate of developing countries, but significantly higher than the implementation rate of LDCs, illustrating the diverse nature of SIDS and the varied approach required in terms of development strategy.

In the area of trade facilitation UNCTAD has supported the following SIDS: UN Members Antigua and Barbuda, Barbados, Belize, Cabo Verde, Comoros, Dominica, Fiji, Grenada, Guinea-Bissau, Guyana, Jamaica, Kiribati, Madagascar, Maldives, Mauritius, Nauru, Palau, Papua New Guinea, Samoa, São Tomé and Príncipe, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Solomon Islands, Suriname, Timor-Leste, Tonga, Tuvalu, Vanuatu.

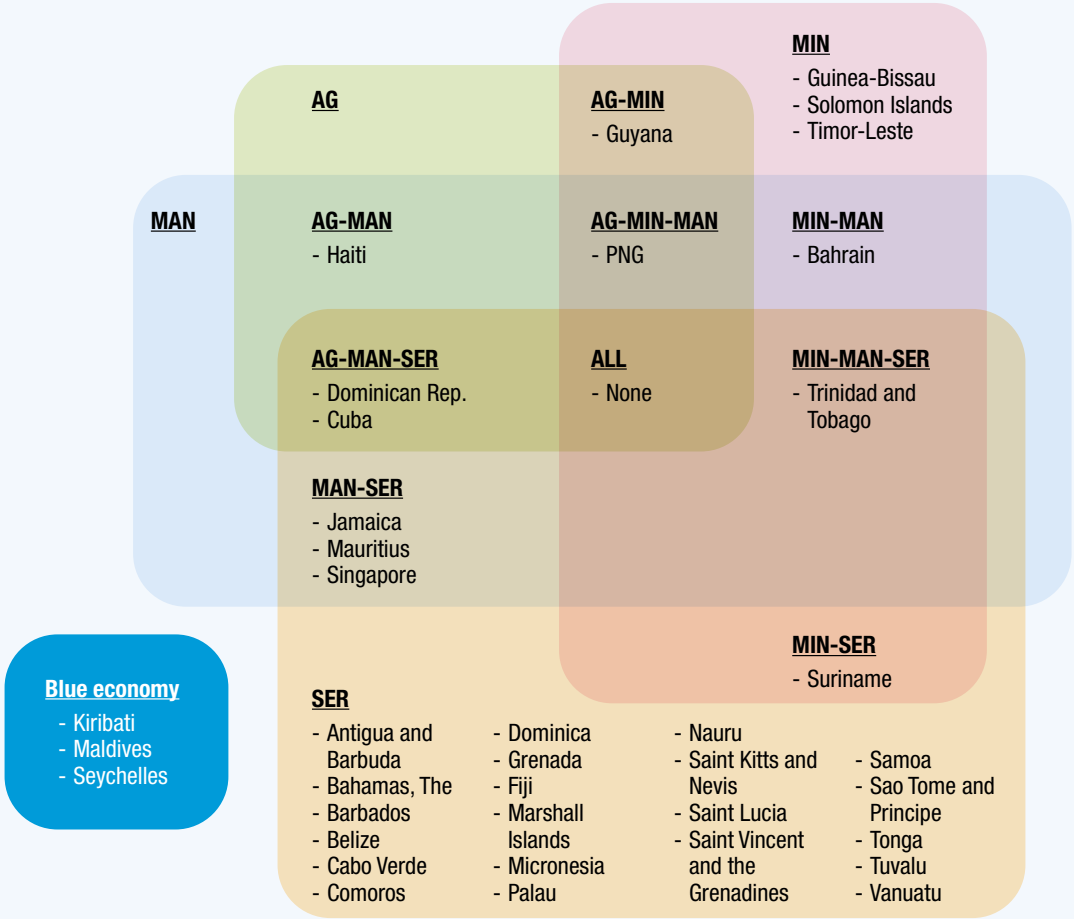
UNCTAD has also assisted the national Trade Facilitation Committees with the implementation of the UNCTAD Trade Facilitation Reform Tracker, as management and monitoring tool for trade facilitation reform implementation. These activities have partly been supported under the HMRC-WCO-UNCTAD project "Accelerate Trade Facilitation". UNCTAD also delivered in Belize the e-Learning course on Gender perspective in TF reforms, commenced support for Fiji and Papua New Guinea under the IMPACT programme, and contributed to the development of the Trade Facilitation implementation strategy being developed by the Pacific Islands Forum. UNCTAD also initiated a project to assist Maldives with trade facilitation implementation support.

In relation to the implementation of trade facilitation reforms, a major challenge is the constant turnover of staff and participants in National Trade Facilitation Committees as well as the lack of resources to implement required reforms. In this respect, UNCTAD has been working with SIDS to ensure knowledge management and retention through e.g., Trade Information Portals and Reform Trackers. Another major challenge in relation to regional integration in various regions such as the Caribbean and the Pacific, is that some of the partner countries have graduated from being eligible to receive support from donors under Official Development Assistance (ODA) guidelines whereas other SIDS in the same region or regional group still qualify. This makes it difficult to develop and implement consistent programmes focusing on regional integration.

7. Support for economic sectors

UNCTAD (2022a) analysis shows that, in terms of a sectoral approach, most SIDS should use a mixed strategy – comprised of manufacturing-led, service-led, and agriculture and extractive variants of natural resource-led strategies.

Figure 8
Diagram of suitable SIDS strategies



AG: Natural resource-led strategy, agriculture variant
MAN: Manufacturing-led industrialization
MIN: Natural resource-led strategy, minerals variant
SER: Service-led development

Source: UNCTAD (2022a).

The PCI analysis illustrates that a greater emphasis on structural economic transformation is key to developmental success of SIDS. The policies could focus on intra- as well as inter-sectoral transformation, with an imperative, however, to create jobs with higher productivity and avoid jobless growth. Based on further analyses (ESCAP, 2020; UNCTAD, 2022c; Terauds and Zhuawu, 2021), the following sectors should be seen as of particular interest to advancing sustainable development, ensuring structural transformation and building resilience in SIDS:

7.1. Tourism:

Summary of interventions:

- ***Support SIDS in green fees/tax mechanism design and implementation.***
- ***Support SIDS in strengthening links between local populations and the tourism sector by facilitating the development of specific types of tourism.***
- ***Support SIDS in related policies on gender empowerment, environmental sustainability and biodiversity preservation.***

The high employment intensity of the services sector, and of tourism in particular, are important sources of economic growth. Indeed, as indicated, tourism is an important economic sector for SIDS. However, it is evident that in a number of circumstances, it could become even greater vehicle for productive jobs generation and as national revenue sources, with greater efficiency in the environmental sustainability and biodiversity preservation. Indeed, SIDS' tourism sector can be transformed into a high-value and high-end tourism sector through inter-sectoral knowledge spillovers, technological innovation, improved environmental sustainability and targeted policy interventions.

Over the last 20 years, international tourism has increased notably, both globally and in most regions. Global international tourist arrivals have more than doubled between 2000 and 2019, and almost doubled for SIDS. During the same period, global international tourism expenditure has tripled. For SIDS, the increase was almost the same. These trends represent an average annual growth of 4.2% in international tourist arrivals, and almost 6% in international tourism expenditure. The figures for SIDS are 3.4% and 6% annual growth, respectively. In 2019, the Caribbean SIDS accounted for over half of international tourism arrivals in SIDS, the Atlantic and Indian Ocean SIDS for one third, and the Pacific SIDS the rest (12%). Jamaica was the top SIDS destination for international tourist arrivals in 2019 with 2.7 million arrivals, followed by Maldives (1.7 million) and the Bahamas (1.6 million, data for 2018). Each of these three economies alone received more international tourists than Pacific SIDS altogether. The number of arrivals also exceeded one million in Mauritius (1.4 million). (UNCTAD, 2021). In SIDS, tourism is an important employer. Among SIDS with data, tourism industries' share of total employment was highest in Barbados and Seychelles in 2019. In these two economies, every fifth woman worked in tourism directly. The indirect impact of tourism on employment is also large (UNCTAD, 2021).

The COVID-19 pandemic is believed to have had a disproportionate impact on women working in the tourism sector, since the bulk of the mostly low-skilled workers in the SIDS' tourism industry are female. For instance, women account for almost 70% of employment in food and beverage sectors in Kiribati and Tonga, while they are more rarely employed in travel agencies, and as tour operators and in reservation services. The latter representing

higher-skilled segments of the tourism sector (Zarrilli and Aydiner-Avsar, 2020). In only a few SIDS, namely in Palau, Maldives and Vanuatu, men were more often employed in tourism than women. Men were more often employed in transport, accommodation, travel agencies, sports and recreation activities. It is thus imperative that women's share in higher-skilled and therefore better-paid jobs in the tourism industry increases. Moreover, special attention should be paid to retain these jobs for the local population, particularly in LDC SIDS.

Therefore, the objective of UNCTAD's support to SIDS' tourism will aim at transforming the sector into a local job-creating (particularly for women) and environmentally sustainable pillar of the national economy with high degree of domestic retention of financial revenues.

UNCTAD will help SIDS to:

- Design and implement green fee/tax initiatives to channel the tourism flows and ensure a high revenue retention within the local communities and for the purpose of environmental sustainability. There are examples for this to have happened. The data from before the COVID-19 pandemic shows that Maldives collected a US$ 6 green tax per day from tourists at resorts and hotels and US$ 3 from tourists staying at guest houses. In this way, the Government raised US$ 59 million in 2019, part of which was used for developing waste management mechanisms and sewage facilities. In Palau, a so-called green fee of US$ 15 was introduced in 2009 and added to the departure tax. It was subsequently increased to US$ 30 and then to US$ 50. Effective 1 January 2018, Palau legislated the Pristine Paradise Environmental Fee; each visitor is assessed a fee of US$ 100 which is included in the price of an inbound international airline ticket. The objective of the tax is to protect 80% of Palau's exclusive economic zone as the Palau National Marine Sanctuary. Fiji introduced an environmental levy in 2015, which was broadened and renamed as the Environment and Climate Adaptation Levy in 2017. Under the levy, taxes are applied to prescribed services, items and income, with the aim of funding projects to protect the natural environment, reduce the carbon footprint and develop infrastructure to reduce the impact of climate change on communities. It is levied as follows: 10% tax on prescribed services offered by tourism-oriented businesses (ESCAP, 2020). Bhutan – while not a SIDS – long ago implemented a high-value, low-impact tourism strategy to ensure its sustainability.

- Strengthen links between local populations and the tourism sector so that local communities benefit increasingly from tourist activities. This can be done, for example, by offering more green, blue and community-based tourism activities, including those linked to local cultural and creative industries, as well as culinary tourism. Policies in SIDS should initiate a shift from enclave-based mass tourism managed by international providers, to community-based, nature- and culture- focused tourism. This sectoral development trajectory will enable local populations to be the managers and owners of the local tourism industry rather than being merely providers of low-skilled labour and auxiliary services, subsequently improving local labour productivity.

- Empowering local populations, and particularly women, will enable better environmental sustainability and biodiversity preservation, as the local communities are the custodians of the natural environment and culture and have vested interests and experience in maintaining environmental balance. In this regard, UNCTAD will support the adequate policy formulation to strengthen environmental sustainability and biodiversity preservation.

7.2. Blue Economy:

Summary of interventions:

- ***Support SIDS in improving the management of Exclusive Economic Zones (EEZ) and negotiations with Distant Water Fleet's (DWF) representatives.***
- ***Support SIDS in improving the policies on fishery stocks sustainable management.***
- ***Support SIDS in developing domestic fishery-related processing industry.***
- ***Support SIDS in bioprospecting and the development nutraceutical products, as high-end niche products with growing international potential.***

The blue economy[9] is a term relating to the exploitation, preservation and regeneration of the marine environment in a sustainable manner. The Blue Economy, in a broad sense, encompasses many activities, such as fisheries and aquaculture, as well as renewable energy, maritime transport, tourism, and waste management, linking also to climate change mitigation and adaptation. The global estimation of the ocean economy turnover is between US$3 and US$6 trillion.[10] Within that, marine fisheries are highly relevant to many SDGs. Goal 14 seeks to conserve and sustainably use the oceans, seas and marine resources for sustainable development. It confirms the prominence of ocean issues within the global agenda and places ocean health at the heart of sustainable development. Likewise, most other goals are strongly linked to the management and use of fisheries. For example, healthy fisheries provide high quality and nutritious seafood to many coastal communities and the wider global population thus contributing to Goals 1 and 2 aimed respectively at bringing an end to poverty and hunger. Fisheries also make a substantial contribution to the revenue of many developing countries, including some SIDS, thereby assisting the attainment of Goal 8 which seeks to ensure sustainable economic growth.

However, the climate-driven redistribution of fisheries threatens to disrupt the economies of SIDS and the sustainable management of the world's stocks, particularly, tuna (UNCTAD, 2023c). Bell et al. (2021) estimate that by 2050, under a high greenhouse gas emissions scenario, the total biomass of three tuna species in the waters of ten Pacific SIDS could decline by an average of 13%.

[9] The Blue Economy has been defined by different global actors as the "sustainable use of ocean resources for economic growth, improved livelihoods and jobs, and ocean ecosystem health" (World Bank, 2017); "an emerging concept that encourages sustainable exploitation, innovation and stewardship of our ocean and its life-giving 'blue' resources" (The Commonwealth, 2022); and a "concept [that] seeks to promote economic growth, social inclusion, and the preservation or improvement of livelihoods while at the same time ensuring environmental sustainability of the oceans and coastal areas" (UNESCO, 2022).

[10] UNDESA, 2022.

To ensure the sustainable use of ocean resources for the benefit of SIDS and the broadening of economic activities within the realm of Blue Economy, UNCTAD will help SIDS to:

- Implement policies which will ensure transparent and equitable international fisheries access agreements in EEZs, aligned with Sustainable Development Goals, and will protect the local fishery sector. Over the decades, fishing in different exclusive economic zones (EEZs) and the high sea by different distant-water fleets (DWF) has developed into a vast array of international fisheries access agreements and arrangements reflecting historical political and economic relations of DWF's nations with costal states, which are more often than not, unequitable in view of the deficient governance and technical capabilities of most resource holders to negotiate and enforce agreements beneficial to their economy, local fishing industry and coastal communities. For many coastal states, this situation is exacerbated by their weak economy and bargaining positions. The long-standing concern over the opacity of international fisheries access arrangements remains unabated. Many agreements still lack transparency regarding access conditions, DWF ownership and operations, the human labour practices onboard, transhipment, and catch and landing data for the DWF. Their outcomes and benefits for coastal states, their fisheries and the livelihoods of the coastal communities that depend on them are often not demonstrated or tangible. Many DWF nations have been criticised for using their political and economic influence to secure favourable terms and fishing opportunities for their fleets using, for example, market access restrictions or by offering equipment, infrastructure or economic development projects to coastal countries, pushing resource management to the periphery, and focusing on economic considerations to the detriment of the long-term health and sustainability of the fisheries. Corruption scandals, involving parties to several fisheries access agreements, have smeared further the overall reputation of these agreements. Persistence of opacity around fisheries access agreements contravenes international instruments such as UNCLOS (United Nations Convention on the Law of the Sea), the UNFSA (United Nations Fish Stocks Agreement) and FAO's CCRF (Code of Conduct for Responsible Fisheries) which underline the necessity for transparency by all States, regional and sub-regional bodies in the mechanisms for fisheries management and in the related decision-making processes. International fisheries access agreements are clearly "mechanisms for fisheries management" that should be negotiated in a transparent manner. Both DFW nations and SIDS are equally responsible for ensuring proper fisheries management and enforcement of conservation measures. While the priority of international fisheries access agreements should be to build the capacity and infrastructure of the SIDS to assume their conservation and management roles effectively, DFW fleets should assume their proportionate share of the environmental and social costs of sustainable fishing and support scientific research on the status of stocks by collecting and reporting in an accurate and timely manner data on catch and effort. The interests of the SIDS industry, including small scale fishery, should be protected (UNCTAD, 2023c).

- Develop policies and procedures to eliminate overfishing in EEZs, as well as unsustainable and illicit practices and trade. Illegal, unreported and unregulated (IUU) fishing continues to be a major threat to marine ecosystems, both in the high seas and within national jurisdictions. Weak fisheries administrations in developing economies are particularly targeted by IUU fishing practitioners, as these lack the capacities to effectively monitor and control fishing activities. Sometimes IUU fishing is linked to organised crime (see; FAO, 2001). In addition to the threat posed in the form of depletion of the marine resources, IUU fishing also removes the possibilities of local fishers in the said areas to legally earn their living from fisheries. DWF continue to be subsidised, allowing vessels to travel further, stay

at sea longer and catch more fish than they could normally afford to, contributing to the depletion of fish populations beyond sustainable levels. Fisheries access agreements are denounced by many as a way for exporting DWF nations overcapacity to developing costal states, often with heavy subsidies. Fisheries subsidies that enhance vessel capacity of DWF play a critical role in supporting the industry, distorting economic incentives. Without these subsidies, DWF would be unprofitable. They contribute to overfishing, particularly in coastal countries that have low capacity to develop, monitor and enforce fisheries management regimes. On several occasions, DWF operating under legal fishing agreements have been found to resort to various unsustainable and illicit practices to extract most economic benefits by circumventing rules and oversight wherever enforcement was deficient, at the expense of sustainability. (UNCTAD, 2023c).

- Build institutional and technical capacity concerned with the fishery sector. Coastal states, including SIDS, need to be well prepared and trained for managing their fisheries, as well as for monitoring and enforcing compliance with relevant rules. Added to this, they also need to be fit for the challenge of negotiating equitable international fisheries access agreements and of monitoring that the agreements are appropriately implemented. Evidence of successful fisheries access arrangements exists, with interactions of the parties that are not always unbalanced or unfair (UNCTAD, 2023c).

- Develop a fish-processing sector. From the standpoint of the industrial policy and fisheries GVCs, industrial "upgrading" should be favoured over the maximization of rent capture in the form of government revenue; for instance, through the ownership of vessels and/or processing units. It is, therefore, in SIDS' interest to create a domestic fish-processing sector to create new jobs, to advance structural transformation and to reap greater benefits from international trade by adding value to its export. Nowadays for example, while all Pacific Island countries continue to collect access fees for foreign fishing in their waters, most have aspirations to develop their own fishing and/or processing industries. For onshore processing facilities, substantial investment in the sectoral infrastructure, including ports is necessary. This can be from various sources, including investment in return for fishing access. Commitments to onshore investment can take the form of joint ventures and involve anticipated direct and indirect employment generation, spin-offs in terms of ancillary industries, exports and technology transfer.

- Develop bioprospecting as a niche sector for SIDS to advance structural transformation and increase higher value-added exports. Bioprospecting (also known as biodiversity prospecting) is the exploration of natural resources for small molecules, macromolecules and biochemical and genetic information that could be developed into commercially valuable products for the agricultural, aquaculture, bioremediation, cosmetics, nanotechnology, or pharmaceutical industries. There is significant potential for horizontal diversification in many SIDS in producing and exporting new and dynamic products stemming from bioprospecting. The exploration of biodiversity for commercially valuable genetic and biochemical resources, if fully exploited, could help SIDS, to maximize the benefits from international trade, build export competitiveness and join the group of successful exporters.

7.3. Agriculture:

Summary of interventions:
Support SIDS in modernising agriculture towards high-end commercial production wherever possible, without impeding critical small holder production.

- ***Support the development of the nutraceuticals sector and the policies aimed at their export.***

- ***Support the development of food-processing and agro-industry.***

In view of deteriorating long-term conditions for food access compounded by climate change, gross inefficiencies in distribution and overall growing inequalities (see: Rieff, 2016), agriculture, along with the blue economy, requires strategic thinking from SIDS. The current share of agriculture in overall output varies from 1% in Bahamas to 31.5% in Comoros (UNCTAD, 2021).

UNCTAD will help SIDS to:

- Develop an environmentally friendly and socially sustainable, high-value commercial food production sector. An illustration to this can be beef production in Vanuatu for the Australian market or Fiji's sugar production from sugar cane. Those sectoral developments will aim at the modernisation of agriculture, increasing the sector's productivity and creating better jobs, though it will also require careful evaluation on their impact on smallholder production and the natural environment and biodiversity. Moreover, only those SIDS with adequate landmass may be seen as potential targets of this policy.

- Develop a food-processing industry. Increasing value-added of the domestic agricultural production of SIDS is critical in facilitating their structural transformation. Local food-processing plants, as in the case of fishery and related products, can play a pivotal role in the sophistication of exports and, therefore, export-related revenue increases.

- Develop agricultural production based on nutraceuticals. Nutraceuticals are health foods (more technically known as "functional foods") and food supplements, though they also include specific staples, as well as fruits, vegetables, and grains that are known or considered to have health/related benefits. The global nutraceutical market size comprising of functional foods and dietary supplements was estimated at US$ 382.5 billion in 2019, is believed to have reached US$ 412,7 billion in 2020 and is rapidly growing. Consumer demand is rapidly increasing in many regions including the United States of America, Europe, Asia Pacific, Latin America and the Middle East. The rising demand for nutraceuticals is driven by several factors, including higher incomes, growing consumer awareness of health issues as populations age, greater focus on preventing rather than curing illness, wariness about modern medicine's invasive procedures and severe side effects, greater interest in and knowledge about traditional cures in other cultures and concerns about environmental and social sustainability (notably in the case of organic produce). There is also an international move from meat to plants, with an increasing focus on ethics in food supply. The global market for plant-based food is changing fast, supported by a shift in the public belief in the capability of plant-based food to assist in treating their health issues. Some SIDS may have comparative advantage in this niche sector and its development will require, among others, policies aimed at stimulating strategic investment in R&D, improved market access negotiations and planning related to environmental sustainability (UNCTAD, 2022c).

7.4. Manufacturing:

Summary of interventions:

- ***Support SIDS in creating a manufacturing base connected to global and regional value chains and respond to the changing needs of international consumer markets.***

In 2019, the value added generated by industrial production exceeded 35% of GDP in Trinidad and Tobago and Nauru, while it represented less than 10% of the economic output in the Federated States of Micronesia and the Comoros. Over the last decade, the importance of industrial production has decreased in all SIDS regions, except in Pacific SIDS. However, this decline has flattened during the last several years and the share of industry has levelled off in island economies. The regional trends mask large country differences, especially in Pacific SIDS. For example, in 2019, industrial GDP (in constant prices) was almost 10 times higher in Timor-Leste than in 2005. There are large differences in the share of industrial production in employment across SIDS. In 2019, its share ranged from 6% for Vanuatu to 29% for Tonga (UNCTAD, 2021). Over 20% employment shares were also recorded in Trinidad and Tobago, Mauritius, Samoa and Cabo Verde. In addition to Vanuatu, industry's share of employment was very low, below 10 %, in Solomon Islands and Timor-Leste (ILO, 2020 in UNCTAD, 2021).

In half of SIDS, manufacturing constitutes less than 5% of GDP. In 2019, Nauru and Trinidad and Tobago had the largest manufacturing share – 19% of their respective economic output. Manufacturing exceeded 10% of GDP in 2019 in two other SIDS: Fiji and Mauritius (13%). In 2019, the value of manufacturing output was highest in Trinidad and Tobago (US$ 4.3 billion), Mauritius (US$ 1.6 billion) and Jamaica (US$ 1.2 billion) (UNCTAD, 2021).

Overall, Caribbean SIDS export more manufactured goods than Pacific and African SIDS – some at a proportion similar to or higher than the global average. These comprise Antigua and Barbuda, Saint Lucia, and Dominica. Their exports, like those of the Marshall Islands in the Pacific, consist largely of ships, boats and floating structures. These products are especially important for the Marshall Islands,

where in 2019 they made up 88% of all goods exports, but also for Antigua and Barbuda (47%), and Saint Kitts and Nevis (17%). Ten other SIDS also have a comparative advantage for exports of ships and boats. In Dominica, 42% of merchandise exports consist of soaps, cleansing and polishing preparations (UNCTAD 2021).

UNCTAD will thus help SIDS:

- To devise policies to develop their respective manufacturing sectors based on their explicit and latent comparative advantages. This will necessitate identifying sectors, building adequate soft (skills) and hard (energy, transport ICT) infrastructure, and enhancing investment policies.

7.5. Other services:

Summary of interventions:

- ***Support SIDS in identifying activities that make best use of SIDS' specific comparative advantages, in terms of "other" service activities.***
- ***Support SIDS in building capacities to enable the development of the service sector through efficient institutional frameworks, favourable conditions for doing business, high-quality, robust and viable ICT networks and an efficient transport infrastructure, as well as availability of skilled human capital.***
- ***Support SIDS in diversifying production and exports in the creative sector and exploiting the potential of the creative economy.***

Other service activities may include financial intermediation; real estate, renting and business activities; public administration and defence; compulsory social security; education; health and social work; other community social and personal service activities; and activities of private households as employers and undifferentiated production activities of private households (United Nations, 2002).

As the share of agriculture in GDP dwindled over the last decades, the dependence on exports of food and agricultural raw materials has been replaced by services and other exports, often associated with more skill and knowledge-intensive activities. The share of services in SIDS' GDP has increased from 62% in 1970 to about 70% in 2018. SIDS with a relatively high GDP share of "other service activities" tend to achieve a higher GDP per capita than others. SIDS with "other service activities" as a vital sector are mainly Caribbean, for example Bahamas, Grenada, Barbados and Saint Vincent and the Grenadines, but also Tuvalu, Mauritius, Palau, Marshall Islands and Kiribati. In contrast, SIDS with the lowest share of "other service activities" are mostly located in the Pacific.

The development of "other service activities" depends on productive capacities arising from efficient institutions, high human capital, favourable conditions for private sector development, as well as a viable ICT and transport infrastructure. The high level of education of the workforce and investment in research and development can be crucial for the development of services. New growth theories also note that once a vital service sector has been set up, this can promote spillover effects further increasing the stock of human capital. Based on these considerations, successful strategies to promote structural transformation in SIDS should include development of "other service activities".

From the perspective of harnessing digital opportunities in SIDS, it is important to strengthen the software sector. Software services and capabilities are needed for the digitalization of both the public and private sectors. Domestic use of software can be instrumental in improving the competitiveness of enterprises and the welfare of society. The domestic market is potentially important for software enterprises to develop relevant skills and innovative products. Indirect effects on society may be expected to be larger when software is locally adapted or developed for domestic enterprises and institutions.

SIDS also have ocean-based and terrestrial scenery with comparative advantages for the growth and expansion of creative economy sector such as movies, music recording, cultural, visual and audiovisual arts, etc. They need to tap this potential by elaborating sector-specific strategies and actions to establish a dynamic framework for the sustainable

growth of local creative industries: build market-oriented educational institutions to inspire and equip the next generation of talent, help creative businesses to start-up and grow, and serve as a hub or model for the growth and expansion of creative economy sector competitiveness against other regional and international markets. SIDS could benefit particularly from a comprehensive mapping of national cultural and creative industries, developing policies and strategies to harness the creative industries to address some of the socioeconomic vulnerabilities facing them. They should also develop guidelines and targeted programmes towards optimally supporting the creative economy. Training and capacity building are a cornerstone of such policy-level support, both with a view to elaborating the strategies and to implementing them efficiently. A central issue in implementing the strategy will be to address enabling factors (such as legal and policy framework) and capacity gaps within the private sector, both in terms of ahead-of-the-curve training and linkages to finance, networks at the regional and international levels as well as dedicated business development services.

Therefore, UNCTAD will help SIDS to:

- Identify activities that make best use of their specific comparative advantages, where other service activities have a potential to play an important role, due to their geographic and climatic conditions.
- Enhance productive capacities, in support of the identified comparative advantages, with a focus on the development of an efficient institutional framework, favourable conditions for doing business, high-quality, robust and viable ICT networks and an efficient transport infrastructure, as well as schools, training centres, research institutes and universities to foster human capital.

8. Complementarity

UNCTAD's Strategy for SIDS will ensure complementarity between the work of UNCTAD and other relevant parts of the United Nations system, such as the United Nations Department of Economic and Social Affairs (UNDESA) and the United Nations High Office for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS).

To ensure this complementarity between UNCTAD's work in support of SIDS and that undertaken by other bodies within and outside the United Nations system, the Strategy under the SIDS framework should be based on a clear understanding of the particular contribution that UNCTAD can make. The Bridgetown Covenant affirmed UNCTAD's role as the focal point within the United Nations system for the integrated treatment of trade and development and interrelated issues in the areas of finance, technology, investment and sustainable development, and mandated UNCTAD to continue its work under the three key pillars of economic research and analysis, intergovernmental consensus building and technical cooperation.

9. Development partnership: Towards new international support measures for SIDS

UNCTAD's Strategy envisages a broad partnership with new and clearly defined international support measures (ISMs) in support of SIDS. The focus should be in achieving inclusive growth and sustainable development, advancing structural transformation and economic diversification, building productive capacities and socioeconomic resilience, ensuring access to finance and enhancing SIDS' engagement with the global economy and international markets through trade, investment and production value chains.

SIDS are in particular need of new and robust international support and partnerships to finance mitigating and adapting measures concerning climate change effects and efforts to improve the health of oceans, as well as to preserve biodiversity. As Governments of small island developing States are unlikely to have sufficient capacity to respond to the related crises, bilateral donors, and multilateral development partners (development banks and financial institutions), should provide concessional budget support loans and emergency financing facilities. At the same time, the international community should address the stagnation of official development assistance and further strengthen South-South cooperation, while creditors should suspend debt payments from those requesting forbearance (United Nations, 2020). Financing environmental preservation, protection of biodiversity and genetic resources, and climate resilience is critical in the context of achieving Goals 13, 14, 15 of the 2030 Agenda for Sustainable Development (United Nations, 2015). For SIDS, financing conservation efforts has been an important challenge, as ensuring ocean health requires investments for the conservation of oceans and fish stocks. The international community should support SIDS in accessing innovative mechanisms and sources of financing. There are instruments that can combine several sources of finance. For instance, ADB's Oceans Financing Initiative catalyses financing for projects that will help protect and restore marine ecosystems and promote sustainable blue economies. The initiative leverages public sector funds to create investment opportunities able to attract financing from a range of sources, including the private sector (ADB, 2020). Technical assistance and funds, along with innovative financing instruments, such as revenue guarantees and credit-enhanced blue bonds, can be used to reduce risks and make them more attractive to investors (ADB, 2020).

Development partners, in addition to increased concessional financing to SIDS, can also consider incentives and risk guarantee schemes to underwrite potential or perceived risk that may arise with respect to their domestic investors, who are ready to invest in SIDS. They can also consider equity investment in key infrastructure such as energy, ICTs and digital infrastructure.

Facilitating technology transfer and fostering R&D is a further critical area for international partnership. Research and development (R&D) need strengthening to facilitate development of sector's which are innovation-driven, as well as to contribute to overall development. This calls for supporting technology transfer, mainly through the acquisition of technologies and technology adoption transition, aligning the education and training strategies of SIDS, as well with the skills required. Technology financing incentivises local manufacturers and enables digital technologies diffusion by making these technologies affordable and available.

10. Coordination and implementation mechanisms

Upon its finalisation, the strategy will be redesigned based on the specific domestic conditions, comparative advantages, resources endowments, and binding constraints of each SIDS and piloted in selected SIDS. This means that the present overall SIDS strategy will be converted into national SIDS strategies. The implementation of the national strategy in pilot SIDS will be enabled by UNCTAD, with SIDS leading the process of setting national priority areas. UNCTAD will leverage 60 years of experience in supporting developing countries, including SIDS, in sustainable development, structural transformation, economic diversification, and resilience building. UNCTAD will also make available its expertise in assessing productive capacities, identifying gaps and limitations as well as crafting holistic productive capacities development programmes to address the gaps which are the sources of vulnerabilities and to foster new potentials and capabilities.

UNCTAD will make available its expertise in the various pillars of the Strategy and national strategies.

This means that, within UNCTAD, the implementation of the national strategies will be coordinated by the Division for Africa, Least Developed Countries and Special Programmes (ALDC), which is a responsible Division for SIDS in delivering UNCTAD's mandate and activities. Each UNCTAD Division involved in the 10 "Pillar interventions" listed in section 6 of this document and in accordance with the agreed national strategies, will be responsible for tailoring, designing, and implementing their respective interventions, in alignment with the overall Strategy. In particular, the main implementing or focal entity will be the Productive Capacities and Sustainable Development Branch (PCSD) Branch in ALDC, in addition to implementing Pillar 6.1 on "building productive capacities". Acting as a central point of contact for all Divisions, PCSDB will offer guidance, monitor progress, ensure synergies, prevent overlaps, and maximize the impact of interventions. To achieve this, PCSDB will establish a Task Force comprising experts from participating UNCTAD Divisions. The Task Force will convene regularly, providing a sustainable platform for strategic planning, research and analysis exchanges across Divisions, resource allocation, intervention monitoring and evaluation, public outreach, and collaboration with external experts on identified areas. Additionally, PCSDB will serve, in coordination with relevant divisions and/or as needed, as the interface between UNCTAD and the coordinating entities of the national implementing entities of the strategy ensuring that the agreed strategy and its implementation remain relevant and attuned to SIDS' challenges and needs.

At the national level, UNCTAD will provide technical support in establishing a two-layer coordination mechanism: a steering committee (SC) consisting of senior officials from all stakeholders and a technical committee (TC) made of technocrats and experts. The

steering committee will be responsible for overseeing the coordinated implementation of the pillars of the national strategies in pilot SIDS at the policy level. It will lead the preparation and consultation process, involving all key national stakeholders comprehensively—government institutions, think-tanks, private entities, and civil society actors and "home-based" development partners. This inclusive approach will aim at ensuring a coordinated implementation of priority areas, analysing the contributions of various stakeholders and partners, including potential donors, within specific SIDS' context, fostering synergies, maximizing impact, and avoiding duplications and documenting impacts and operational lessons of interventions as well as identifying challenges ahead. Thorough consultations will be coupled with detailed needs assessments. Subsequently, for each national strategy implementation agreements specifying the general Terms and Conditions (ToRs) will be developed. The process will involve all three parties (UNCTAD, donor(s), and beneficiary SIDS). The Terms and Conditions (ToRs) will encompass a project description, objectives, and the logical framework of the overall programme of implementation, along with general conditions and a budget narrative. Once they are established, a dedicated Technical Committee (involving technocrats and experts from public institutions, academia, the private sector and the civil society entities will be formed to ensure technical implementation of the activities necessary for achieving the objectives of the Strategy The technical committee will receive continued political and policy guidance from the steering committee and will be supported by UNCTAD throughout the implementation process.

11. Funding modality and financial management

The overall strategy and national strategies in selected pilots SIDS will be implemented during the years 2024-2034 provided that adequate and predictable resources are mobilised and made available. The timeframe will be adjusted accordingly. The estimated budget for operationalising the strategies in, at least, five SIDS selected through consultations and based on geographical regions and pressing priorities is estimated at US$ 200 million (US$ 4 million per SIDS per year) for 10 years. The estimated budget factors in distance and transport cost for UNCTAD experts, international and regional consultants who may be needed to implement the SIDS strategy and national strategies in pilot countries. The estimates also comprise all project support costs, the coordination of the implementation across the identified areas and sectors of interest to SIDS and financing of national experts in selected pilot SIDS. However, the budget does not include an in-kind contribution of UNCTAD for its regular staff who provide their expertise to the implementation of the strategies. As the programme is financed through extra-budgetary resources, SIDS are encouraged to mobilise the core resources from their respective key development partners. Experience to date shows that mobilising programme resources through bilateral donors ensures ownership of the strategies and priority programmes by the beneficiary countries and enhances the long-term predictability and sustainability of the planned interventions. The financial management in the implementation of the programme will be in accordance with the financial rules and regulations of the United Nations, with UNCTAD's Resources Management providing overall supervision and administration of mobilised resources.

12. Monitoring and evaluation (M&E)

The monitoring and evaluation (M&E) of national strategies' implementation in pilot SIDS will play a pivotal role in gauging the extent to which the desired outcomes or objectives are achieved, what specific challenges are faced and what adjustments are needed. It will go beyond mere assessment and will include seeking to identify and draw inspiration from successful practices, analysing outcomes and concrete results as well as drawing valuable lessons from the strategies' execution, thereby identifying challenges ahead and bolstering future interventions and initiatives. These evaluations will be driven by critical questions, including how well the project's design, activities, and deliverables align with the development needs and priorities of pilot SIDS, while remaining in line with UNCTAD's mandates. Moreover, they will shed light on UNCTAD's comparative advantages in effectively executing the strategy.

The M&E process will be guided by a theory-driven, utilisation-focused framework, leveraging a combination of qualitative and quantitative data gathering and analysis. Through triangulation of diverse data sources, such as stakeholder interviews, desk reviews of project documents, and analysis of web and social media metrics linked to project outputs, evaluators will draw well-substantiated conclusions and insights. Anticipated evaluations may take an internal approach, making use of existing institutional monitoring in beneficiary countries, or opt for an external route by engaging in independent evaluation, depending on the financing agreement governing the strategy's implementation. M&E processes will be further tailored for each pillar intervention in consultation with UNCTAD's task force to ensure relevance and accuracy and will be coordinated by the UN Country Teams in accordance with the United Nations Development Assistance Framework (UNDAF) and the Common Country Assessments (CCAs).

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