2013 Small States Forum

Fiscal Sustainability: Building resilience and addressing vulnerability

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Issues note[1]

Session II: Promoting Effective Debt Management and Sustainable Growth

Small states exhibit disparate public debt levels. Several small states built up very sizeable public

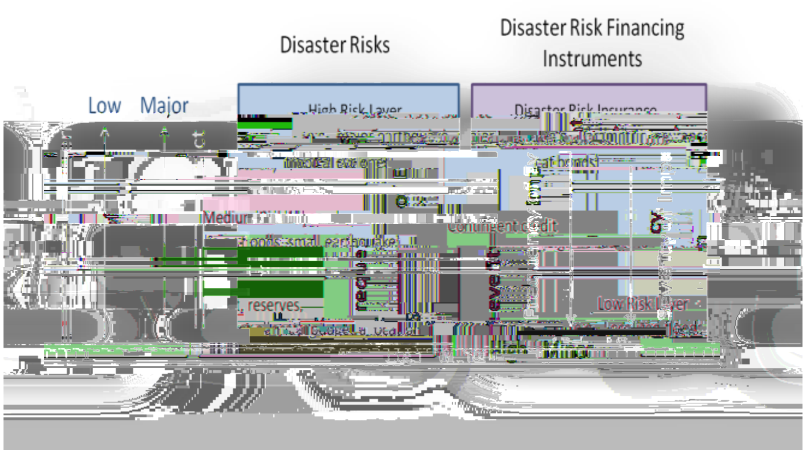
(a) ***Pooling resources through regional cooperation.*** Small states should exploit more fully the commonality of their legal and institutional approaches and other key building blocks that underpin debt management, particularly regionally.

(b) ***Maximizing the gains of information technology.*** Computer-based systems to manage external and domestic debt are readily available from international agencies like the Commonwealth Secretariat and UNCTAD.

(c) ***Realizing the full benefits of staff training.*** Staff training, and the associated challenge of staff potential investors. Governments need to play a key role in promoting an adequate investment climate that gives the right signals, encouraging productivity improvement and investment in non-traditional areas that create increased spillovers and linkages with the domestic economy.

Pillar 2: Fiscal Management. Private sector-led growth and an attractive investment climate are intimately linked with effectiveness in government expenditures, the tax burden, and non-preemption of resources by government debt. Indeed, there is a clear need to consolidate fiscal balances, manage tight public resources efficiently and public debt strategically. Yet, while short-term fiscal tightening is required in some cases, permanent structural improvements are necessary to place public finances on a sustainable path.

Pillar 3: Resilience to Natural Disasters. *S*mall states are among the most vulnerable countries in the world to multiple hazards, which has significant negative impacts to their economic stability and



its debt. In this context, it is critical that policies are put in place that strengthen national capacity to: 1) reduce the base risk to external hazard shocks, and 2) develop a risk financing framework designed to smooth out the impact of disasters on public finances. Reducing the base risk to natural hazards requires a stronger integration of hazard risk in physical planning and building processes through improved territorial planning, design standards and techniques, and regulatory systems in order to slowly reduce base risk over time (through new physical developments or corrective investments on existing structures). On the other hand, developing a risk financing framework requires an assessment of the contingent liabilities of the state to catastrophe risk, and the subsequent elaboration of a strategy to develop tools or mechanisms to address the various risk layers. Currently, most countries in the Eastern Caribbean have some basic risk insurance instruments such as Caribbean Catastrophic Risk

Insurance Facility (CCRIF), but nothing that would disaggregate the various risk layers in which

For countries facing low growth and high debt, fiscal consolidation may be a painful but inevitable component of a reform program aimed at restoring growth. What are the key elements of a successful fiscal consolidation program that could help long term growth?

What further actions can international financial institutions and other development partners take to assist small states in this area?