

Perch, Leisa; Roy, Rathin

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## Social policy in the post-crisis context of small island developing states: A synthesis

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# **SOCIAL POLICY IN THE POST-CRISIS CONTEXT OF SMALL ISLAND DEVELOPING STATES: A SYNTHESIS**

Working Paper number 67

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**Leisa Perch**

International Policy Centre for Inclusive Growth

**Rathin Roy**

International Policy Centre for Inclusive Growth

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United Nations Development Programme

**International Policy Centre for Inclusive Growth (IPC - IG)**  
Poverty Practice, Bureau for Development Policy, UNDP

Esplanada dos Ministérios, Bloco O, 7º andar

70052-900 Brasília, DF - Brazil

Telephone: +55 61 2105 5000

E-mail: [ipc@ipc-undp.org](mailto:ipc@ipc-undp.org) ▪ URL: [www.ipc-undp.org](http://www.ipc-undp.org)

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# **SOCIAL POLICY IN THE POST-CRISIS CONTEXT OF SMALL ISLAND DEVELOPING STATES: A SYNTHESIS\***

Leisa Perch\*\* and Rathin Roy\*\*

## **1 INTRODUCTION**

This paper provides a synthesis of the multifaceted impact of the global economic crisis on Small Island Developing States (SIDS), focusing on the Pacific and Caribbean regions. It shows that the social investment agenda, which has underpinned so much of the development progress of SIDS, has been particularly challenged by the global economic crisis and will require innovations and policy changes by SIDS in order to sustain and advance beyond current achievements. Global action will be required to enhance the available fiscal space for these actions. Additionally, in the SIDS, particular attention needs to be paid to the design and implementation of social policies that reduce vulnerability, improve resilience to exogenous shocks, and thus lower the human and productivity costs of exposure to repeated shocks. These include high unemployment and underemployment, rising crime and persistent inequalities across income groups and between rural and urban communities. The transitive effects of such exogenous shocks on the incomes, food security and access to basic public goods of poor and vulnerable households demonstrate the need for a new policy approach, one that is better placed than current approaches to increase SIDS' resilience to future shocks. The synthesis, based largely on experiences of and lessons learned from five countries in the Pacific and five in the Caribbean,<sup>1</sup> seeks to advocate a "paradigm shift" in global and national-level approaches to the development challenges facing SIDS.

## **2 SIDS IN THE GLOBAL CONTEXT**

SIDS first received global attention as a minilateral group in the mid 1990s, when the first international conference was held in Barbados to focus on their particular development

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\*\* International Policy Centre for Inclusive Growth.

challenges. The outcome was the Barbados Plan of Action for the Sustainable Development of Small Island Developing States. The most recent global strategic document on SIDS is the [Mauritius Strategy for the Further Implementation of the Programme of Action for the Sustainable Development of SIDS](#). The theme underlying both these strategies is that small islands share characteristics that make them economically, environmentally and socially vulnerable to external shocks over which they exercise little or no control, a circumstance that places them at a distinct disadvantage.<sup>2</sup> Hence, the metric by which these states are viewed within the development community and in international negotiations needs to take account of these characteristics. The strategies in both documents detail how this may be done.

The special circumstances of SIDS have also been recognised in different ways by the international community, most significantly the United Nations system. The United Nations has established a SIDS unit in the United Nations Department of Economic and Social Affairs (UNDESA), and also facilitates reporting on and monitoring of the Barbados Plan of Action. The United Nations General Assembly reviews the SIDS Plan of Action every five years. A network to support the SIDS was also established to facilitate dialogue on and advocate for SIDS issues. SIDSNET<sup>3</sup> was supported by the Alliance of Small Islands States (AOSIS)<sup>4</sup> and through UNDESA. SIDS issues are now addressed by the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS).

A specific category of consideration has been provided for SIDS in the Global Environment Facility, and since 1985 the World Bank has maintained a "small island exception" in its policy of eligibility for concessionary treatment by the International Development Association (IDA). In the World Trade Organisation (WTO), proposals for special treatment modalities of interest to SIDS have been considered under a "Work Programme on Small Economies" since 2002. Except for Barbados and Fiji, the 10 countries covered by this paper have economies whose GDP stands at US\$ 0.5 billion or less annually (Wikipedia, 2010, from IMF, 2009).

It can therefore be concluded that, to some extent, SIDS have been recognised and accepted as a development typology within the global development framework. By the end of 2007, SIDS were receiving about US\$ 1.8 billion a year in official development assistance, and it was recognised that much more was needed (OHRLLS, 2007). Recent developments in the international negotiations on climate change, however, point to remaining concerns that the specific issues and challenges of SIDS are still being marginalised relative to other interests.

Initially, environmental issues dominated much of the discourse on SIDS as the threat of climate variability and change became high points of the global agenda. More recently, the social vulnerability of SIDS and social policy in small states have attracted increasing attention. The United Nations Research Institute for Social Development (UNRISD), with the Commonwealth Secretariat and the United Nations Children's Fund (UNICEF), commissioned several forward-thinking papers in 2009 on social policy in small states; the recent economic and social survey on Asia and the Pacific by the UN Economic Commission for Asia and the Pacific (ESCAP) also brings many SIDS issues into sharp focus, including that of resilience (ESCAP, 2009). As the North begins to emerge from one of the worse economic crises in recent history, the experiences, challenges and successes of SIDS in responding to this exogenous challenge are receiving deserved attention.

At the time of writing, the need for SIDS to find ways to prepare for and withstand multiple shocks becomes clear, as we witness the aftermath of an earthquake on already ravaged Haiti. The Haiti experience is one of unanticipated events, but also illustrates an

inability to respond to recommendations of potential high-level risk. A stronger earthquake in Chile a few months later caused significantly less devastation because of the resilience of systems and infrastructure. Haiti's experience brings to the forefront the harsh reality of the multiplier effect of crises, each of which weaken a system to a point of devastation. The 12 January 2010 earthquake in Haiti followed the battering of the country by four storms in September 2008, as well as other political and economic crises. As a writer in *Time* magazine (Elliott, 2010) noted on 14 January: "a nation that was already on its knees had been knocked to the ground."

### 3 OBSERVABLE AND IMPLIED DEVELOPMENT IMPACTS OF RECENT GLOBAL SHOCKS ON THE SIDS

There is little doubt that by the onset of the global financial crisis in late 2007 and its extension into 2008–2009, most SIDS had experienced a "perfect storm" of crises that posed critical challenges to their capacity to sustain progress in growth and human development. By 2008, SIDS in general were faced with the combined onslaught of the following phenomena:

- an underlying energy crisis that escalated **energy costs**, with additional implications for the competing interests of using land resources for food production and biofuels;
- rapid **climate change and intense climate variability** (active cyclone and hurricane seasons in 2007 and 2008; earthquakes; a tsunami in 2009);
- the **global financial crisis**, resulting in job losses, home equity declines, foreclosures, inflated commodity prices, a tightening of credit, a downturn in markets and lack of confidence; and
- a **food crisis** as global food security came under threat from high commodity prices, drought and other issues.

#### MONOCULTURAL ECONOMIES AND MONOPSONISTIC DEMAND

Individually, any of these crises in any country would pose challenges to economic growth and human development. In the SIDS the impact is all the more pronounced because of the typically monocultural nature of their economies. This monoculturalism is accentuated by a monopsonistic and highly elastic demand for the products of SIDS from a few rich countries. When a global crisis occurs, therefore, SIDS have very limited policy space to manoeuvre; domestic policies are of limited effectiveness in these circumstances. Smaller and less weighty than their trading partners, SIDS lack adequate voice to negotiate individually when demand falls. Six of the 10 countries covered in this paper are among the 10 smallest economies in the world (measured by GDP), according to GDP figures for 2009 from the International Monetary Fund (IMF) (Wikipedia, 2010). Addressing resilience would allow SIDS to channel aid towards long-term and fundamental development challenges rather than into crisis management, recovery and economic survival. Table 1 further illustrates the level of this dependence, which increases SIDS' exposure to small and large shifts and shocks.

TABLE 1

**Economic Dependency in Selected SIDS**

Country	Sectors contributing more than 10% of GDP	Sectors contributing more than 30% of GDP	Sectors contributing more than 50% of GDP
Antigua and Barbuda	Construction, banking and insurance, government services	-	-
Barbados	Tourism, wholesale and retail, government services	-	Combined services as a whole
Dominica	Agriculture, wholesale, bank and insurance	-	-
Fiji	Tourism, sugar, agriculture, industry, government services	-	-
Kiribati	Subsistence agriculture and fishing	Government services-	-
Montserrat	Construction, banks and insurance	Government services	-
Samoa	Industry, agriculture and fisheries	Government services	Services (2005)
Solomon Islands	Agriculture, fishing and forestry	Government services	Services (2006)
St. Kitts and Nevis	Government services, banking and insurance, construction	-	-
Vanuatu	Banking and financial services, tourism	-	Services

**FREQUENT WEATHER/CLIMATE-RELATED SHOCKS**

The frequency of adverse climate shocks compounds the problem of a monocultural economic structure; this is well known and needs little elaboration. For example, Samoa's experience of the global economic crisis has doubtless been magnified by the impact of the 2009 tsunami that created losses equivalent to 25 per cent of GDP (IMF, 2009a). At the time of the crisis, Dominica was just emerging from the impact of Hurricane Dean in August 2007, which caused extensive damage to the island, estimated at 20 per cent of GDP, and harmed or destroyed a large share of the country's buildings. This was in addition to heavy losses in agricultural crops and a 40 per cent drop in banana exports in 2007 (Junge, 2009a).

The 2004 hurricane season in the Caribbean exemplifies the broad impact of natural events across a region. The UN Economic Commission for Latin America and the Caribbean (ECLAC) estimated the economic losses of that season at US\$ 37.5 billion (including Cuba and Florida); this is more than the annual GDP of many islands in the Caribbean. Without Cuba and Florida, the damage still exceeds US\$ 6 billion in one hurricane season (ECLAC 2005: 41). To put this in perspective, IMF estimates of the 2009 nominal GDP for the 10 SIDS covered by this paper suggest a combined total GDP of US\$ 10.732 billion. In one year, the relative loss was equivalent to the economies of nine (small) member states.

**HOUSEHOLD INCOME**

Income impacts have been felt across all countries affected by the crisis, among the poor and non-poor. Income declines in the SIDS have been sharpest among those working in the informal sector; the self-employed working in tourism or at companies or in jobs linked to the tourist sector; migrants and immigrants; and those who rely heavily on remittances to meet their basic needs. Unemployment in the five Caribbean countries considered in this paper ranges from a low of 4 per cent in Antigua and Barbuda (based on 2006 figures) to a high of 13.0 per cent in Montserrat.

The regional unemployment rate in South-East Asia and the Pacific is estimated to have risen to 5.6 per cent in 2009, up 0.2 percentage points from 2007 (ILO, 2009). Young people are far more likely than adults to be unemployed: the region's youth unemployment rate reached 15.3 per cent in 2009, against 3.4 per cent for adults, and hence opportunities for them, to ease the income-expenditure deficit at the household level caused by the crisis, are almost non-existent. Even before the crisis, young workers in the Pacific and the Caribbean already faced substantial difficulties in securing decent and productive jobs. This puts additional strain on those household members who have jobs, and potentially exposes youth to vulnerable employment and other sources of income in their desperation to support families.

Although no household-level figures on income reduction are yet available, the existing data give insights as to the level and depth of potential impacts. The 2009 Analytical Report on the Kiribati household income and expenditure survey (HIES) noted that the economic crisis is likely to result in a 10 per cent rise in the basic-needs poverty line (BNPL) and will probably move an additional 5 per cent of households and population below the BNPL. The 2006 survey revealed that, on average, every household in Kiribati spent at least US\$ 1,600 more than they earned every year, equivalent to around US\$ 60 every two weeks (Kiribati National Statistics Office, 2006: 22). Before the onset of the global financial crisis, the cost of living in Barbados increased by an average of 5.8 per cent between 2005 and 2007, compared with an average of 1.1 per cent between 2002 and 2004.<sup>5</sup> As the global economic crisis directly affected food prices, employment and remittances, this income deficit likely deepened.

#### NATIONAL INCOME, REVENUE-GENERATION AND FISCAL SPACE

The sectors highly exposed to the crisis have been those clearly dependent on external forces. In the Caribbean, about 50 per cent of banks are foreign-owned, especially by Canadian banks, a circumstance that brought a certain level of exposure to the first stage of the crisis (CDB, 2008).

Despite positive aggregate growth across the Asia-Pacific region, as shown in Table 2, Samoa, Fiji and the Solomon Islands in particular have suffered negative effects. Specific impacts have included:

- the devaluation of the Fiji Islands dollar, which is expected to add to inflationary pressures in the Fiji Islands (Jayaraman, 2009);
- the decline of the market value of the Revenue Equalisation Reserve Fund in Kiribati by 20 per cent in 2008. The country's main source of budget financing was affected as withdrawals were necessary to cover the budget deficit. Reductions in income from internationally-invested trust and sovereign wealth funds was likely to significantly affect the government's budgets in Kiribati (Chhibber, 2009: 5);
- high fuel prices in Kiribati also significantly increased the debt of the electricity utility (ESCAP, 2009: 119);
- the fall in prices for exports such as timber and palm oil has particularly affected the Solomon Islands (Jayaraman 2009);
- the national reserves are also under stress, limiting capacity for counter-cyclical strategies.



Table 2 and 3 highlight trends in the decline in real GDP before and during the crisis, which constrained responsive and proactive measures on the part of the SIDS, confronted as they are by continued uncertainty.

TABLE 2

**Per Capita GDP in Selected Pacific SIDS**

Per Capita GDP Growth in Pacific Island Countries, 1995 - 2009									
Country	% GDP growth pa			% Pop growth pa	Inflation average annual rate		GDP growth % per capita pa		
	1995-2004	2005-2008	2009 forecast		1995-2008	2005-08	2009	1995-2004	2005-8
Cook Islands	3.1	0.2	-0.1	-3.4	4.1	6.5	6.5	-0.1	3.3
Fiji	2.6	-0.5	-1.0	1.0	4.4	7.0	1.6	-0.9	-2.0
Kiribati	4.1	1.9	1.0	1.8	3.3	6.6	2.3	-2.4	-0.8
Marshall Islands	-2.0	1.4	0.5	2.6	6.8	9.6	-4.6	0.5	-2.1
FSM (Federated States of Micronesia)	-0.5	-1.0	0.5	0.1	4.8	2.9	-0.6	-1.8	0.4
Nauru	Na	-8.6	1.0	2.4	3.3	1.8	Na	-8.4	-1.4
Palau	Na	3.0	-3.0	1.0	5.9	5.2	Na	2.2	-4.0
PNG (Papua New Guinea)	2.8	5.0	4.5	2.7	4.0	7.0	0.1	2.1	1.8
Samoa	4.1	3.3	-0.8	1.0	5.7	5.7	3.1	2.5	-1.8
Solomon Islands	-0.8	7.0	0.0	2.7	10.0	8.3	-3.5	4.0	-2.7
Tonga	2.2	1.8	-0.5	0.5	8.0	6.2	1.7	-0.1	-1.0
Tuvalu	3.3	1.6	1.0	1.3	3.6	3.8	2.0	1.2	-0.3
Vanuatu	1.0	6.8	4.0	2.6	3.2	4.3	-1.6	4.1	1.4

Source: Asian Development Outlook; Asian Development Bank. April/Oct 2009, & UNDP PC estimates.

TABLE 3

**Change in GDP (based on constant 1990 Eastern Caribbean dollars)**

	2007	2008	2009 <sup>P</sup>
Antigua and Barbuda	9.1	0.2	-8.5
*Barbados (1974 prices)	3.5	0.6	-4.0
Dominica	1.8	3.2	-1.5
Montserrat	1.5	6.7	3.6
St. Kitts and Nevis	2.0	4.6	-8.0
St. Lucia	1.7	2.0	-3.8
St. Vincent and the Grenadines	8.0	-0.6	-0.1
ECCU	6.1	1.4	-6.7

Source: Junge, Nils (2009b). *Social Implications of the Global Economic Crisis in Caribbean SIDS: Synthesis of the Findings of 7 country Studies*. Prepared for the UNDP Sub-regional Office for Barbados and the OECS for the Economic Crisis PSIA. Original source: Eastern Caribbean Central Bank National Accounts. 2009.

\* Central Bank estimate.

P = preliminary figures.

Given the high dependency on public-sector led growth, GDP decline has implications for the recovery. Appendix 1 provides further information on measures undertaken by SIDS in the Pacific and the Caribbean. Across the board, they have favoured measures that have implied foregone public revenues rather than those requiring enhanced or new expenditure.

For example, a number of measures have been instituted, including:

- St. Kitts and Nevis: small hotels were exempted from duty and consumption tax on food and beverage with effect from January 2009. These concessions were later extended to the restaurant sector;
- Barbados implemented a programme to allow employers to defer a portion of their national insurance scheme (NIS) contributions for employees for one year, to be repaid at a low interest rate in exchange for their agreement to maintain the workforce levels.

Despite easing the cash burden in the private sector, these steps would also result in a decline in the government's revenue base and thus would affect the government's ability to undertake counter-recessionary measures by increasing public spending without compromising fiscal prudence. In Antigua and Barbuda, revenue collection is expected to decline in 2009 by about 21 per cent, instead of the 5 per cent expected before the crisis (Joseph-Brown, 2009a: 30). By December 2009, the government of Antigua and Barbuda had already mandated a 25 per cent cut in spending by all ministries). In Dominica, government measures to mitigate the costs of the crisis had already resulted in reduced government revenue; the measures included a reduction in taxes on cooking gas, lower tariffs on some products, and an increase in the tax-free allowance from EC\$ 15,000 to EC\$ 18,000. These measures were likely to result in EC\$ 6.0 million of foregone income for the government of Dominica (Junge 2009b). While no specific data are available yet to estimate the total fiscal impact of the measures taken by SIDS, there is little doubt that the effect in most countries is significant and limits the scope for the kind of Keynesian, demand-management countercyclical measures that have been the focus of the global, G-20 led debate on tacking the economic crisis.<sup>6</sup>

## CONSUMER PRICES

One of the more visible impacts of the crisis has been on consumer prices. For SIDS, in particular, consumer prices are closely linked to energy prices, including that of food. SIDS tend to be high importers of food, essentially commodity-importing, sometimes importing goods that they can and do produce locally in order to meet export commitments and maintain foreign exchange earnings. High transport costs therefore expose food imports to price fluctuations and variability. The price of fuel can also inflate other costs. All but one country in the Pacific, Papua New Guinea, import more than 90 per cent of their fossil fuel requirements (Chhibber, 2009).

The price of rice in Kiribati, for example, doubled between December 2007 and June 2009 (Government of Kiribati and UNDP Pacific Centre, 2009). Inflation rates across the Pacific region have been visibly affected. Inflation ranged from 3.6 per cent in Vanuatu to a high of 9.0 per cent in the Solomon Islands (ESCAP, 2009: 112). The implied impact on the capacity of poor

and non-poor households to meet their food needs is significant, since prices have mostly affected staples. In Dominica, 54 per cent of the spending of the poorest is on food, compared to 24 per cent for the richest; in Antigua, the poorest devote 40.6 per cent of their spending to food, compared to 18.3 per cent for the richest (Dominica CPA Report, 2003; Antigua and Barbuda, CPA Report, 2007). This further implies a high susceptibility to “food poverty”—that is, an inability to meet basic food-consumption requirements. In Fiji, it has also been noted that “88 per cent of the increase in urban poverty depth from rising food prices is from **poor households becoming poorer** and only 12 per cent from households falling into poverty” (UNICEF and UNDP, 2009: 11). Given the already relatively high expenditure on food by the poor, this is likely to have significant impacts beyond diet and nutrition, and cover children’s development, access to education and access to healthcare.

As fluctuations happen fast, corrective measures fall behind shifts and often the gap between benefits and real prices widens considerably. To appreciate further the impact of the cost of living increases, a cost of living review in Montserrat in 2008 has highlighted starkly the nature and width of the gap: “social welfare beneficiaries are falling further and further into poverty as the cost of living increases, while benefits do not change. Shopping basket and utility costs both increased in 2008, but food price increases were the most dramatic, with the typical basket increasing by over 7 per cent and the nutritional basket by almost 165 per cent” (Felicien, 2009b).

The policy options available to SIDS to help households cope with these distortions are limited in the short term. Fiscal realities make it difficult for governments to subsidise consumption; supply responses are not feasible given the high share of imports in the supply of essential commodities. Moreover, this pressure does not stem simply from rising costs, but also from the multiple demands on income in poor households, which usually include numbers of children and elderly, and which sometimes survive mainly on one source of income. The 2006 HIES in Kiribati shows that 18 per cent of all children lived in a female-headed household and that a third of these children were living in poor households. Some 10.7 per cent of all children were reported as living in households whose head was 60 years of age or more.

Where information is available, the gap between benefits and the cost of living during the crisis highlights significant challenges for the poor in particular. Current social assistance programmes have been unable to match the rising cost of living in most countries. In Montserrat, where comparative data were available over a period of years and a cost of living/hardship review was conducted in 2007/8, the gap between benefits and needs was estimated at between US\$ 320 and US\$ 510 per single-person household. The 2008 Cost of Living Report indicated that a single-person household required a minimum of between US\$ 937 and US\$ 1,212 a month to survive, with a shortfall of between US\$ 337 (36 per cent) and US\$ 612 (50 per cent) a month (Felicien, 2009b).

## HEALTH

Poor diet and inadequate nutrition emerged as potential impacts of the global economic crisis from the analysis of the Samoa 2006 HIES (Government of Samoa and UNDP Pacific Centre, 2009). Poor diet and nutrition could lead to declining education outcomes, particularly among young children, as well as health problems in households. The limited fiscal space available to

governments hampers their ability to (further, in some cases) subsidise healthcare and food support. This has a significant effect on the food-poor, a substantial share of whom are elderly, persons living with HIV and/or AIDS, and people with disabilities. Nutrition is critical to the management of HIV and AIDS. Equally, for adults and the elderly, consistent sources of nutrition are critical to avoiding lifestyle diseases such as diabetes and hypertension, or to managing them effectively.<sup>7</sup>

In Dominica, before the crisis, 23 per cent of poor households included a person with disabilities, 10 per cent had someone with a long-term illness, and 27 per cent had persons who were diabetic or hypertensive (Government of Dominica and Caribbean Development Bank, 2003: 87). As a result of the crisis, therefore, increased demand on income from higher prices and higher costs or the unavailability of medicine would be felt particularly in poor households.

Though data are not available for household access to insurance in SIDS generally, 2008 figures from the World Health Organisation (WHO) provide a proxy for dependence on the public provision of healthcare in the Caribbean and the Pacific. The lack of insurance, particularly health insurance, potentially exposes the poor and vulnerable in St. Kitts and Nevis: it is estimated that about 70 per cent of the population had no access to health insurance (Felicien, 2009a). The minimum investment in healthcare across SIDS stands at 10 per cent of GDP, and on average the government bears 60 per cent of the costs (public spending on health as a percentage of total spending on health (see Table 4 and Figure 1).

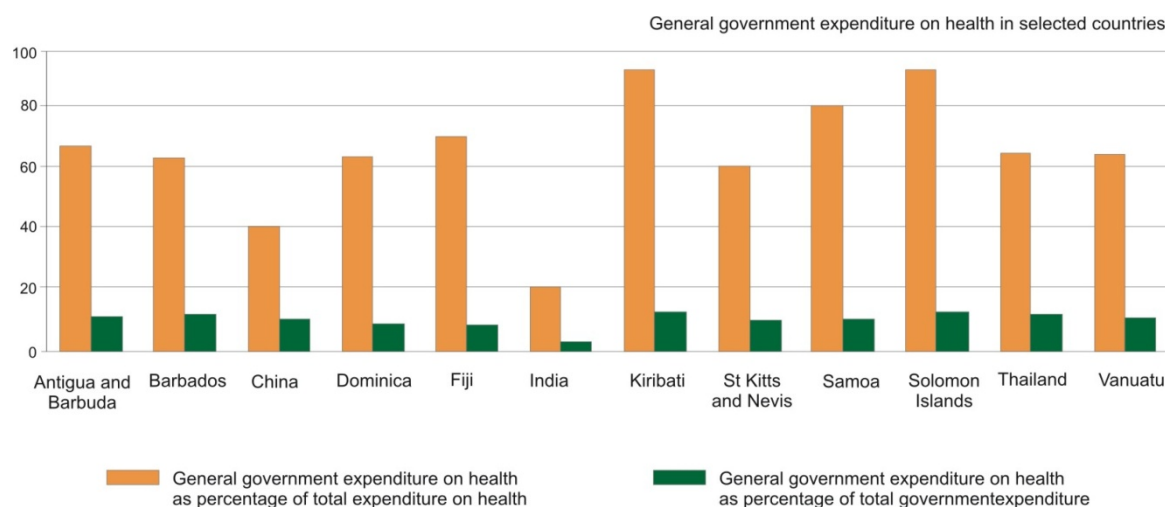
TABLE 4

**Expenditure on Health in Selected SIDS**

Country	Expenditure in health as % of total government expenditure	General government expenditure on health as % of total expenditure on health	Source
Antigua and Barbuda	11.3 (2006)	67.4	WHO 2008 Stats Database
Barbados	11.9(2006)	63.5(2005)	WHO 2008 Stats Database
Dominica	9.2 (2006)	64.5(2005)	WHO 2008 Stats Database
St Kitts and Nevis	9.5 (2006)	63.1% (2005)	WHO 2008 Stats Database
Fiji	9.1(2006)	70.9 (2006)	WHO 2008 Stats Database
Kiribati	13.0 (2006)	92.4 (2006)	WHO 2008 Stats Database
Samoa	10.5	81 (2006)	WHO 2008 Stats Database
Solomon Islands	12.6	93 (2006)	WHO 2008 Stats Database
Vanuatu	10.9	64.7	WHO 2008 Stats Database

Source: WHO Stats database and ADB. WHO (<http://apps.who.int/data/search.jsp>).

FIGURE 1

**Comparison of Public Health Expenditure in SIDS and Three Emerging Economies**

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Comparing these investments to those of developing Asian economies (China, India and Thailand), the expenditure by SIDS is significantly higher except for Thailand. This highlights the extent to which the state largely facilitates access to healthcare broadly across society in SIDS.

**EMPLOYMENT**

Income losses brought about by the crisis have stemmed mainly from loss of employment and reduced working hours. SIDS remain challenged in identifying sustainable sources of income and livelihoods for their citizens. Youth unemployment and underemployment are particularly acute in the Caribbean and the Pacific. Poverty data for the Caribbean reveal significant levels of working poor who are unable to make ends meet (UWI, 2006). The narrow boundaries of the SIDS' economies limit job opportunities for school-leavers in the formal market.

According to the International Labour Organisation (2009), the regional unemployment rate in South-East Asia and the Pacific is estimated to have risen to 5.6 per cent in 2009. Between 2008 and 2009, employment fell by 1.2 per cent in Latin America and the Caribbean, and employment growth in 2009 was only 0.2 per cent (ILO, 2010). As formal-wage employment remains low in many Pacific SIDS, including Vanuatu, where the formal-wage sector accounted for only 18 per cent of the working-age (15–64 years) population (Duncan and Nakagawa, 2006: 39), forms of sustainable income and protective mechanisms are imperative, especially in times of crisis.

BOX 1

**Gender Dimensions in Employment**

Another facet of the transmission of the crisis through employment is the segregation of the labour market in SIDS. Evidence suggests that employment in the Pacific is to some extent divided along gender lines, which can have impacts disproportionately affecting either men or women depending on the sector most affected. Pre-crisis data on employment in the Pacific, noting a substantial gender gap in labour force participation in South-East Asia and the Pacific, suggest significant impacts on households with only one employed adult or on those headed by women. Data from the ILO (2009) indicates that 82 per cent of men of working age (15 years and older) active in the labour market versus approximately 57 per cent of women (page 34); with the implication that a number of households may have only one consistent income-earner.

Additionally, the domination of men in the private sector compared to women in the public sector exposed men specifically to income losses from the crisis as it impacts on the tourism and construction sectors in particular. At the same time, female headed households are often dependent on insecure jobs or employment in the informal sector.

Informal-sector employment, which seems to dominate the labour market dynamics of SIDS, is characterised by a number of features that expose households to significant vulnerability: seasonality, high mobility and turnover, and the lack of structural protective mechanisms. This results in stochastic uncertainty governed by micro factors that are far beyond the control of individuals themselves, and even governments. Households dependent on income from the informal sector experience a greater level of uncertainty than those involved in regular wage labour, exogenously inelastic.

Additionally, while households compensate for the loss or decline of income by growing their own foods or other measures, own-consumption (as this is termed) probably provides limited cover for households while also potentially exposing them to further income deficits as a result of the increase in the costs of agricultural inputs. Households are making clear choices about which bills/expenditures should be prioritised, as emerged from focus groups in the Caribbean (Junge, 2009b).

**REMITTANCES**

In both the Pacific and the Caribbean, remittances have traditionally been very important in the coping strategies and economic viability of households. Data suggest modest-to-high contributions to GDP across Pacific island countries: in Samoa, remittances account for more than 20 per cent of GDP (ESCAP, 2009: 118). In Kiribati, remittances contributed about 10 per cent of all household income, with only a slighter lower contribution to rural households (Government of Kiribati, 2006: 14). It is estimated that remittances from seafarers alone contributed 14 per cent of GDP during the last decade in Kiribati (Browne and Mineshima, 2007: 3), and in Fiji they accounted for an estimated 7 per cent of GDP in 2005.

The *Caribbean Economic Overview 2002* placed the level of remittances, measured as a proportion of GDP, at 5–6 per cent, higher than any other region in the developing world (CGCED, 2002a). A review of the decline in remittances by the UNDP Regional Bureau for Latin America and the Caribbean in 2009 estimated that remittances

contributed as much as 8 per cent of GDP in Dominica (RBLAC, 2009: 5). Curiously, in Dominica, remittances were a source of support to 38 per cent of the poor and 35 per cent of the non-poor (Junge, 2009a, based on 2003 Country Poverty Assessment results). This requires us to adapt our understanding of the non-poor.

Remittances, therefore, make a significant contribution to GDP and also to private income and expenditure at the household level. These contributions from overseas for family and relatives have evolved in many ways as a private form of assistance, allowing many households, poor and non-poor, to weather crises and meet their basic needs. The contribution to households in Kiribati, which experience an income deficit annually, would be significant. The sharp impact of the global crisis on jobs in the United Kingdom, the United States and Canada have had immediate impacts in the Caribbean, particularly as regards remittances. Participants in focus group discussions have outlined the impact of this loss of income from relatives and family, especially on their capacity to weather the crisis.

The crisis is also likely to have an impact through declining migrant work opportunities, as well as rising unemployment levels and other knock-on effects in migrant-receiving countries. These economies have been highly affected by the crisis as well, experiencing high job losses and rising debt as housing bubbles have burst. This will directly affect the capacity for relatives overseas to send remittances at all, or to maintain similar levels of contributions. This also reduces the options available to those still living in Pacific island states, who may otherwise have seen migration as a short- or long-term solution to household income challenges. Some of the decline in remittances has been exacerbated by the weakening of the US dollar.

#### BOX 2

##### **Source of Remittances in the Pacific (reproduced from Connell and Brown, 2005)**

**Fiji:** Emigration as a result of ethnic tensions in the late 1980s and early 2000s by Indo-Fijians including doctors, nurses and computer specialists, to Australia, Canada and New Zealand resulted in a decline in the Indo-Fijian share in the population from about 50 per cent to 40 per cent. Approximately 80,000 persons migrated in total. Ethnic Fijians have also been longstanding participants in United Nations peacekeeping forces, contract workers in Afghanistan and Iraq, and professional rugby players in Australia, New Zealand and Europe.

**Kiribati:** Seafarers who have been certified as high quality by the International Maritime Organisation are employed on vessels operating worldwide. They normally obtain renewable one-year contracts following graduation from the Kiribati Maritime Training Institute, which was established with United Kingdom assistance in the 1970s.

**Samoa:** Large communities from Samoa have existed in New Zealand for many years and generally maintain very close links with their home countries, even after two or three generations. There are also sizeable numbers in Australia and the United States, primarily employed in construction, and agriculture. Numbers living abroad exceed the local population. Well-established links ensure a continued flow of migrants, even as substantial numbers regularly return home, especially in retirement.

The news, however, is not all negative; seasonal work schemes between Pacific island countries and Australia and New Zealand are expected to continue to provide opportunities for remittances and other private transfers. Additionally, as those economies recover, opportunities for new work are likely to arise. The issue of remittances also raises interesting

questions for SIDS in terms of education and labour market dynamics. Should SIDS proactively identify a portion of their labour force for migrant work as part of a defined labour-market policy? It seems that Pacific SIDS have done this to some extent, with quota programmes in Australia and New Zealand and the seafarers programme linked to the International Maritime Organisation (see Box 2). This may be a strategic approach that could also be considered in the Caribbean, where investments in education do not have to result in a loss for the country, given the lack of job opportunities, but could be part of a strategic response to other countries' need for skilled labour in key areas.

As the Caribbean continues to be a source of skilled labour in the form of nurses, teachers, and, in the past, police officers and bus drivers, for non-independent territories of Great Britain and for Great Britain, the United States and Canada, governments will have to reconsider investments in education. There is growing recognition that, without a strategic approach, investments in free education will continue to result in significant losses of public investment. There is little data to prove that remittances, as important as they have been, have provided equal compensatory benefits for such losses.

## TOURISM

Tourism is the leading export of many SIDS. As unemployment and economic uncertainty persist, impacts on tourism arrivals and receipts have been visible. The decline in the tourism (Table 5) and construction sectors has affected GDP, employment and incomes significantly. These challenges and impacts are consistent across both the Caribbean and the Pacific, highlighting the structural vulnerabilities of the tourism sector as a whole.

TABLE 5

### Annual Percentage Change in Tourist Arrivals in Selected SIDS (2007–2009)

Destination	2007	2008	2009 (YTD)*
Antigua & Barbuda	3.2	1.5	-12.9
Barbados	1.8	-0.9	-8.5
Dominica	-8.8	2.6	-3.5
Montserrat	-2.7	-5.0	-15.3
St. Kitts and Nevis	-7.4	-13.6	-
Fiji	-1.5	8.8	-24 (average for Jan-March)
Kiribati	42	-32.8	..
Solomon Islands	17	..	..
Vanuatu	9.1	16	..

Source: CTO, Government Statistics website (Vanuatu, the Solomon Islands, Kiribati and Fiji); UNDP Pacific Centre.

\* YTD = year to date.

In 2006, the tourism sector provided 1.9 million jobs overall in the Pacific region, representing 14.5 per cent of total employment. In the same year, it provided 31 per cent of total employment in Fiji and 42.4 per cent in Vanuatu (ESCAP, 2008: 174), and thus any decline in the sector would have severe impacts on employment and income in those countries. In the



Caribbean, the sharpest declines were in some of the smallest SIDS in the region, namely Anguilla, Montserrat, and Antigua and Barbuda. The construction sector is noteworthy because, unlike construction in other countries, it is driven to a large extent by demand from sources in the United Kingdom, the United States and Canada. The recent construction boom has favoured high-priced condominiums, townhouses targeted at the second-home market based largely in the United States and the United Kingdom (CDB, 2008). Many of these projects were put on hold by the middle of 2008 and for most of 2009 as the effects of the global crisis continued to unfold (IMF, 2009a). The closure of the Four Seasons Hotel for most of 2009 in Nevis (see Box 3) resulted in a 30 per cent drop in income for the Nevis government and caused significant expenditure squeezes.

BOX 3

**The Experience of Nevis in the English-speaking Caribbean**

The closure of the Four Seasons Hotel, Nevis's largest and most significant hotel, for most of 2009 has had significant effect on both employment (10 per cent of the labour force has been impacted) as well as revenue-generation for the government. The closure has resulted in a decline of 30 per cent of income for the Nevis government and resulted in significant expenditure squeezes. Out of a labour force of 6,290, with unemployment rate already at a rate of 8.2 (Felicien 2009b), a further 700 employees have been out of work for a year. This experience highlights the dangers of dependency on one or two sources for income and employment.

The IMF's *World Economic Outlook 2009* noted the following impacts for tourism in the Pacific: a 5.5 per cent decline in tourist arrivals in 2009 for all Pacific island countries; and actual year-to-year arrivals from Australia and New Zealand had fallen by 13 per cent by March 2009.

A rebound in the tourism industry is expected to be slower in the Caribbean than in the Pacific. While Asia emerges from the economic crisis with a solid enough recovery, the economies of the United States and Europe—the main sources of tourists in the Caribbean—remain much weaker.

#### DIFFERENTIATED IMPACTS WITHIN COUNTRIES

When considering multi-island nation states such as Fiji, the Solomon Islands and Vanuatu (as well as Antigua and Barbuda, and St. Kitts and Nevis in the English-speaking Caribbean), care must always be taken to avoid assumptions that impacts in the main island reflect those in the outer islands. For example, contractions and concentrations of services in Antigua have caused Barbudans to face higher costs of access to goods and services, including food prices. Nevis's exposure to the crisis seems sharper than that of St. Kitts,<sup>8</sup> given the closure of the Four Seasons for almost a year during the crisis period (Felicien, 2009b). In the Solomon Islands and other countries of the Pacific there have been varied experiences of hardship; levels of inequality have been higher in urban households than in rural ones, and the costs of food have usually been higher in urban centres than in the countryside. In Vanuatu, the poverty gap index for Port Vila, at 10.6, was higher than for the rest of the country, suggesting a marked difference between the better off and the poor in the national capital (ADB, 2009). In Kiribati, the decline in cruise vessel visits to the Line Islands is severe affecting the livelihoods of the people on the isolated island of Tabueran (Government of Kiribati and UNDP Pacific Centre, 2009).

Equally, while analysis normally looks at remittances from outside the country, the effect of urban-rural and inter-island remittances is not insignificant. In Tanna, Vanuatu, remittances from urban migrants are the single biggest source of income in several villages (Connell and Brown, 2005, from Winthorpe 2004).

The unique position of non-independent states is also critical to the context. Even with the commitment of support from the home state, which normally might make non-independent SIDS less vulnerable, SIDS like Montserrat face the possible transmission of crisis impacts through that very connection. The effect of the crisis on the British banking sector potentially imperils Montserrat's capacity to recover and the government's ability to address other crises that may not emerge immediately. About 80 per cent of the recurrent budget and 100 per cent of the capital expenditure is funded by development aid from Britain, through the Department for International Development (DFID) and, to a lesser extent, from the European Union (EU) (Felicien, 2009b). The weakening of the British pound had immediate consequences for the 2009 budget of Montserrat's government; any further weakening of the British economy would significantly affect the budget and programming of the government of Montserrat.

## GENDER

Gender has consistently been a source of inequality in SIDS. Women are underrepresented in the formal sector and labour market segmentation still results in jobs that are "traditionally female" (ESCAP 2008b). This also limits employment possibilities for men, particularly young men, as well as those for women. Labour market dynamics are such that, usually in a post-recovery phase, men benefit significantly because of the boom in construction, which is traditionally male-dominated in SIDS.

In the Solomon Islands, female-headed households seem to be somewhat disadvantaged overall: they have slightly higher representation in the three lowest expenditure deciles and higher representation in poor rural households (Government of Solomon Islands and UNDP Pacific Centre, 2008: 4). Combined with the fact that less than a third of the employed are women (ESCAP 2008b: 4) and that female-headed households account for 6.5 per cent of all households, of which 7.3 per cent fall below the BNPL, female-headed households are clearly challenged to cope in the current crisis.

In the English-speaking Caribbean, labour force participation is also unequal for men and women. In some cases, female-headed households dominate the lowest quintiles and female unemployment outstrips that of men. In St. Kitts and Nevis, the labour force participation rate for women was 71.6 per cent, compared to 87.2 per cent for men (St. Kitts and Nevis CPA, 2008: 25). In Barbados, female unemployment was slightly higher than male unemployment in 2008 and 2009: 9.4 per cent against 7.8 per cent in 2008, and 10.1 per cent against 9.9 per cent in early 2009 (Joseph-Brown, 2009b: 30). Interestingly in St. Kitts and Nevis, women's unemployment exceeds that of men mostly in the higher quintiles (quintiles 3–5) and not in the poorest. Conversely, unemployment seemed to affect young men particularly (St Kitts and Nevis CPA, 2008: 27).

In Kiribati, gender dynamics play out differently. Out-migration of working-age males from some islands has led to an increase in dependency rates, such that there are insufficient numbers of young men to undertake much of the traditional work associated with subsistence

livelihoods (Government of Kiribati and UNDP Pacific Centre, 2009: 27). This facet of employment and gender inequity is not unique to Pacific island countries.

The diversity of the experience and the fundamental vulnerabilities facing various groups in the SIDS also suggest that “one-size-fits-all” approaches will not be useful in addressing social, economic and environmental vulnerability.

#### 4 IMPLICATIONS OF THE CRISIS FOR SOCIAL VULNERABILITY IN SIDS

Social vulnerability reflects the degree to which societies or socioeconomic groups of people are affected negatively by internal and external stresses and hazards that have adverse effects on a country’s social cohesion. While the social vulnerabilities caused by these stresses and hazards are no more endemic to SIDS than to other developing countries, the natural recurrence rate in SIDS is higher (IPC, 2007). Given SIDS’ limited capacity to respond adequately, the social impact of such stresses could be permanent, rather than transitory as in many other cases.

Social vulnerability can be analyzed by identifying the transmission mechanisms of macro-level exogenous shocks on households. Table 6 provides an example of such impacts, all of which increase social vulnerability.

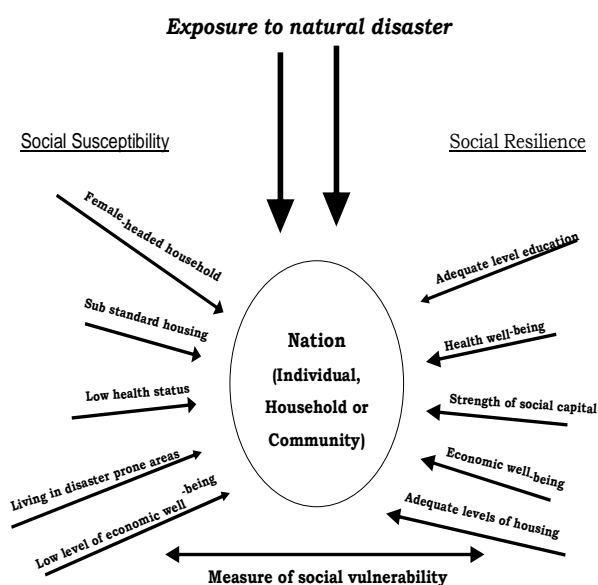
TABLE 6

**Transmission Channels of Economic Crisis and Impacts at the Macro and Micro Levels**

	Transmission channel	Macro-level impacts	Micro (household)-level impacts
1.	Income	<ul style="list-style-type: none"> <li>Decline in exports limit government revenue</li> <li>Loss of employment and income limit government revenue from income tax and customs duties</li> <li>Limit government capacity to implement programmes and pressures social provisioning</li> </ul>	<ul style="list-style-type: none"> <li>Lower incomes leading to reduced consumption and switching behaviour</li> <li>Inability to pay bills and increasing private debt</li> <li>Limited capacity to meet basic needs for food and non-food items</li> </ul>
2.	Employment	<ul style="list-style-type: none"> <li>Loss of employment and income limit government revenue from income tax and customs duties</li> <li>Greater pressure on government for social assistance for unemployed</li> <li>Government capacity to focus on efficiency in public sector hampered by need for jobs</li> </ul>	<ul style="list-style-type: none"> <li>Loss of jobs leading to lower income and spill-on effects</li> <li>New entrants to labour market exceed availability of jobs – youth unemployment and unemployment skyrockets;</li> <li>Increased activity by households in the informal and illegal economy;</li> </ul>
3.	Consumption	<ul style="list-style-type: none"> <li>Slowing domestic economy affects lending, and access to credit;</li> <li>Affects revenue of small and large businesses</li> <li>Reduced consumption leading to reduced private sector activity</li> </ul>	<ul style="list-style-type: none"> <li>Declining food consumption leading to malnourishment and increased morbidity – health impacts</li> <li>Increasing dependence on subsistence and own-production</li> </ul>
6.	Health	<ul style="list-style-type: none"> <li>Health budget squeeze</li> <li>Increase in non-communicable diseases (NCDs) due to diet changes</li> <li>PLHIV and PWD need more public assistance as private assistance dries up or slows</li> </ul>	<ul style="list-style-type: none"> <li>Reduced access to health care due to limited government support or subsidies</li> <li>Rising cost of some medicines</li> <li>Sexually risky behaviour expands as coping strategy</li> </ul>
8.	Revenue and fiscal space	<ul style="list-style-type: none"> <li>Redistribution of funds away from social transfers and publicly funded programs,</li> <li>Weakening of social protection mechanisms</li> </ul>	<ul style="list-style-type: none"> <li>Poor and vulnerable depend more on private sources of assistance</li> <li>Increasing underemployment just to make ends meet</li> </ul>

9.	Remittances	<ul style="list-style-type: none"> <li>• Reduction in contribution to GDP</li> <li>• Increasing number of households needing assistance</li> </ul>	<ul style="list-style-type: none"> <li>• Direct impact of household income and expenditure</li> <li>• Implications for education and health costs particularly for children</li> </ul>
10.	Tourism	<ul style="list-style-type: none"> <li>• Declining tourism arrivals and tourism receipts</li> <li>• Hotels close or narrow operations and reduced private sector activity</li> <li>• High job losses or reduced hours</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of income for main breadwinner (s)</li> <li>• Small business including handicraft immediately impacted</li> <li>• Search for alternative sources of livelihood</li> </ul>
11.	Exports and imports	<ul style="list-style-type: none"> <li>• Reduced exports leading to reduced private sector activity</li> <li>• balance of payments crises and fiscal deficits</li> <li>• Higher demand for government-led solutions</li> </ul>	<ul style="list-style-type: none"> <li>• Consumer prices and affordability of items</li> <li>• Access to inputs for small businesses or own-production</li> <li>• Jobs</li> </ul>
12.	Increased consumer prices	<ul style="list-style-type: none"> <li>• Government subsidies?</li> <li>• Reduced private sector activity</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced household consumption</li> </ul>
13.	Debt	<ul style="list-style-type: none"> <li>• Competition for scarce resources among national interests</li> <li>• Inability to repay loans and meet repayment commitments from commercial and other loans</li> </ul>	<ul style="list-style-type: none"> <li>• Private debt increases</li> <li>• Inability to make repayment commitments</li> </ul>

From a review of the preceding section, it is clear that many of these transmission mechanisms have been at work in SIDS in both regions, in many cases at the same time, and leading to a sharp rise in social vulnerability. The income impact, for example, is not just the direct loss of income but the impact of limited government revenue to limit or compensate for income losses, high youth employment, job losses and reduced working hours, declining remittances and the negative effect of price volatility on poor and vulnerable households. In the Pacific, the traditional extended family social structure can mean that even the households of those in relatively well paid public or private-sector jobs can still fall below the basic-needs poverty line. In the Caribbean this has changed, but overall in small states one is more likely to find informal and personalistic networks operating as substitutes for more formal assistance (Bertram, 2009), including the “*sou-sou*”—an informal savings programme among groups of people practiced particularly in Dominica and St. Lucia, as well as other islands in the Caribbean.



Source: Kambon, 2005 – Presentation on Social Vulnerability and PRSPs.

In the Pacific, the numbers living in the households of those in formal employment are often swollen by visiting relatives who will expect to be looked after by their better-off kinfolk. The scope and duration is also such that traditional coping mechanisms (informal-sector income, remittances from relatives abroad, growing your own food and selling the surplus on the local market) are likely to have only a limited impact.

For SIDS, moreover, the escalating pressures from natural disasters on a constrained fiscal environment are highly significant. Appendix 2 in this paper seeks to capture some of the disasters affecting SIDS in the Pacific and the Caribbean over the last 20 years or so; the number of frequency of events highlights the constant challenges faced by SIDS. In some countries, more than 40 per cent of the population has been affected during a typical disaster year (Tonga and Samoa, for example). As in the Caribbean, impacts are not felt through the number of deaths but through the loss of social and economic investment (UNDP Pacific Regional Centre, 2008). Usually, the impacts of natural disasters are even more significant because of damage to drivers of the economy, such as tourism.

On the surface, like most middle-income countries, SIDS invest significantly in the public provision of health and education, and have made much progress. These investments have resulted in relatively high literacy levels (above 90 per cent for most SIDS) and long life expectancy (UNDP, 2009a). Barbados's development has been anchored in education and health. Prasad and Kausimae (2009: 29) note in the case of the Solomon Islands that "in terms of social policies the Solomon Islands, like many other small developing states, concentrated on education and health as major priorities, with some attention on the housing sector". To some extent, through these investments governments have attempted to guarantee "access for all". The capacity of SIDS to sustain these levels in the long term, however, is in doubt (see Table 7). Investments in education, as seen below, exceed 10 per cent of all government expenditure and generally stand at 6 per cent of GDP.

TABLE 7

**Percentage (%) Expenditure in Education in Selected SIDS**

Country	Public expenditure in education as % of GDP	Public expenditure in education as % of all government expenditure	Source
Antigua and Barbuda	3.87 (2002)	..	UNData*
Barbados	6.7 (2008)	15.7 (2008)	UNESCO
Dominica	4.8 (2008)	11.3 (2008)	UNESCO
Montserrat	..	..	
St Kitts and Nevis	9.66 (2005)	12.7% (2003)	UNData
Fiji	6.24 (2007)	20% (2004)	ESCAP Statistical Yearbook for Asia and Pacific**
Kiribati	12.9 (2008)	..	ESCAP Statistical Yearbook for Asia and Pacific
Samoa	7.5, (2008)	14% (2002)	ADB, 2009
Solomon Islands	5.4% (2004)	25.97.% (2005)	ESCAP Statistical Yearbook for Asia and Pacific; Prasad and Kausimae, 2009
Vanuatu	6.1 (2008)	28.1(2008)	Vanuatu Economic Report, pp.31 and UNESCO

Source: \* [http://data.un.org/Data.aspx?d=UNESCO&f=series%3AXGDP\\_FSGOV](http://data.un.org/Data.aspx?d=UNESCO&f=series%3AXGDP_FSGOV)

\*\* <http://www.unescap.org/stat/data/syb2008/index.asp>

<http://stats.uis.unesco.org/unesco/TableViewer/tableView.aspx>

As a result, human development in SIDS has been steady and measured as high. In both regions, most countries fall within the range of medium-to-high human development. Barbados alone falls into the category of very high development; it is the only one of the SIDS to have achieved this level and to have maintained it for the last 5–10 years. Rankings on the human development index (HDI) for Pacific countries have been generally robust, as countries have maintained steady progress and have often improved their HDI. Between 1998 and 2005, Vanuatu progressed from 140 out of 174 countries to 120 out of 177 (ADB, 2009: 3). The Caribbean, on average, ranks higher than the Pacific on the HDI: Barbados is at 37 and St. Kitts and Nevis at 50, compared to Samoa at 94 and Fiji at 108 (UNDP, 2009).

The track record on poverty and inequality, however, has not been as positive (Table 7). Even when economic growth was robust, it failed to reduce the proportion of the poor, including the food- and asset-poor (UNDP Pacific Centre, 2008: 84). The 2006 HIES for Samoa notes that: “Despite the six years of relatively good economic growth that was achieved in the period between the household surveys of 2002 and 2008, the level of hardship and poverty being experienced by the least well-off in Samoa society has not improved. The increase in the level of inequality as measured by the Gini coefficient, and the accompanying increase in the depth of poverty as measured by the poverty gap index, suggest that the economic growth did not really benefit the most disadvantaged” (Government of Samoa and UNDP Pacific Centre, Draft Poverty Report 2009: 13). The picture is similar in the Caribbean, where decent growth has been counter-balanced by poverty rates ranging from 13 per cent in Antigua and Barbuda and Barbados, to the mid 20s in Saint Lucia, and to almost the 40s in Dominica (Table 8).

TABLE 8

**Socioeconomic Indicators for Selected SIDS**

Country	Population	HDI Rank	GDP per capita*	Poverty rate (head count index) (%)	Gini-coefficient
Antigua and Barbuda	85,362	47	17,966	18.3	0.49
Barbados	274,000	37	18,691	13.9 9(1997 CPA, new CPA underway)	..
Dominica	71,898	73	7,893	39.0	0.35
St. Kitts and Nevis	45,000	62	14,481	21.8	0.45
Montserrat	5,000	..	3,400	..	..
Samoa	187,000	94	4,467	20.2 %	0.47 (2008)
Solomon Islands	506,992	135	1,725	32.2(2006)	0.36
Kiribati	92,533	..	1,295	21.8%	0.39 (2006 HIES Survey)
Fiji	837,271 (2007)	108	4,304	34.4. (2002/3)	..
Vanuatu	124,737 (2009 Census Report)	126	3,666	27.2 ( 2006)	0.41

Source: Adapted by the authors from various sources, including the Human Development Report 2009 and several CPA reports.

\* PPP US\$ 2007. Sources: HDR 2009, Synthesis report for Economic crisis PSIA/CPA Reports, PSIA Reports for Samoa and Kiribati by Stats office and UNDP Pacific Centre (drafts September 2009); Statistical Office websites, Solomon Islands HIES 2005/6].

The SIDS' experience of poverty has differed significantly from that of other countries. Poverty has taken the form of disadvantage: relative in terms of income and the capacity to address basic needs, as opposed to absolute deprivation. This has often been shown by the struggle of poor and vulnerable households to meet their food needs, their dependence on government assistance for long periods, and their dependence on relatives overseas for remittances to supplement household incomes (Analytical Reports from Kiribati and Samoa HIES Reports, 2009; CPAs in the English-speaking Caribbean between 2001–2008). Poverty in SIDS has also become intertwined with "inequality". Usually, this has been evident in gaps in access and assets between men and women, between adults and children, and between different income groups in society.<sup>9</sup> Poverty and inequality have persisted despite significant investments in education and health, as well as in the face of vibrant tourism, small manufacturing and an active financial investment sector.

Where there is high social vulnerability, it is particularly important to monitor the impact of exogenous shocks on the non-poor. The non-poor include those likely to stimulate economic recovery, including the expansion of jobs and new sectors. It is clear, though not easy to prove, that the crisis has had implications for their livelihoods too. The non-poor have also experienced losses through the decline in business profitability or even the closure of firms, as well as the loss of investments. As a result of their previous income and investments, some of these "new poor" are unlikely to easily qualify for government assistance under the existing rules for social welfare provisioning. We have examined a number of Poverty and Social Impact Analyses (PSIAs) completed in 2009 for the Caribbean and similar analysis of HIES in the Pacific, and find little evidence of specific approaches to address the "new poor". In the case of the seven studies on the economic crisis in the Caribbean, Junge (2009b: 31) notes that "in general, there have been relatively few new social protection measures, and they have been minor in scope". Appendix 1 provides further details of the range of measures implemented in both regions, as data has been available.<sup>10</sup> What emerges is a picture of coping and survival in very uncertain times, a hedging of bets that nothing more will happen.

SIDS have therefore invested heavily in a human development strategy, specifically in two public goods: health and education. This has delivered some results. Poverty, however, continues to be significant and the poverty elasticity of growth does not appear to be high. Thus it is misleading simply to equate SIDS with other middle-income countries using per capita GDP and investments in health and education as metrics. With this background the impact of the crisis as seen through the prism of social vulnerability is all the more pronounced.

## 5 POLICY FOCUS

The SIDS' performance on poverty and vulnerability, therefore, is much poorer than would be expected for their HDI ranking. Hence more attention needs to be paid to the design of social policy than is presently the case. The approach must be robust, flexible and responsive, as well as resilient to shocks and the unpredictable. In this context the areas of focus are as follows.

### THE ROLE OF SOCIAL POLICY

1. **Define and measure vulnerability so that its reduction can be a concrete policy target.** In the Caribbean, some attempt has been made to quantify social vulnerability in the context of poverty and inequalities, in an effort to improve planning and decision-

making. It is estimated that, on average, 5 per cent of the population of Pacific island countries have per capita income/expenditure that is no more than 10 per cent above the poverty line. Thus, with a fall of about 10 per cent in the real income of these vulnerable households, poverty would increase by 5 percentage points. Poverty assessments in the English-speaking Caribbean, funded by the Caribbean Development Bank with the support of DFID and in collaboration with UNDP and other partners, have integrated concepts of vulnerability and wellbeing. Box 4 outlines the approach used in the Caribbean to estimate vulnerability and poverty. This methodology merits review by countries in the Pacific.

BOX 4

#### **Pushing the Envelope: Estimating Poverty and Vulnerability in the Caribbean**

In collaboration with the Department for International Development of the UK (DFID-UK), Inter-American Development Bank (IADB) and the UNDP as well as other development partners, the Caribbean Development Bank has facilitated the expansion of poverty monitoring to include the concept of vulnerability.

Known as Country Poverty Assessments (CPAs), the Bank has supported Caribbean governments, particularly those in the OECS, to update information on poverty and vulnerability over the last 10 years.

The *vulnerability line* is set at 125 per cent of the poverty line (that is 25 per cent above it). It measures the number of persons who are susceptible to falling below the poverty line, should an unanticipated event such as a natural disaster or some types of economic shocks were to eventuate. Vulnerability is calculated at an agreed standard of 125 per cent of the poverty line or 25 per cent above the poverty line. Most CPAs comprise: a Survey of Living Conditions (SLC) and a Household Budgetary Survey (HBS) as well as a Participatory Poverty Assessment (PPA), which allow the voices of the poor themselves to be heard. CPAs define the percentage of individuals and households in poverty and which are vulnerable and advance the process for putting *a face to vulnerability* in the context of the Caribbean.

*Extracted from the Antigua and Barbuda and St. Kitts and Nevis CPAs 2005/6 and 2007-8) on the CDB website – [www.caribank.org](http://www.caribank.org)*

2. **Move from welfarist frameworks to targeted actions to reduce social vulnerability.** We find Bertram's (2009) definition of the "welfare state" in the context of SIDS particularly useful in understanding the paradoxical nature of social policy in SIDS. Universal is not always inclusive. While these investments have been development interventions, they have also been a form of unconditional income transfer and social protection that are fiscally constraining and difficult to sustain. Employment in the private sector is unable to provide/guarantee the kind of "security" that comes with employment in the public sector, thereby diminishing the preference for private-sector jobs and, consequently, limiting the scope for entrepreneur-led economic diversification. This highlights the need to avoid the transformation of state-sponsored assistance and welfare into a form of "perverse subsidy". By that we mean that rather than "protecting" in the short term, these interventions stymie creativity and create dependency in poor and vulnerable households.<sup>11</sup>



Evidence from CPAs and HIES in the Caribbean and Pacific respectively underscore the fact that many poor and vulnerable households experience higher and more frequent unemployment than non-poor households. This will require the collection of qualitative and quantitative data, integrated policy approaches (including agriculture, social welfare, labour, insurance, gender, education and health) and the adjustment of existing social policy interventions to address uncertainty.

- 3. Improve the design of social policy frameworks.** The institutional management and implementation of social policy in the SIDS has tended to be treated as a “black box”; technically, the business is all but centred in one ministry, overwhelmed by programmes. In many cases, social development and social protection are tasked to one ministry burdened with many issues, lacking in technical staff and issue-experts, and under constant budget pressure (Thomas, 2001; James and Noel-Debique, 2005). This limits the capacity for inclusion and consultation. Often, there are various forms of legislation governing social development and social policy in SIDS. In Fiji, according to the 2008 Annual Report of the Ministry of Health, Women, Social Welfare and Poverty Alleviation, the work of the Ministry on Social Welfare and Women is governed by at least six pieces of legislation covering juveniles, adoptions, social justices, disabilities, probation and community work. Health is covered by 17 pieces of legislation. The work of the Ministry on Social Welfare and Women in Fiji alone covers 11 social policy issues. A review of social and poverty reduction programmes in Barbados (Lashley, 2006) noted similar and significant fragmentation and duplication.

In brief, the intention is not to create a European-style welfare state but rather to create an institutional mechanism that is nuanced in its targeting of scarce public resources to address poverty and inequality.

#### BOX 5

##### **Social Partnership in Barbados: An Avenue for Responsive Price Control**

A very important element in Barbados development landscape is the “Negotiated Prices and Income Protocol (Social Contract)”, was developed in 1991. One of the main objectives of this Protocol is to regulate wages and prices, as well as encourage job security through support to policies designed to maintain jobs and increase employment. This has encouraged a culture of consultation among the Government, employers and trade unions and a formal Tripartite Committee was established to resolve problems, avoid work stoppages, and contribute to investment goals and policies on taxation and revenue generation. The Social Contract is now in its Sixth Protocol. Sourced in summary from Joseph-Brown, 2009b.

- 4. Integrate risk reduction into development planning.** The experience of Grenada following Hurricane Ivan (2004) and Hurricane Emily (2005) is striking in this regard. As a result of Ivan alone, a Category Three storm, 212 per cent of GDP was lost and 90 per cent of housing stock damaged, including government offices. The Pacific region is no stranger to this type of event: it has been deemed the most disaster-affected region in the world. Natural disasters have affected more than 3.4 million people in the region since 1950.

Disasters can no longer remain beyond the scope of social planning, dealt with as somewhat separate to the people they affect. Many efforts that have focused on “managing risk or managing the event” have failed to address the underlying reasons for severity of impact. While a hurricane cannot be prevented, its impact can be mitigated by a number of factors—properly constructed housing and other settlements and buildings; houses built in stable and secure areas; proper drainage, including effective tree and plant cover (to absorb high volumes of water); timely and appropriate house maintenance, and observance of public announcements and removal to shelters in a timely fashion. The regularity of the events (sometimes several in a season or several in one month) and the continuing severity of the impact of natural disasters underscore the need for a transition from “crisis management or response” to “risk reduction and resilience-building”. There is little evidence that global instruments such as poverty reduction strategy papers (PRSPs) have really addressed risk reduction. We have been unable to identify a coherent risk reduction strategy embodied in a PRSP to date.

- 5. Address labour market issues and take advantage of opportunities such as “green jobs”.** A key question posed by the crisis and the multiplier effects of recent crises is: how can SIDS identify sustainable forms of income-generating activities? This is an economic issue as well as a social one—the structure of the labour market is determined by economic imperatives and therefore the solutions must be social and economic. In that light, structural reforms are required in the new framework to promote more inclusive labour markets, active labour market policies, and quality education and training programmes (ADB, 2009b: 11). Critically, investments in training should be responsive to market needs, trends and forecasts.

SIDS need to explore the scope for “green jobs”. As the “green economy” concept grows and expands, and is further integrated into the thinking on sustainable development, there is significant potential to improve productivity and reduce environmental impacts through access to microtechnologies for renewable energy, such as in the agricultural sector. There are also opportunities for jobs and small business development in ecotourism and natural resource management, ecofriendly products and services, and carbon-reducing operations throughout the tourism sector. These types of combined development initiatives could be helpful to SIDS, bringing benefits in a number of crucial areas, maximising resources and bringing more timely results. They would also serve to help countries diversify away from public sector-led growth, enable new businesses to develop, and ease some of the fiscal constraints.

- 6. Enhance development-partner coherence through joint and multi-country programming.** Acknowledging their small size and limited political power at the global level, SIDS in the Caribbean and the Pacific have formed regional economic and political networks and systems. This has already benefited the regions in their efforts to respond to security matters, management of the seas and their resources, energy issues and access to markets. This regionalised approach, which could lead to a new kind of “multi-country programming”, could also be a source of resilience. The establishment of multi-

country offices in the Pacific (Fiji) and the Caribbean (Barbados, Jamaica, Trinidad and Tobago), as well as of regional service centres, indicates a recognition by UNDP and many UN agencies of the benefits of this approach.

## THE ROLE OF ECONOMIC MANAGEMENT

If the crisis and its aftermath have widened the acceptability of any one proposition, it is that economic growth alone is not a panacea for poverty and inequality; economic growth has been a necessary but insufficient condition of social development. The crucial question is whether poverty is a consequence of the lack of opportunities to participate in the income- and wealth-generating process that is clearly in place in most SIDS (albeit with high vulnerability to exogenous shocks). If so, is this something that can be tackled through domestic policies, or would the structural changes required to address the issue involve a globally coordinated response?

- 1. Advocate global action to create a HIPC initiative for the SIDS.** Resources matter. In some cases the macroeconomic shocks experienced by SIDS have been intensified by a weak economic policy environment that has given rise to large and persistent fiscal deficits, and thus to high debt-to-GDP ratios, especially external debt-to-GDP ratios (Table 8). Account balances in the Pacific, as well as minimal and declining reserves, make for a tenuous fiscal environment. Debt-to-GDP ratios are particularly high in the Caribbean, posing a challenging to macroeconomic and fiscal management. Countries in the Pacific have avoided these levels so far, but should be mindful of the potential dangers. One of the smallest SIDS, St. Kitts and Nevis, has one of the world's highest ratios of debt to GDP: 187 per cent (IMF, 2009c).

TABLE 9

### Select Economic Data for SIDS

Country	Debt service ratio (% of revenue, 2007)	Debt to GDP (2007 for Caribbean SIDS, 2009 for some Pacific SIDS)
Antigua and Barbuda	24%	90%
Barbados	19%	79%
Dominica	85%	100%
Fiji	14.2 (2006 e/WB)	2.2 (% of exports and gas)
Kiribati	3.6% (2006)	..
Montserrat	..	..
Samoa	6% (2006)	39% (2006)
Solomon Islands	2% (2006)	25% (80% in 2006)
St. Kitts and Nevis	39%	187.2%
Vanuatu	1.7% (2006)	32% (2006)

Source: Prepared by the authors on the basis of data from multiple sources (IMF 2009; CIA World FactBook 2009; UNICEF 2009; ADB, 2008).

These adverse fiscal indicators do not stem solely from laxity in fiscal policy. To some extent they also arise from the expensive stabilisation policies that these countries had to apply when they faced dramatic cyclical downturns in their monocultural and remittance-dependent economies. In some cases, such as the sugar industry in St. Kitts, technological and productive barriers emerged, creating a vicious cycle of public debt as the government sought to spend on stabilising what was essentially an emerging structural problem. Thus the legacy effect of public debt limits current and future fiscal space. It is difficult to see how this can be addressed without a HIPC-like initiative for the SIDS that is designed to allow space in the post HIPC adjustment path for probable but temporally unpredictable exogenous shocks. In this context, the middle-income country designation for most SIDS, which has resulted in their graduation from access to concessional loans and funding, is a misnomer. It does not reflect the SIDS' critical vulnerabilities and often ignores significant inequalities. This is an important policy issue that has to be addressed. At present it is largely avoided.

- 2. Deeper regional coordination.** The Eastern Caribbean Currency Union (ECCU) and the support of the Eastern Caribbean Central Bank helped Eastern Caribbean states organise, cope and respond to the crisis, individually and as a group. The ECCU's eight-point stabilisation programme, agreed to by all members<sup>12</sup> has supported joint action in social protection and benefits from regional-level expertise. In the context of the macroeconomic measures proposed here, such an approach would add to the plausibility and feasibility of initiatives to address high public debt, and to create a fund to respond to exogenous shocks. Given their effectiveness in the Caribbean, current coordination measures could be expanded in the Pacific to include currency and economic arrangements. The role of regional institutions and organisations in facilitating timely responses and changes is already recognised in the Pacific region (Slade, 2009). This also allows for cyclical approaches to country support and the socialisation of risk.
- 3. Socialisation of risk or risk-sharing.** This already exists in the Caribbean, in the form of the CCRIF.<sup>13</sup> We propose that this concept should be broadened and integrated into the macro policy framework for SIDS at a global level. SIDS can do little to limit their exposure to the global environment, or fundamentally to reduce the risks arising from environmental change. As part of their resilience-building efforts, such initiatives would provide a countercyclical support mechanism.
- 4. A stability and social investment facility for the SIDS.** Dervis and Birdsall (2006) have elegantly outlined the design principles of such a fund for larger middle-income countries. Since the SIDS are largely in the same category, we believe that the case for exploring this instrument is tangible and persuasive. The virtuous macroeconomic benefits of such a fund to expand social protection in times of crisis should at least make the instrumental case for the use of this fund to address social, economic or sectoral vulnerability in the SIDS.

## BOX 6

**A Stability and Social Investment Facility for the SIDS**

Dervis and Birdsall (2006) proposed a “Stability and Social Investment Facility” (SSF) to be housed either at the IMF or the World Bank. As long-term facility to help high-debt emerging market countries cope with and ultimately overcome what will otherwise remain a chronic structural weakness. In our view, the creation of such an institution for the SIDS, possibly with support from regional development banks working in collaboration would also serve to overcome the chronic structural weaknesses that we have identified in the preceding sections. The SSF would be an instrument providing a steady and predictable source of funds for addressing structural change as well as a strong policy signal to help high-debt emerging-market economies reduce their debt burden without having to forgo vital pro-poor social expenditures and growth programs. The financial cost to the donor community would be the interest subsidy built into the SSF; were the subsidy 200 basis points, the cost in the first year would be US\$ 20 million for every US\$ 1 billion of lending.

5. **Explore new sources of finance.** Climate change threatens further to challenge the development dynamics in SIDS, with increasing natural events and other long-term changes. This is both a challenge and an opportunity. The second meeting of ministers of the four BASIC (Brazil, South Africa, India and China) group countries in New Delhi on 24 January 2010 called for the early disbursement of the pledged US\$ 10 billion in 2010, with a focus on the least developed countries, small island developing states and African countries (UNEP, 2010). This follows the consensus among participants at the Commonwealth heads of government meeting in December 2009, which called for the Copenhagen Launch Fund to be initiated in 2010 and to be built up to US\$ 10 billion a year by 2012, with 10 per cent of its resources being dedicated to small island states (Commonwealth Secretariat, 2009). SIDS must ensure these funds are available as soon as possible, and must take full advantage of them. They should be used to the maximum to address fundamental vulnerabilities. Hard choices are needed, including the institutionalisation of building codes, preventing building on and near fragile shorelines, and sanctions for environmental degradation.
  
6. **Avoid making government the employer of last resort.** An important source of potential vulnerability is the government’s role as the biggest employer and the large share of government services in GDP and income. In Kiribati the public sector dominates the domestic economy, providing almost 66 per cent of all paid employment and close to half the monetary GDP (Government of Kiribati and UNDP Pacific Centre, 2009). In Vanuatu, more than 50 per cent of the recurrent budget is spent on the public wage bill (ADB, 2009: 7); in 2003, government services as a source of labour was second only to wholesale and retail (Prasad and Kausimae, 2009). This has significant implications for the government’s flexibility (fiscally and through social assistance) to respond to crises.

As we move, it is to be hoped, into a post-recession period from 2011 onwards, we have proposed certain aggregate but necessary measures that the development community could consider—in partnership with the governments and peoples of the SIDS—to ensure things are better in the future. In so doing, we have made the case that in the case of the SIDS, social

protection should be at the heart of efforts to mitigate the impact of exogenous shocks. There are still structural issues that require action and that are key to improving resilience, as opposed to enhancing vulnerability, including:

- How can the pro-poor content of economic growth be enhanced, given the volatility in the income and revenue bases of SIDS at the country and household levels?
- What can be done to rapidly and sustainably diversify the economies of the SIDS?
- Small societies that are also micro-states are usually constructed socially on small, independent communities. They are usually self-contained in all social respects and inclusive, possessing their own organs of political representation and a self-conscious political identity. Within this reality lie many sources of social capacity and capital that can build social resilience (Bertram, 2009). This is an important advantage underlying the political economy of many SIDS, which in our view have catalyzed the positive and successful responses to the crisis that we have highlighted above. Thus, how can policy processes be improved by learning from the positive experiences in responding to the challenge of the crisis?

## 6 CONCLUDING REMARKS

With access to health services ranging from a little more than 80 per cent to 100 per cent, high levels of school enrolment, and literacy and life expectancy well above average, the SIDS have secured human development in the dimensions that are often missing in other countries (access to public and merit goods). Paradoxically, however, they have been unable to address some of the more fundamental ills of underdevelopment, namely poverty, vulnerability and inequality. Additionally, the fiscal and macroeconomic position of the SIDS continues to make them highly vulnerable in light of their high levels of public debt and the other macro and fiscal challenges mentioned earlier.

The crisis signals a general need for SIDS to focus on building *resilience*. This does not negate, but rather reinforces, the need for action by the global community. This is not just about more development assistance. It is likely that SIDS will always need some level of external assistance for problems far beyond their control and capacity, given their huge exposure to exogenous shocks. It is recognised world-wide that SIDS will require the long-term support of the global community. Like any development solution or approach, “resilience” cannot stand alone. We recommend it as an addition to the existing frameworks and as a strengthened underlying concept for change, rather than as the sole solution to enhanced policymaking and results in SIDS. This will make the difference, we believe, between surviving and thriving.

The case of the SIDS is illustrative for all nations. It makes explicit a global truth that is too often ignored by large, fast-growing developing nations, as well as by the international community, excited by the prospect of the rise of significant new emerging economies, technologies and opportunities afforded by globalisation. The impact of the crisis is not about income levels, trade, the world of finance, or the changing balance of economic power between nations. It is, first and foremost, about people and societies, about their vulnerability to and ability to recover from events in a wider world, where their voice and their ability to be taken into account at the high tables of decision-making is limited, if not negligible.

## APPENDIX 1

TABLE 10

### Response Measures Undertaken in Response to the Global Economic Crisis by Selected SIDS

Country	Response measures
Antigua and Barbuda	<ul style="list-style-type: none"> <li>▪ No special relief measures except to retain certain key social protection measures of               <ul style="list-style-type: none"> <li>• School Uniform Grant</li> <li>• School Meals Programme,</li> <li>• Home Improvement Grant,</li> <li>• Poverty Alleviation Grant,</li> <li>• GRACE Programme (for the elderly and eligible),</li> <li>• Job Training initiatives,</li> <li>• Senior Citizens Utility Subsidy Programme</li> <li>• Peoples Benefit Programme implemented by PDV Caribe and funded with resources made available through the Petro Caribe arrangement.</li> </ul> </li> <li>▪ Fiscal Consolidation measures to reduce expenditure and raise revenue</li> </ul>
Barbados	<ul style="list-style-type: none"> <li>▪ Removal of subsidy on fuel, allowing prices to pass through to the consumer.</li> <li>▪ Implementation of programme to allow employers to defer a portion of their NIS contributions for employees for one year, to be repaid at a low interest rate in exchange for their agreement to maintain the workforce levels.</li> <li>▪ Companies/contractors who owe taxes and contributions will still be eligible to tender for government contracts once an agreement for payment has been made. Persons in arrears are also allowed a 50 per cent reduction in outstanding taxes and contributions.</li> <li>▪ Companies/contractors who are owed by Government can recover up to 90 per cent of the monies owed to them by government through an arrangement with the Central Bank, which allows the Commercial Banks to provide these loans.</li> <li>▪ Providing support to the Tourism sector, through a Tourism Unemployment Relief Fund of 25 million Barbados dollars.</li> </ul>
Dominica	<ul style="list-style-type: none"> <li>▪ Increase in tax free allowance from US\$ 15,000 to US\$ 18,000 per annum</li> <li>▪ Reduction in tax rates by 2 per cent points on all tax brackets. Cost: US\$ 4.9 million (Jan - June)</li> <li>▪ Tax exemptions on pensioner's income</li> <li>▪ 10 per cent increase in allowances granted under social assistance programmes, covering: young people; clothing and transportation allowances for disadvantaged students; grants to institutions that care for disadvantaged persons.</li> <li>▪ 50 per cent increase in amounts paid as assistance raising monthly assistance from EC\$ 100 to EC\$ 150 (from July 2008)</li> <li>▪ public assistance raised to centenarians - EC\$ 500 (24 beneficiaries)</li> <li>▪ Initiative to improve targeting of subsidies</li> <li>▪ Red clinic' - weekly assistance to petitioners</li> </ul>
Montserrat	<ul style="list-style-type: none"> <li>▪ Cutbacks in government expenditure across the board, including expenditure on social protection and health budgets</li> <li>▪ Cutbacks in training and development budgets</li> <li>▪ Continuing construction projects as a way of keeping economy growing</li> <li>▪ No public sector layoffs or salary cuts</li> <li>▪ Support to the tourism sector – tourism challenge fund</li> <li>▪ Increased attention to the deepening and widening of the social safety net to take care of the poor and vulnerable</li> <li>▪ Government is pushing a return to agriculture as a means of providing food security</li> </ul>

St. Kitts and Nevis	<ul style="list-style-type: none"> <li>▪ With effect from January 2009, small hotels were exempted from duty and consumption tax on food and beverage. These concessions were later extended to the restaurant sector</li> <li>▪ Nevis established a Tourism Contingency Fund (which is funded by an additional 1 per cent charge on hotel accommodation tax)</li> <li>▪ Additional concessions made in respect of small hotels – such as duty free concessions for refurbishment.</li> <li>▪ All expenditures in Nevis have to be approved by the Ministry of Finance (an interim measure) to ensure expenditure control</li> <li>▪ All social programs that are supportive in nature have been maintained, but some developmental line items have been cut from individual Ministries and department.</li> <li>▪ The Social Development Ministry has started making strides towards improving targeting.</li> <li>▪ Introduction of the YES programme.</li> <li>▪ In Nevis, capital infrastructure projects introduced, funded by social security loan</li> </ul>
Fiji	<ul style="list-style-type: none"> <li>▪ Removal of customs duties and VAT on several basic food items</li> <li>▪ Increased the income tax threshold</li> <li>▪ Provided subsidies to bus operators.</li> <li>▪ Instituted a significant increase in Government spending on education now accounting for one sixth of total current spending, followed by spending on public order, safety and defence, and economic affairs.</li> <li>▪ Increased expenditure for improving public infrastructure</li> <li>▪ Reduction in the company tax (expected in 2009 to counteract downward pressures on growth from the financial crisis)</li> <li>▪ Incentives for investment including tax free holidays and tax free zones</li> <li>▪ Eased monetary conditions</li> <li>▪ Currency devaluation</li> <li>▪ Institution of a “free bus fare” programme for families with incomes less than F\$ 15,000 per annum but this is still being organised, it is scheduled to take effect in February 2010</li> </ul>
Samoa	<ul style="list-style-type: none"> <li>▪ Increased spending in education</li> <li>▪ Eased monetary conditions</li> <li>▪ Reduction in lending rate from 7.8 per cent to 5 per cent in early 2009</li> <li>▪ Government is instituting a “School Fee Grant Programme”, but again this is still in the final design stage and has not yet been fully implemented</li> </ul>
Solomon Islands	<ul style="list-style-type: none"> <li>▪ Improve tax administration and widen the tax base - the reference price of logs was revised to reflect international market prices and ad hoc tax exemptions were narrowed</li> <li>▪ Control inflation through the tightening of monetary policies</li> <li>▪ Solomon Islands announced a 35 per cent reduction in all non-essential non-staff costs as royalty revenues from the logging industry declined sharply in late 2008 and early 2009</li> </ul>
Vanuatu	<ul style="list-style-type: none"> <li>▪ Strengthen land registration and titling needs to be strengthened, operations of public-sector enterprises improved and infrastructural bottlenecks resolved to improve investment both local and foreign.</li> <li>▪ Focus on public/private sector partnerships</li> <li>▪ RBV reduced rediscount rate to 6 per cent</li> <li>▪ Substantial cuts to school fees for primary level</li> </ul>

For the Caribbean, reproduced from Junge, 2009/ summarised from Economic crisis PSIA Reports; For the Pacific, summarised from ESCAP 2009.



## APPENDIX 2

TABLE 11

### Recent Disasters in SIDS (1990-2009)

Country	Type of Disaster	Date of Occurrence	Impacts	Costs to GDP	Source
Antigua and Barbuda	Hurricane Luis	1995	70 per cent of houses were damaged or destroyed on Barbuda, and nearly half of the houses on Antigua were eradicated. Much of the islands experienced power outages and disrupted water systems. In all, 3 people were killed, with 165 injured and 1,700 people in shelter and leaving 3,200 homeless.	The government estimated a damage total of US\$ 350 million	Caribbean – Hurricane Luiz Sep (UN DHA Situation Reports 1 – 10)
	Hurricane Georges	1998	Strong winds caused severe property damage, mostly caused to roofs. 10-20 per cent of houses were greatly impacted, including three schools. High winds during the passage of the hurricane downed telephone and power lines, causing loss of communication and power across much of the island Between Barbuda and Antigua, Georges killed 2 people and left 3,800 homeless.	\$159.9 million	<a href="http://wapedia.mobi/en/Hurricane_Georges">http://wapedia.mobi/en/Hurricane Georges</a>
	Hurricane Jose	1999	Across the Island the storm left one person dead, 18 hospitalised and over 500 homeless. 815 houses suffered roof loss ranging from partially damage to completely destroy. The telephone and electricity service was also disrupted, with approximately 50 per cent of the telephones out of service and 90 per cent of the island without electricity.	-	Antigua and Barbuda: Hurricane Jose.
	Hurricane Fabian	2003	The hurricane produced storm surge damage in Antigua and Barbuda, where some boats were slightly damaged.	-	Oficina Nacional de Meteorología, Centro de Información Huracanes
	Hurricane Omar	2008	It was assessed that approximately 5,160 houses sustained flood damages. The intense rains caused damages to roads in several areas. Meanwhile the agriculture sector and coastal areas suffered severe damages, as crops were lost and fishermen traps were completely destroyed by the passing of the storm.	Damages in Barbuda were estimated at US\$ 18 million.	Hurricane Omar Antigua and Barbuda Tropical Cyclone Report
Barbados	Hurricane Klaus	1990	Flooding from the rainfall blocked a few roads and forced a few families to move to safer areas; lightning from the outskirts of the storm left a portion of the island without power.	-	Storm Klaus Bears Down on Caribbean, Hurricane Warnings Issued
For more events: <a href="http://74.125.47.132/search?q=cache:oud46s5r14J:www.islandvulnerability.org/BarbadosEventsBoruff.doc+Barbados+flood+2004&amp;cd=1&amp;hl=pt-BR&amp;ct=clnk&amp;gl=br&amp;client=firefox-a">http://74.125.47.132/search?q=cache:oud46s5r14J:www.islandvulnerability.org/BarbadosEventsBoruff.doc+Barbados+flood+2004&amp;cd=1&amp;hl=pt-BR&amp;ct=clnk&amp;gl=br&amp;client=firefox-a</a>	Hurricane Janet	1995	Janet passed just south of Barbados on September 22, the first hurricane to strike the island in 57 years; maximum winds on the south side of the island were estimated by locals at 110-120 mph. There were 38 deaths reported on Barbados.	-	1995 Monthly Weather Review
	Hurricane Joyce	2000	Barbados experienced the highest sustained winds Joyce brought to any land area. There, the winds were 35 mph (60 km/h), gusting to 45 mph (70 km/h). Neither Barbados, Trinidad and Tobago, nor Grenada reported serious effects from Joyce.	-	Tropical Cyclone Report Hurricane Joyce
	Hurricane Ivan	2004	-	\$5 million in total direct damage	<a href="http://wapedia.mobi/en/Hurricane_Ivan">http://wapedia.mobi/en/Hurricane Ivan</a>

	Flood	2004	Three days of heavy rainfall caused flooding and landslides in Northern Districts. Flash flooding in Northern districts. Flood waters reached as high as 4 feet in Sunset Crest , St. James; Persons rescued from vehicles.		
Dominica	Hurricane Klaus	1990	On Dominica, winds from the hurricane damaged power lines and downed trees in the northern portion of the island	-	Storm Klaus Bears Down on Caribbean, Hurricane Warnings Issued
	Hurricane Luis	1995	Dominica experienced between 60 per cent to 80 per cent damage to the banana crops. Luis claimed the life of a fisherman in the raging seas. While overall damages was fairly minor, Luis left 1.000 homeless and property damage was estimated at US\$ 47 million	-	Dominica – Hurricane Situation Report no. 3
	Hurricane Dean	2007	Dean killed three people and devastated banana and sugar crops a day earlier as it crossed small eastern Caribbean islands.	~\$162 million	Hurricane Dean Gains Caribbean Strength
Montserrat	Hurricane Hugo	1989	90 per cent of all structures were destroyed in the British overseas territory, including the island's hospital and virtually all the homes of its 12,000 residents. Tourism and agriculture were also severely hit.	US\$ 240 million in damages	Commonwealth Secretariat — Montserrat
	Soufriere Hills volcano	1995	n July 1995, Montserrat's Soufriere Hills volcano, dormant throughout recorded history, rumbled to life and began an eruption which eventually buried the island's capital, Plymouth, in more than 12 metres (39 ft) of mud, destroyed its airport and docking facilities, and rendered the southern half of the island uninhabitable. Following the destruction of Plymouth, more than half of the population left the island due to the economic disruption and lack of housing.	-	Montserrat Volcano Observatory
St Kitts and Nevis	Hurricane Luis	1995	Some infrastructure of Saint Kitts and Nevis were damaged, with troubles especially occurring to the poor water system. Luis caused minor to moderate house and crop damage amounting to US\$ 197 million	-	Wikipedia
	Hurricane Georges	1998	While passing over St. Kitts, downing power lines, telephone lines, and trees across the island. Lack of electricity resulted in damage to water facilities, as well. George's high winds caused extensive property damage, damaging 60-85 per cent of the houses on the island, and destroying 25 per cent of homes leaving 1/5 houses uninhabitable. Rainfall and debris killed several hundred livestock and seriously damaged coconut trees, amounting to US\$ 2.5 million (1998 USD) in agricultural damage.	According to a preliminary damage assessment conducted by the St. Kitts National Emergency Management Agency, total damage equals US\$ 445 million.	St. Kitts National Emergency Management Agency
Fiji	<i>Fijian Military Coup 1987</i>	1987 and 2000	In 1987, soldiers were responsible for two military coups, and in 2000, the Military organised a counter-coup to quash George Speight's civilian coup. Since 2000, the Military has had a sometimes tense relationship with the Qarase government, and has strongly opposed its plans to establish a Commission with the power to compensate victims and pardon perpetrators of the coup. Among other objections, the Military claims that its integrity and discipline would be undermined if soldiers who mutinied in the 2000 upheaval were to be pardoned.		

	<i>Tropical Cyclone Kina</i>	1992	There was widespread damage along the Coastal Area. In several points of the country, electrical power and the telephone system has been affected. Problems with water contamination were also related as well with floods.	The Government estimated a damage of 100 million dollars.	<a href="http://www.reliefweb.int/rwarchive/rwb.nsf/db900sid/ACOS-64DDYY?OpenDocument&amp;rc=5&amp;emid=ACOS-635P39">http://www.reliefweb.int/rwarchive/rwb.nsf/db900sid/ACOS-64DDYY?OpenDocument&amp;rc=5&amp;emid=ACOS-635P39</a>
	Niño Southern Oscillation (ENSO)	1997/98	Losses in sugar cane industry around FJ\$ 104 million while other agriculture losses including livestock death amounted to FJ\$ 15 million	-	<i>Climate Change and Food Security in Pacific Island Countries</i>
	Tropical Cyclone Paula	2001	Although it does not appear to have caused any widespread severe damage during its passage across Fiji, the cyclone worst affected the Yasawa and Mamanuca Group in the Northwest, Southwestern Viti Levu, Kadavu, parts of Lomaiviti and the Southern Lau Group.	-	<a href="http://www.cidi.org:8080/disaster/01a/ixl119.html">http://www.cidi.org:8080/disaster/01a/ixl119.html</a>
	<i>Tropical Depression 10F</i>	2004	The storm was given the number 22P by the Joint Typhoon Warning Center. It was responsible for causing severe flooding to Fiji and at least ten deaths	-	The South Pacific and southeast Indian Ocean tropical cyclone season 2003-04
	Cyclone Daman	2007	Cyclone Daman brought heavy rain which caused floods and landslides within Fiji's northern division. This led to several international and domestic flights being canceled on December 7.	The total cost to Fiji from Cyclone Daman was F\$ 500,000 (2007)	Seasonal Summary 2007-08
	Cyclone Gene	2008	FJ\$ 45 millions in damages to agriculture, infrastructure, utilities and property. It grinded Fiji to a halt leaving half the country without power and taps running dry for a large part of yesterday. It also left four people dead.	The government had to provide FJ \$1.7 million worth on food rations.	<i>Climate Change and Food Security in Pacific Island Countries</i>
Samoa	Cyclone Ofa	1990	Cyclone Ofa caused extensive damage and destruction in Western Samoa with considerable loss of life. The monetary value of the damage has been set in the millions of dollars.	-	Survey of Cyclone Ofa Damage to the Northern Coast of Upolu, Western Samoa
	<i>Tropical Cyclone Val</i>	1991	The cyclone raged for approximately four days and severely stripped 90 per cent of the island, causing 13 deaths and destroying about half of the island's coconut trees, resulting in a tremendous blow to the country's economy.	-	Wikipedia
	Pacific Islands Tsunami	September 2009	At least 143 people were killed in Samoa, 22 people in American Samoa and 7 people on Niuaotupapu, Tonga. 310 people have been reported as injured, five are missing and about 3,200 people (640 families) have been left homeless in Samoa (OCHA).	Reconstruction costs in Samoa are estimated at US\$ 150 million.	The South Pacific Island Earthquake and Tsunami

Solomon Islands	Ethnic Conflicts	1998	In late 1998 groups of militant youth on the main island of Guadalcanal embarked on a violent campaign of intimidation against settlers from other parts of the country and, in particular, those from the neighbouring island of Malaita. Over 20,000 people were displaced from their homes in rural Guadalcanal. In response an armed Malaitan group - the Malaitan Eagle Force - was formed in the national capital, Honiara, and fighting broke out between the militant groups. The conflict has been represented widely as the outcome of 'ethnic tensions' between the people of Guadalcanal and Malaita.	Armed conflict in Solomon Islands, which began in October 1998, has resulted in a rapidly deteriorating human rights situation, with civilians suffering abuses by all sides, including abductions, torture, rape and killings, forced displacement, looting and burning down of homes.	Introduction: Conflict and peacemaking in Solomon Islands <a href="http://rspas.anu.edu.au/papers/melanesia/conference_papers/2001/01_Solomons_Dinnen_Intro.pdf">http://rspas.anu.edu.au/papers/melanesia/conference_papers/2001/01_Solomons_Dinnen_Intro.pdf</a> Solomon Island: a forgotten conflict <a href="http://www.amnesty.org/en/library/info/ASA43/005/2000/en">http://www.amnesty.org/en/library/info/ASA43/005/2000/en</a>
	<i>Tropical Cyclone Beni</i>	2003			
Vanuatu	1998 Crisis	1998			
	Tropical Cyclone Paula	2001	the Government reports damage to 45-50 per cent of houses and gardens, 35 per cent of water supplies, 20 per cent of schools, 15 per cent of medical centres and 25 per cent of other infrastructure.	-	<a href="http://www.cidi.org:8080/disaster/01a/ixl119.html">http://www.cidi.org:8080/disaster/01a/ixl119.html</a>
	Cyclone Zoe	2002	Vanuatu was inundated with seawater with villagers collecting fish from their village greens.	-	Wikipedia
	<i>Tropical Cyclone Ivy</i>	2004	Tropical Cyclone Ivy has affected more than 54,000 people (or a quarter of the national population). Over 95 per cent of water storage facilities, water sources and systems in the affected islands were damaged.	-	Monthly Global Tropical Cyclone Summary February 2004

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<[http://www.wttc.org/eng/Tourism\\_Research/Tourism\\_Economic\\_Research/Regional\\_Reports/Oceania/](http://www.wttc.org/eng/Tourism_Research/Tourism_Economic_Research/Regional_Reports/Oceania/)> on February 3<sup>rd</sup>, 2010.

## NOTES

1. The focus countries for the paper are: i) for the Pacific: Fiji, Kiribati, Samoa, Solomon Islands and Vanuatu; ii) for the Caribbean: Antigua and Barbuda, Barbados, the Commonwealth of Dominica, Montserrat and St. Kitts and Nevis.
2. United Nations Assembly. (1994). *Barbados Programme of Action A/CONF.167/9, Annex II*. Accessed from <http://www.sidsnet.org/docshare/other/BPOA.pdf>.
3. The Small Island Developing States Networking (SIDSnet) is one of the effective means of building such partnerships at regional and global levels through the Internet and related information communication technologies (ICTs). SIDSnet was initiated in 1997 as a project of the Alliance of Small Island States (AOSIS), a coalition of 43 States drawn from Caribbean, Africa, Indian Ocean, Mediterranean, and Pacific. SIDSnet's main goal has been to utilise electronic networking to link SIDS to support the implementation of the sustainable development objectives of the Barbados Programme of Action (BPOA). The project was initially funded by Sustainable Development Networking Programme (SDNP), Technical Cooperation among Developing Countries (TCDC) agencies, and the Bureau for Development Policy (BDP) of the United Nations Development Programme in conjunction with the Alliance of Small Island States (AOSIS). SIDSnet is unfortunately no longer fully functional.
4. AOSIS is a coalition of 43 States drawn from Caribbean, Africa, Indian Ocean, Mediterranean, and Pacific island states which initiated SIDSNET and other mechanisms for engagement and joint action by SIDS.
5. Speech by the Prime Minister of Barbados, the Honourable David Thompson, at the Opening of the Special National Consultation on the Cost of Living. June 17th, 2008.
6. Vanuatu's resilience/resistance so far to the crisis suggests that sound fiscal policy, proactive measures, constant monitoring and the build-up of credible reserves can assist governments to weather a narrowing of fiscal space.
7. Increased tension in the household, due to income deficits, could in theory lead to the increased incidence of gender-based violence (GBV). While no data is available to point to specific increased in GBV, experience in other crises have shown that medium and long-term stress at the household level can lead to increased violence. Further, pressures to identify new sources of income could lead to risk-seeking behaviour and risky sexual practices, contributing to STDs and HIV/AIDS.
8. In St. Kitts and Nevis, also, the crisis has and likely will have impacts on HIV/AIDS programming. Along with rising prices and rising unemployment and under-employment, HIV/AIDS programming has been threatened as the crisis coincided with the end of WB funding in June 2009 meaning that government was the majority funding of HIV/AIDS programming.
9. It has long been recognised and accepted in both Caribbean and Pacific SIDS, that measures of consumption and expenditure are a more reliable methodology for estimating poverty and hardship as compared to income. Most of the availability poverty data in both the Caribbean and the Pacific come from expenditure and consumption based surveys.
10. Information from Dominica shows starkly that the non-poor are only slightly less dependent on remittances than the poor—highlighting a little known vulnerability within non-poor households. Remittances were a source of support to 38 per cent of the poor and 35 per cent of the non-poor (Junge, 2009b, sourced from the 2003 CPA results). This also requires us to adapt our understanding of the non-poor.
11. The specific strategy of the Government of Fiji to reduce the roll of persons on welfare, is perhaps most telling in this regard. The 2008 Annual Report on Social Welfare, identified a goal of reducing the number of persons qualifying for family assistance to 20,000 from 26,926.
12. The Eight Point Stabilisation Plan included focus on three elements: stabilisation, stimulus and structural reform. In respect of Social Safety Nets, governments agreed to support the following measures: (i) Greater coordination and collaboration within and among countries in the implementation of social protection systems; (ii) Improved targeting of social protection programmes; (iii) Rationalisation and consolidation of social protection programmes to improve efficiency and to establish priorities; and (iv) Initiatives geared towards moving persons out of poverty including education enhancement, training and retraining, temporary work programmes and small business development programmes. There was also an agreement to ensure that social safety nets in the ECCU were streamlined and targeted as a means of managing the cost—impact of the social protection mechanisms on member states' expenditure. More information can be found at: News Room Press Releases: Communiqué of the 6th Special Meeting of the Monetary Council, St Kitts And Nevis, 18 September 2009. Accessed from <http://www.eccb-centralbank.org/News/press2.asp?pressID=340>.
13. CCRIF is one of the ways the Caribbean region has begun to take a proactive stance against natural disasters. The CCRIF is a parametric insurance facility, owned, operated and registered in the Caribbean for Caribbean governments. It insures government risk and is designed to limit the financial impact of catastrophic hurricanes and earthquakes to Caribbean governments by quickly providing short term liquidity when a policy is triggered. It is the world's first regional insurance fund, giving Caribbean governments the unique opportunity to purchase earthquake and hurricane catastrophe coverage not available elsewhere and with lowest-possible pricing. <http://www.ccrif.org/main.php?main=9>.



**International Policy Centre for Inclusive Growth (IPC-IG)**

Poverty Practice, Bureau for Development Policy, UNDP

Esplanada dos Ministérios, Bloco O, 7º andar

70052-900 Brasília, DF - Brazil

Telephone: +55 61 2105 5000

E-mail: [ipc@ipc-undp.org](mailto:ipc@ipc-undp.org) ▪ URL: [www.ipc-undp.org](http://www.ipc-undp.org)