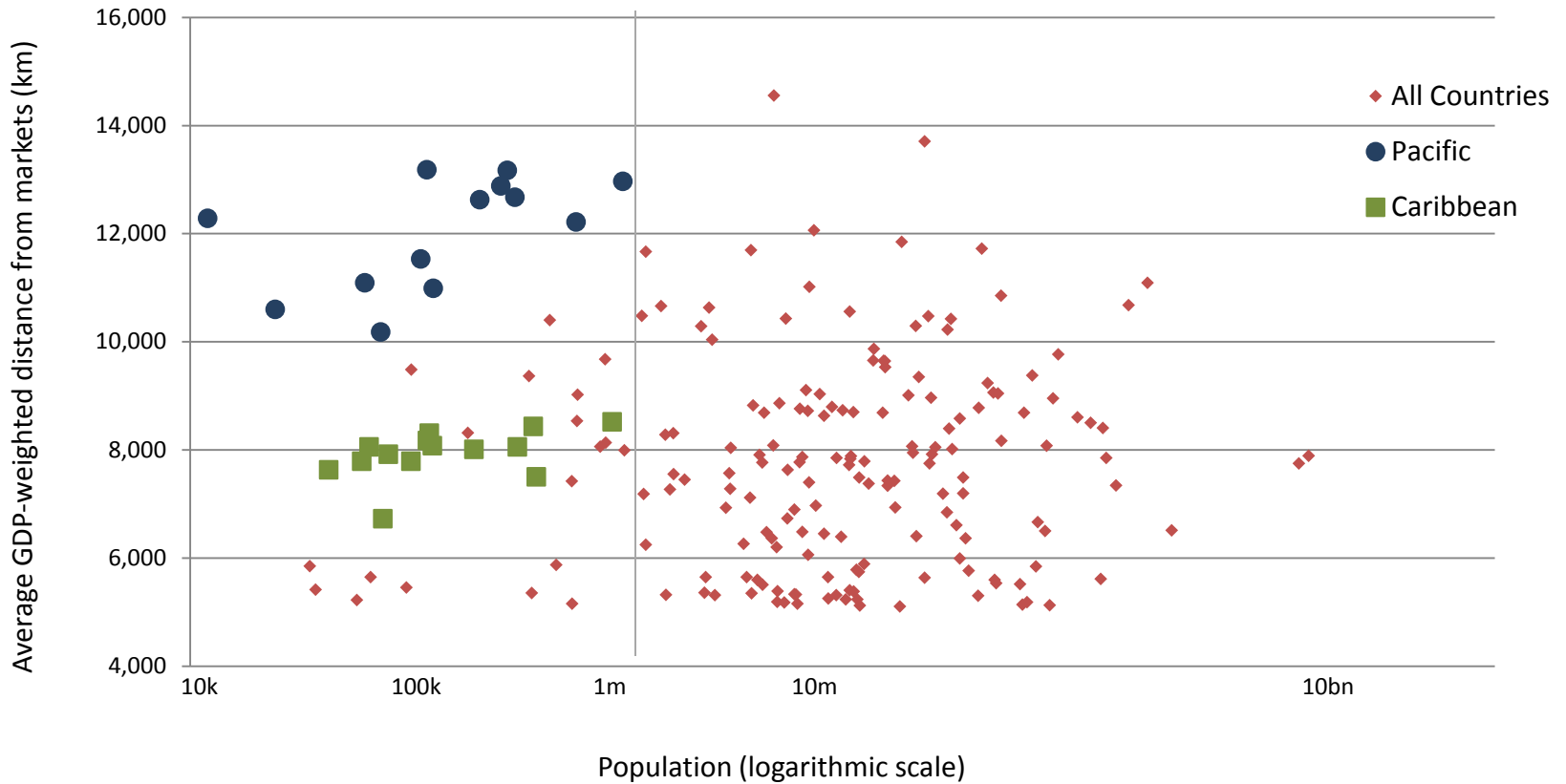
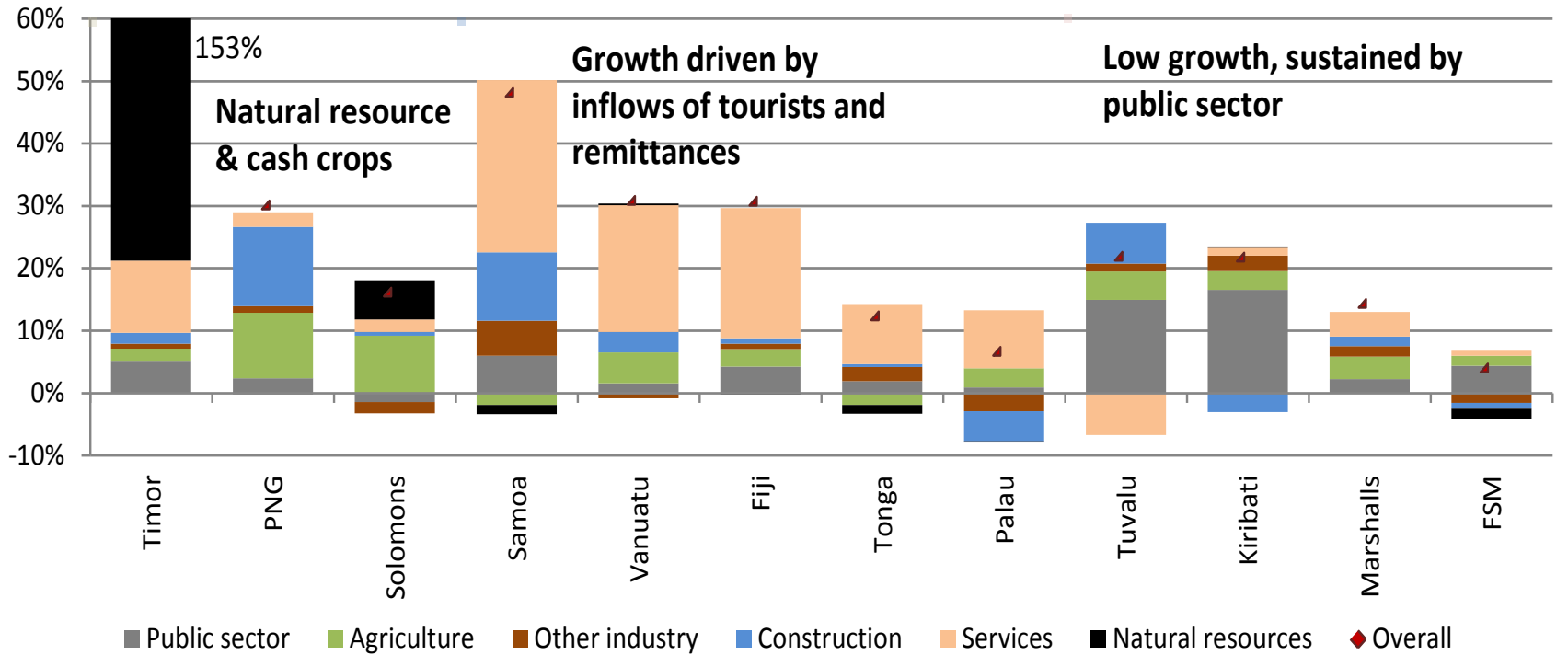


Country Size and Remoteness from Major Markets



DIFFERENT TYPES OF ECONOMY

Growth by Source

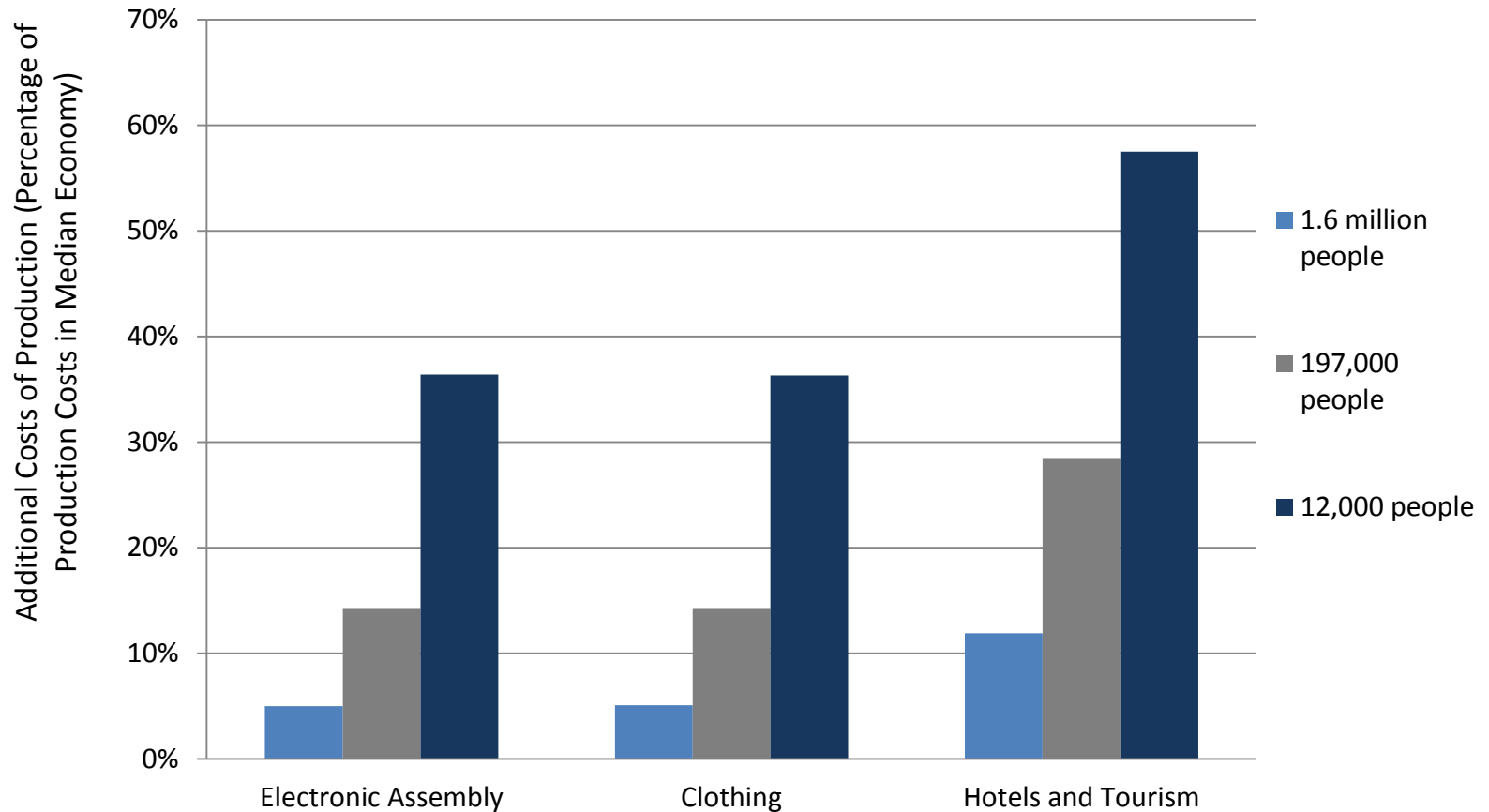


Latest Decade, Constant Price LCU

Small Remote Countries

Higher Costs of Production

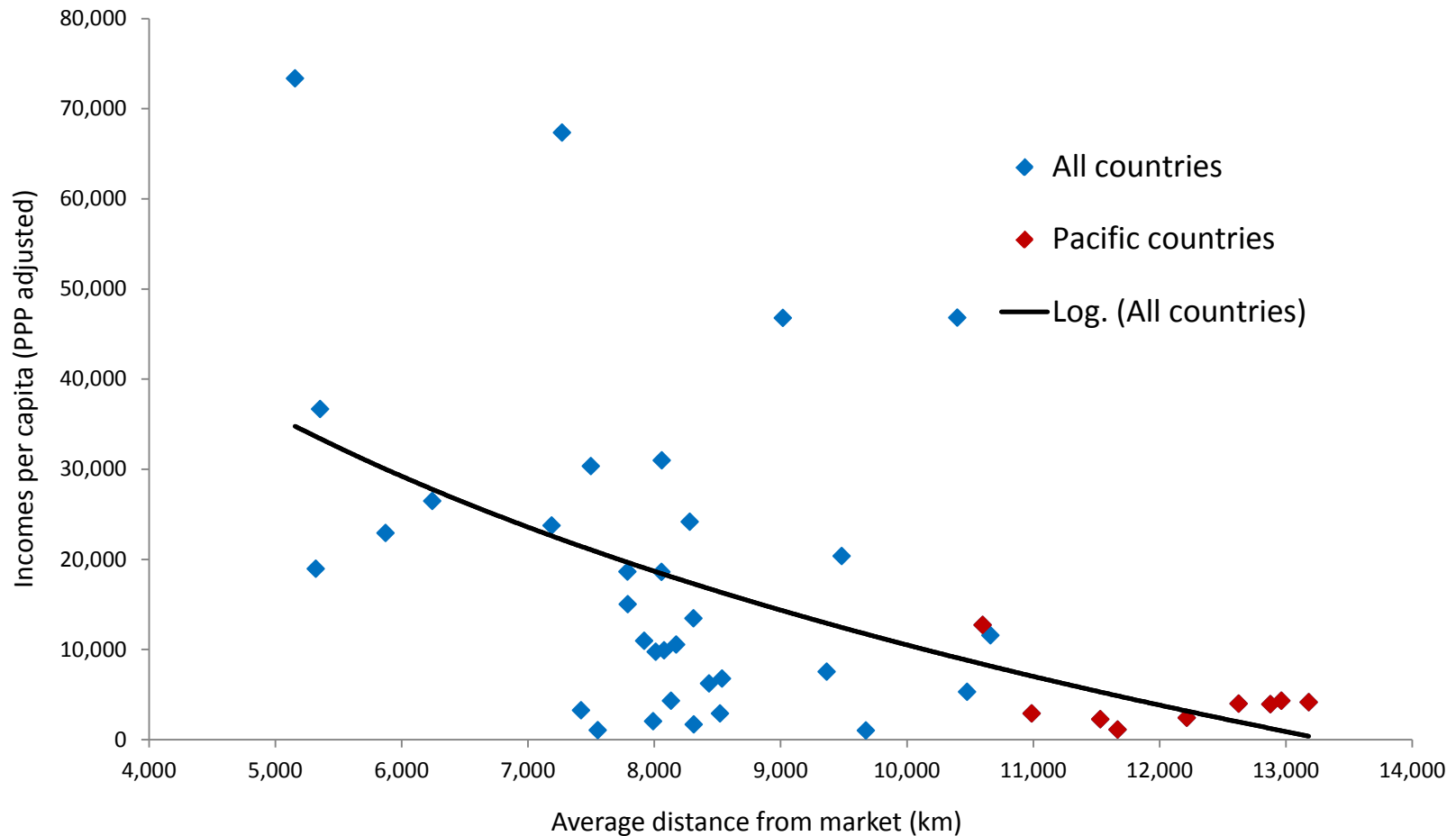
Additional costs of production by industry in small remote countries
(Alan Winters & Pedro Martins, 2004)



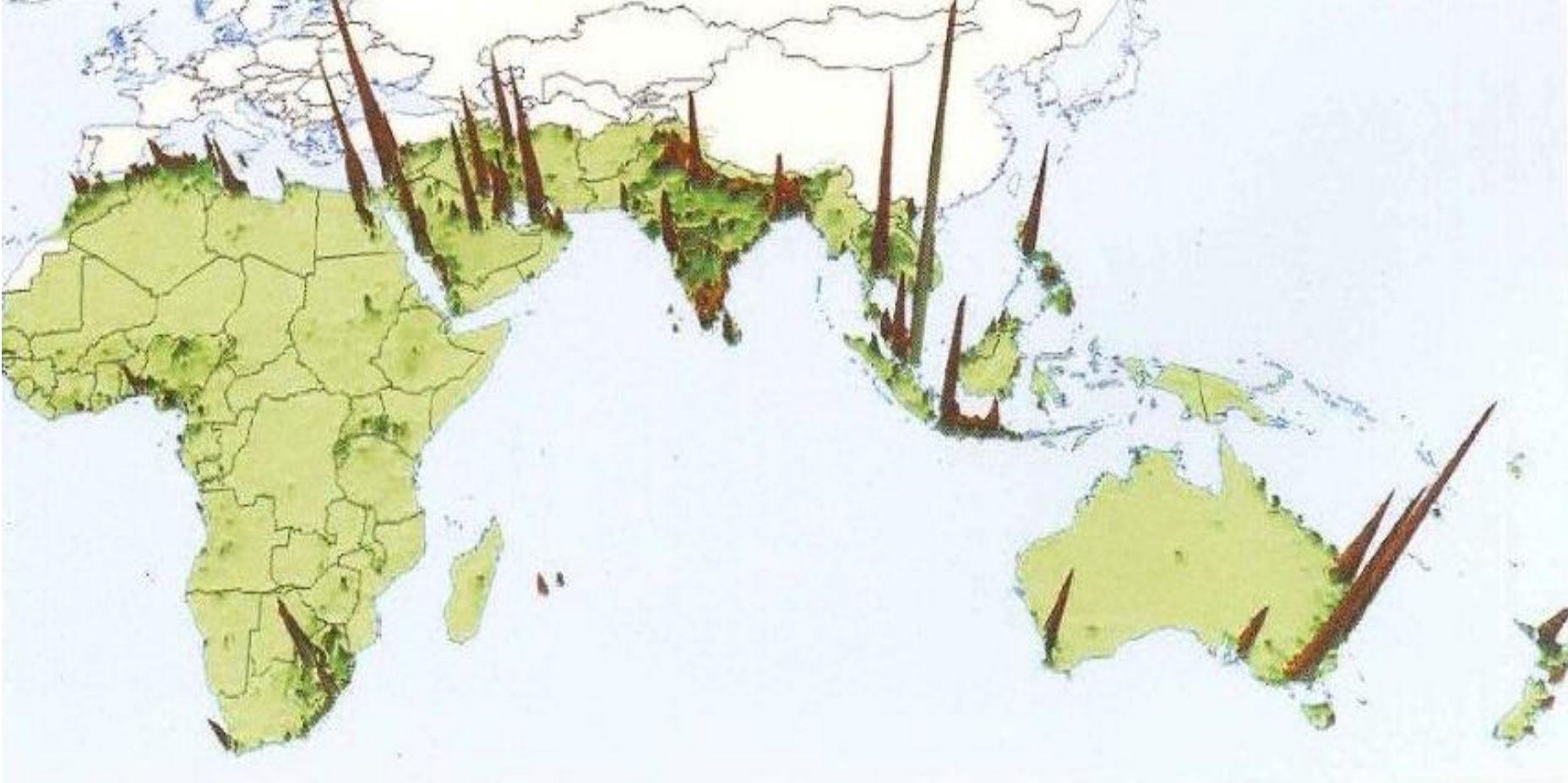
Remoteness and Income

Indications of an Inverse Relationship

Remoteness and Income in Small Countries (Population < 1.5 Million)



Economic Activity (GDP per square kilometre)



Kiribati Budget – Redistribution Aid, Fishing revenues, and RERF

	2012	
Total revenue and grants	172.8	
Revenue	90.9	Almost 4 in 5 formal sector workers are public servants or public enterprise employees
Tax revenue	27.1	
Personal income tax	7.2	
Company tax	4.7	Primarily from public enterprises
Import duties	15.2	Import demand mainly derives from public sector salaries and purchases
Other taxes (hotel)	0.1	
Nontax revenue	63.8	
Fishing license fees	58.4	Fishing licence fees = 31.7% of expenditure
Other	5.4	
External grants	81.9	Aid receipts = 44.5% of expenditure
Total expenditure	184.2	
Current expenditure	102.6	
Wages and salaries	47.9	
Subsidies to public enterprises	6.6	
Other current expenditure	48.1	
Development expenditure	81.6	
Overall balance	-11.4	Sovereign wealth fund = 6.2 % of expenditure
Financing (RERF)	11.4	

Conventional Wisdom

Conventional problem:

Aid supports large public sectors → squeezes out the private sector → [weakens governance] → reduces growth

Conventional solution:

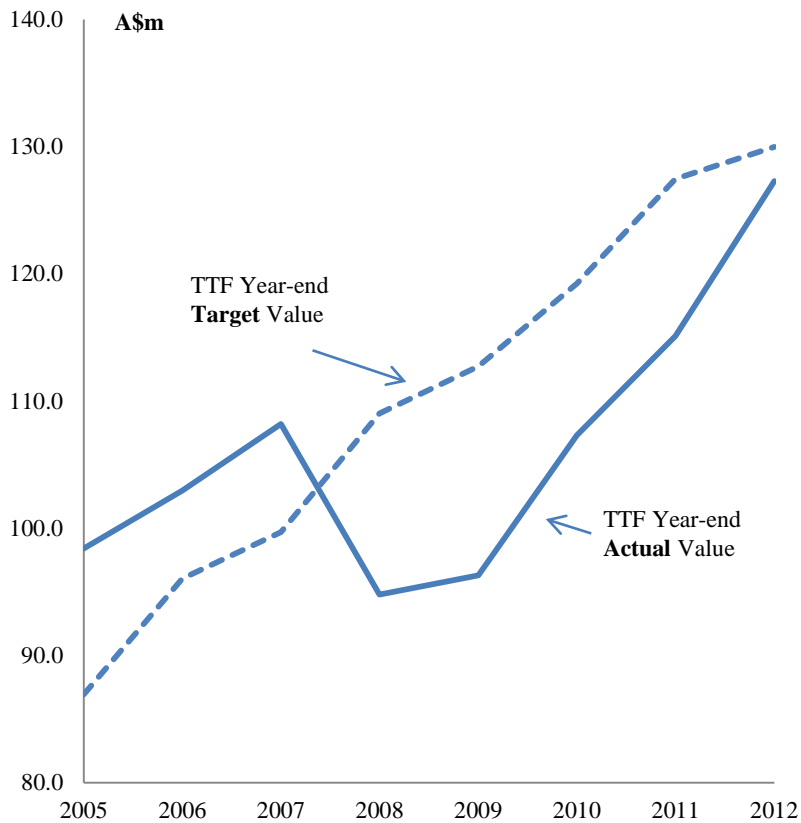
Reduce public sectors → improve the business environment → private sector will grow → will generate taxes to pay for public services → aid will dwindle → economy will be self-reliant

Rethinking Conventional Wisdom

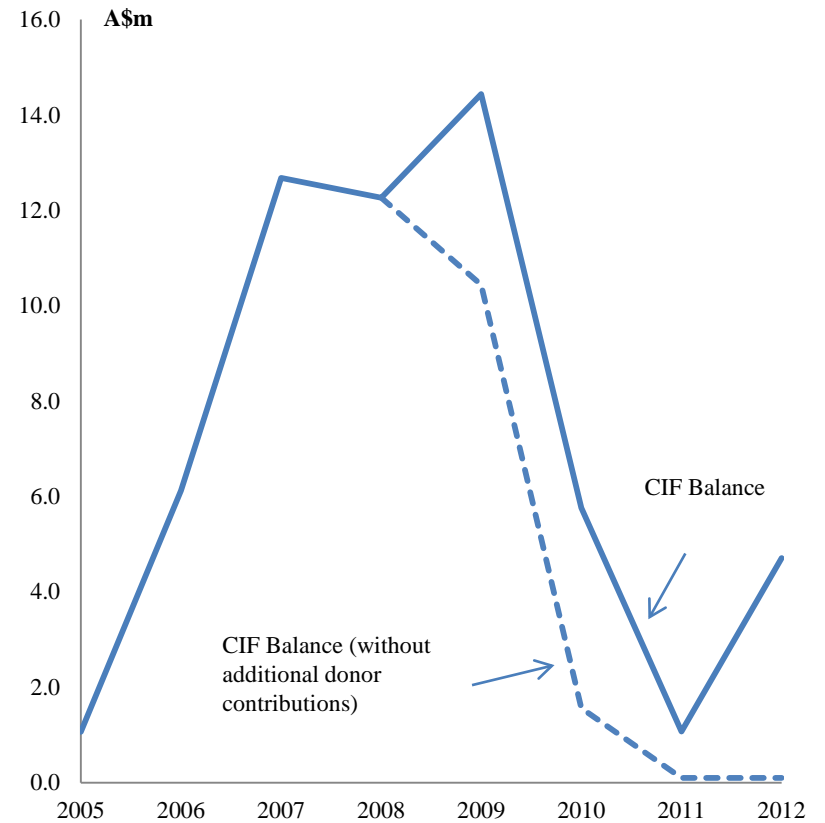
- Reduce public sector → Consider impacts on private sector. And even if 'large' how can it improve public service delivery?
- Private sector will grow → And it should, but may not generate sufficient revenues or jobs
- Improve business environment → Yes, but keep in mind what is really needed in a small economy and that regulatory capacity (or market institutions) will be challenged
- Aid will dwindle → Yes, some forms of aid and in some countries. But it could take new forms and modalities. Take a long term view

Saving in good times... to spend in bad times

Tuvalu Trust Fund Value



Tuvalu Consolidated Investment Fund Value



Five Sources of Volatility

Concentration of Exports

- Shocks to key natural resource or cash crop exports
- Economic downturns in tourism source countries

High Import Dependence

- Fuel price shocks
- Food price shocks

Significance of Remittances

- Economic downturns in remittance source countries
- Tightening of labour market access
- Demographic shifts in diasporas

Importance of Aid

- Can mitigate overall economic volatility
- Can contribute to overall economic volatility (due to donor project cycles or aid policy changes by donors)

Vulnerability to Natural Disasters

- Cyclones, floods, earthquakes, tsunamis
- Effects of climate change

Four Key Fiscal Policy Responses

↑/↓ Assets

- Trust funds / sovereign wealth funds
- Reserves
- Cash balances

↑/↓ Debt

- Concessional loans from IFIs
- Loans from bilateral donors
- Domestic borrowing, bank overdrafts

Address Quality of Spending

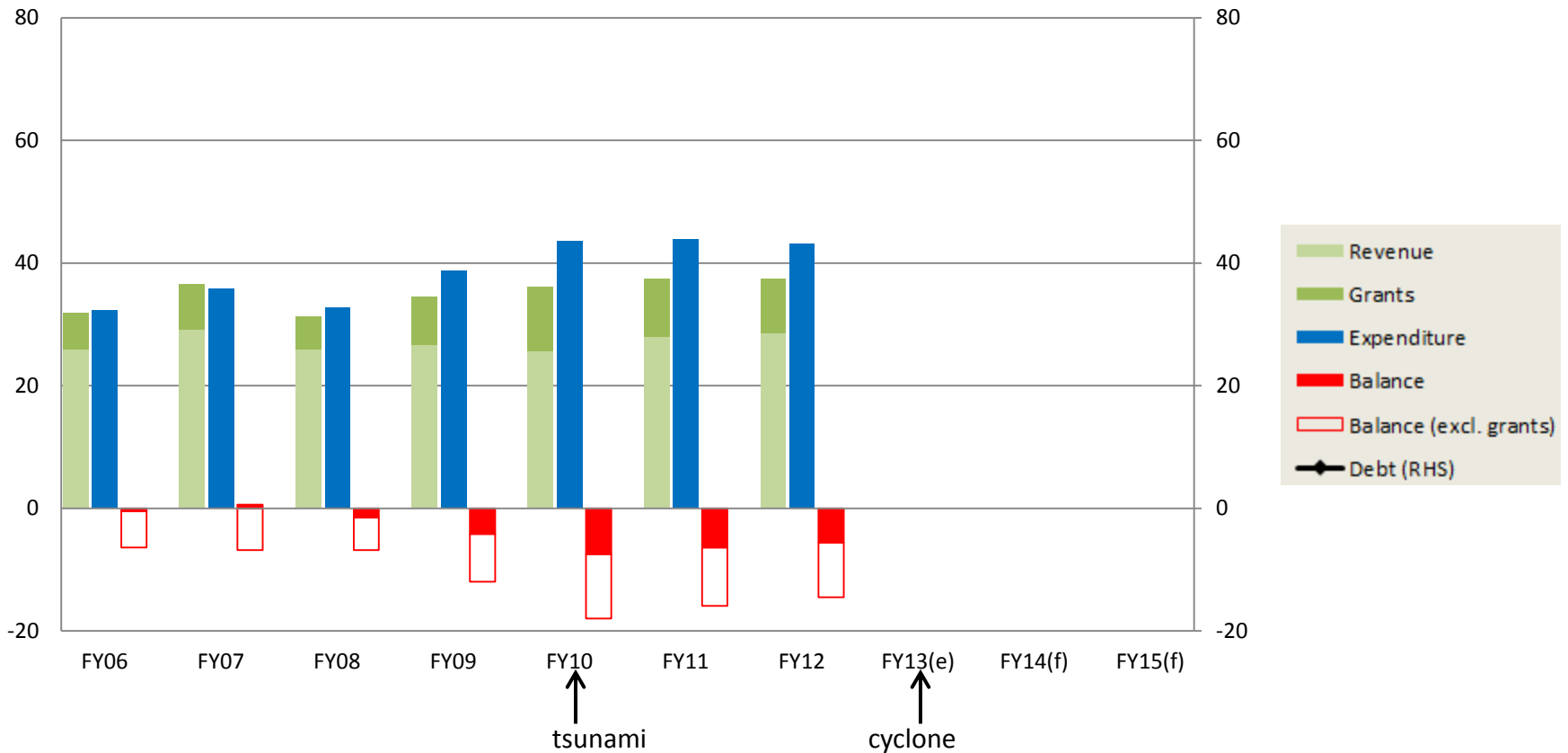
- Protects service delivery in the event of revenue shortfalls, without increasing deficits
- Augments value of other fiscal buffers

↑/↓ Grants

- Grants from bilateral donors
- Grants from IFIs (for countries as high risk of debt distress)

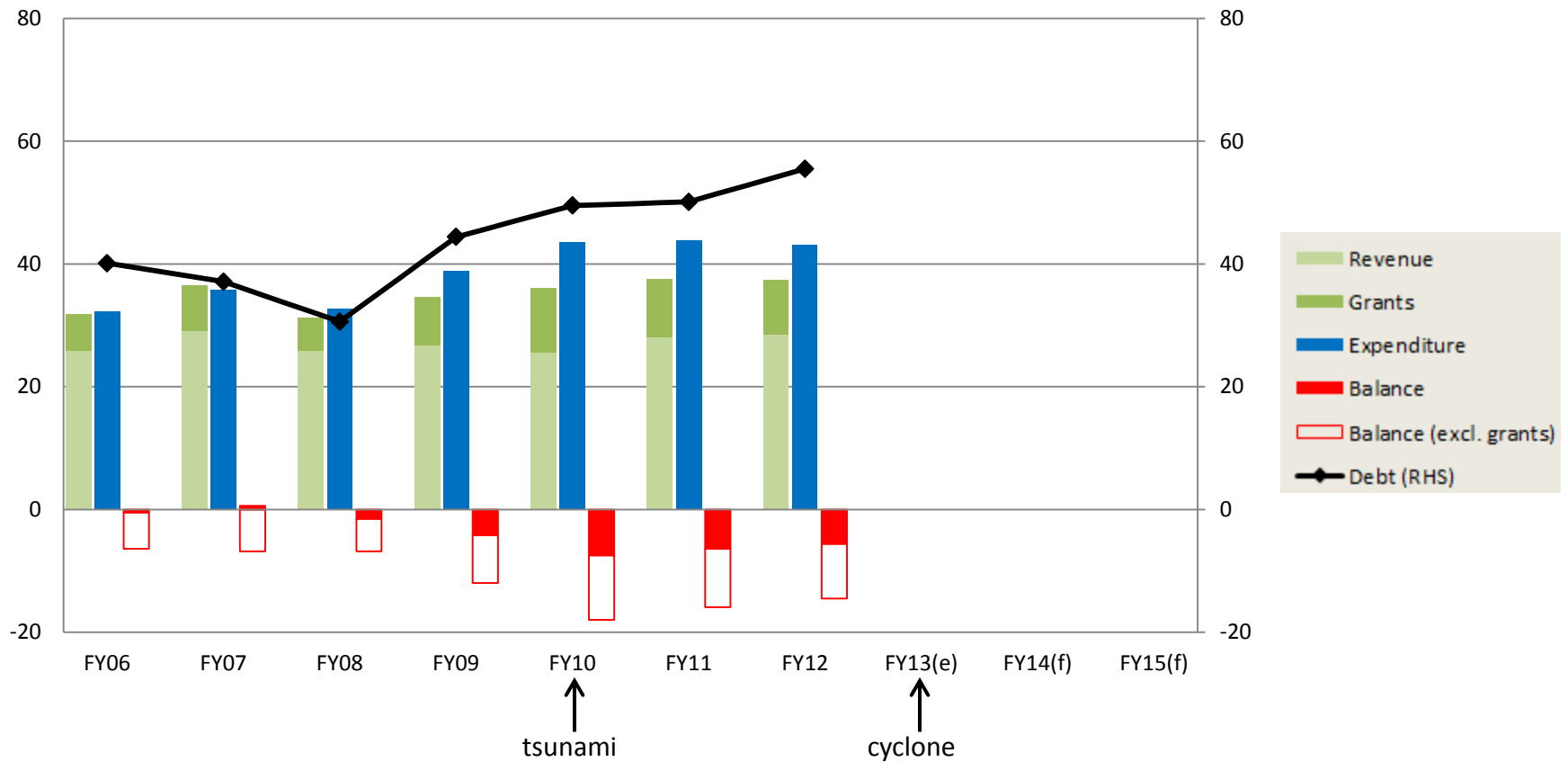
Case study: Natural Disasters in Samoa

Samoa: Fiscal Responses to Successive Natural Disasters



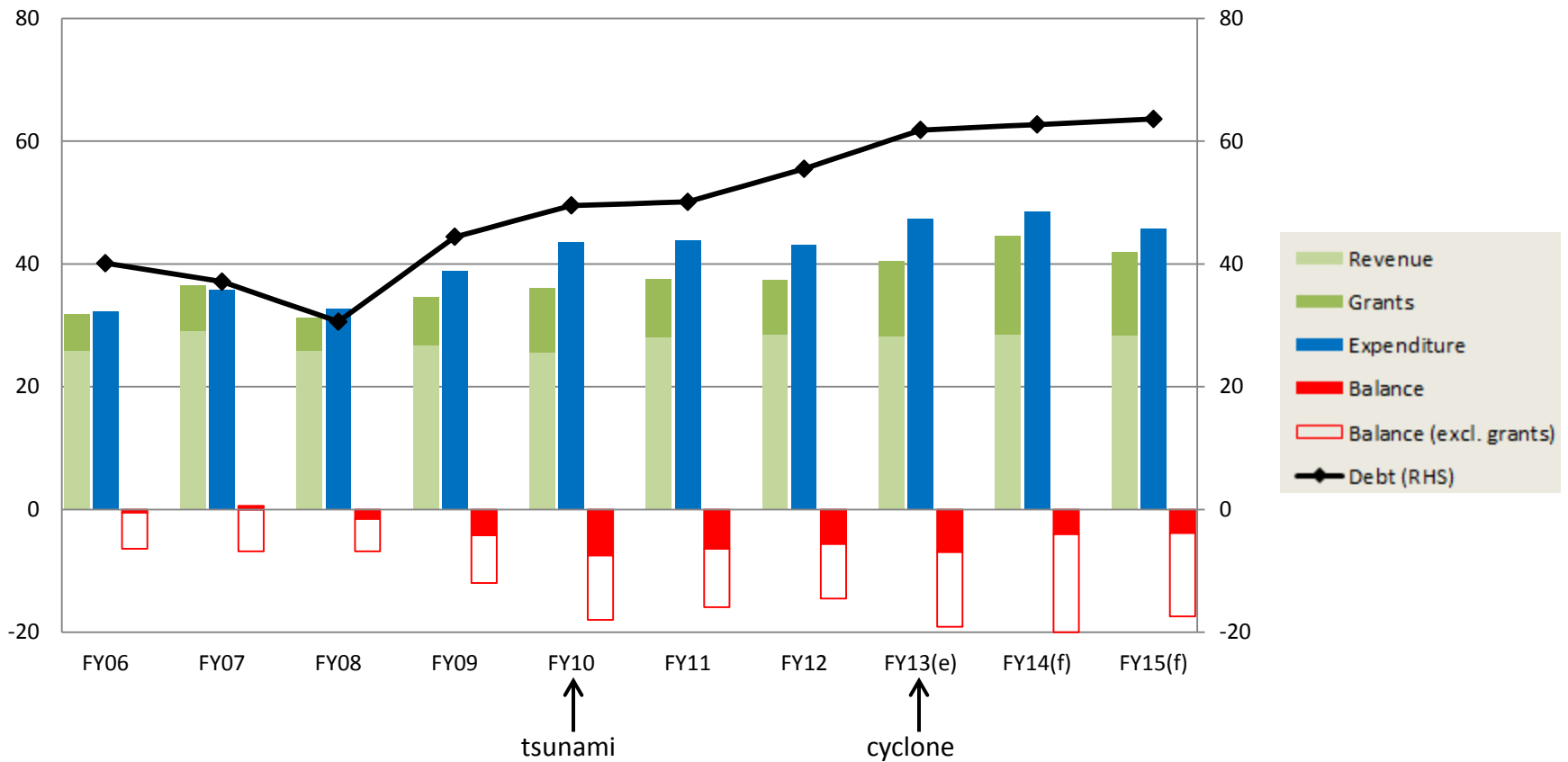
Case study: Natural Disasters in Samoa

Samoa: Fiscal Responses to Successive Natural Disasters



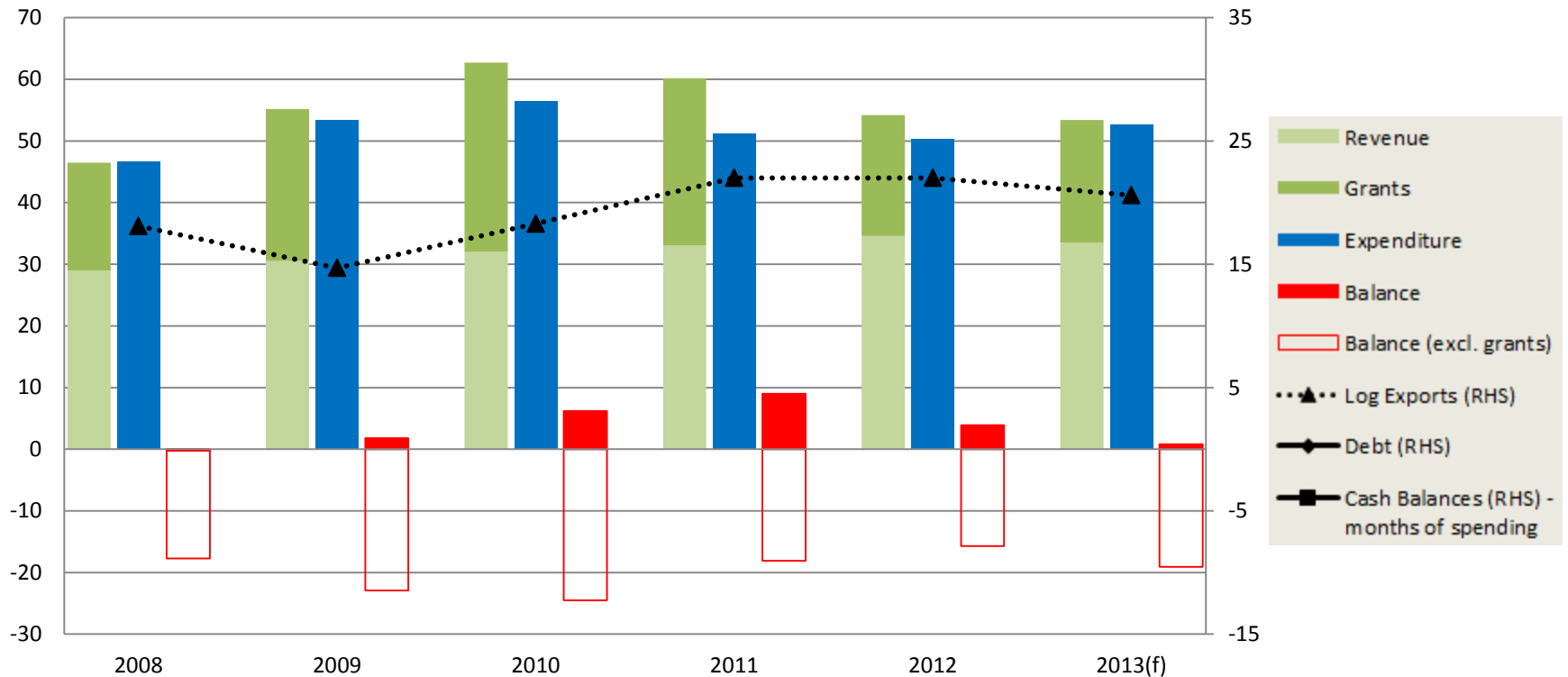
Case study: Natural Disasters in Samoa

Samoa: Fiscal Responses to Successive Natural Disasters



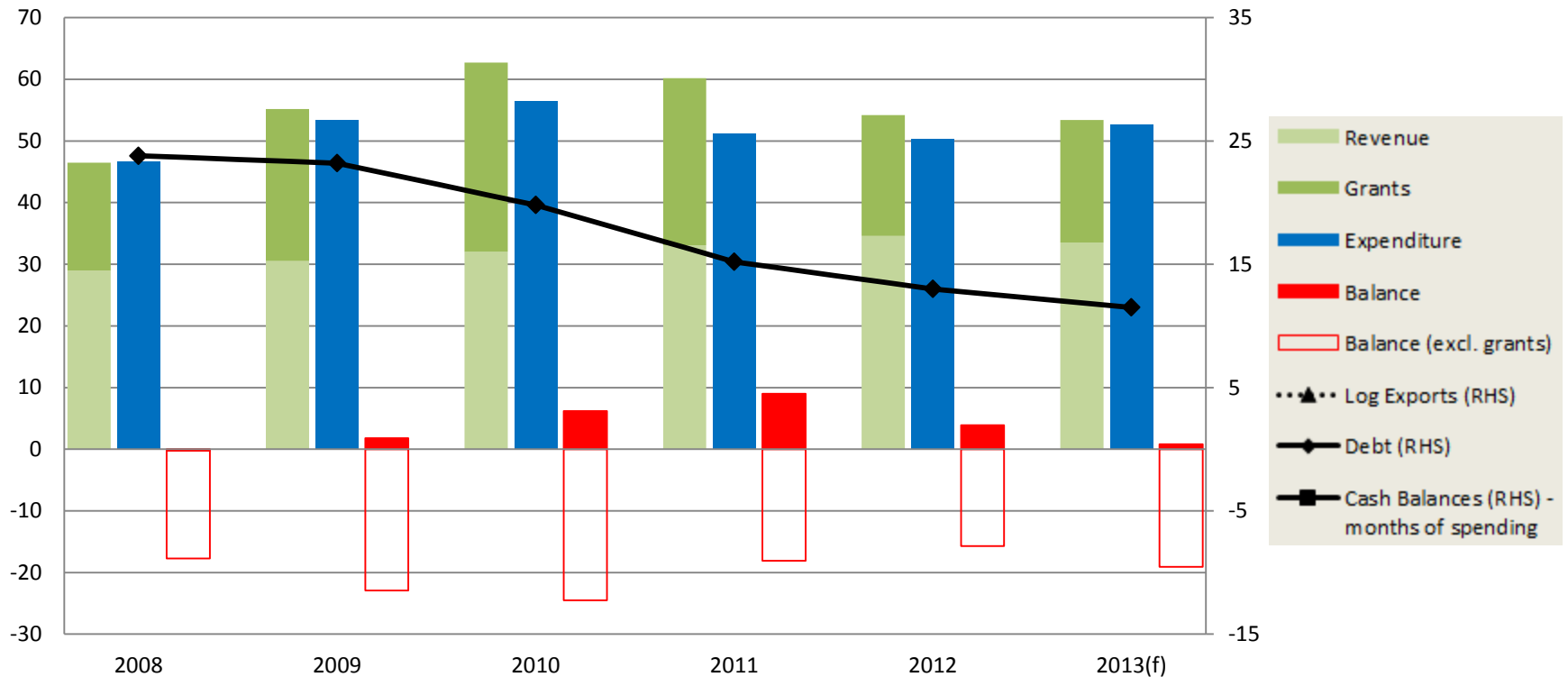
Case study: Windfall Gains in Solomon Is

Solomon Islands: Paying Down Debt and Building Up Cash Balances in the Good Years



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