UN-OHRLLS

# Assessment of Financing for Sustainable Development and the Achievement of the Samoa Pathway

Front cover: Aerial view of the 290-meter L-shaped quay and onshore facilities built under the ADF funded Domestic Maritime Transport Project significantly increased efficiency and reduced congestion at Malé's domestic harbor (Malé North Harbor), the main hub for the distribution of good in the Maldive's. *Photo: Asian Development Bank (CC BY-NC 2.0)*

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# 1.0 Introduction

The aim of the assessment is to provide the latest available data and an analytical overview of the external financial flows to Small Island Developing States (SIDS) for sustainable development and the implementation of the SAMOA Pathway and the 2030 Agenda, with a focus on understanding their need for concessional finance and international support. The Midterm Review of the SAMOA Pathway in 2019 resulted in GA resolution A/RES/74/217, which reiterates that SIDS remain a special case for sustainable development and require tailored responses from the international community. SIDS' unique vulnerabilities arise in part from the combined challenges of inter alia remoteness, small size, vulnerability to climate change and natural disasters and other external shocks. Implications of these shared SIDS challenges for financing sustainable development will be discussed throughout.

Resource mobilization and advocacy for sustainable development in SIDS is central to the mandate of UN-OHRLLS. The purpose of the assessment is to provide facts, figures and analysis of recent trends to inform these efforts in support of the 38 SIDS (see list below). The assessment focuses on external financial flows to SIDS primarily from the adoption of the SAMOA Pathway in 2014 until the Midterm Review in 2019, by analyzing key macroeconomic and development indicators as well as collecting relevant information from literature including from UN system organizations. In addition to financing for development in SIDS broadly, the assessment focuses on climate change and the ongoing COVID-19 pandemic as both threats are particularly urgent. The assessment also includes key background for sustainable development in SIDS focusing on their shared vulnerabilities and systemic challenges, which must underpin international support for SIDS including to achieve the SAMOA Pathway, the 2030 Agenda and the Paris Agreement on Climate Change.

## 1.1 SIDS Definition and Regional Groups

This report considers the 38 SIDS member states to the United Nations inlcluded in the list of UN-OHRLLS and the UN Department on Social and Economic Affairs (UN DESA), which are grouped in three regions the Caribbean, Pacific as well as the Africa, Indian Ocean, and South China Sea (AIS) region. These comprise the 38 UN Members in AOSIS, and Bahrain. The Alliance of Small Island States (AOSIS) is a political coalition to further common aims of member SIDS and includes 44 island and low lying states.

**SIDS Regions and Country Income Status based on GNI per capita (WB 2020 Fiscal year)[1]**

| Caribbean SIDS (16) | Pacific SIDS (13) | African Indian Ocean & South China Sea (9) |
|---|---|---|
| **High income** | **High income** | **High income** |
| Antigua and Barbuda | Palau | Bahrain |
| Bahamas | **Upper middle income** | Singapore |
| Barbados | Fiji | Seychelles |
| St Kitts and Nevis | Kiribati | **Upper middle income** |
| Trinidad and Tobago | Marshall Islands | Maldives |
| **Upper middle income** | Micronesia FS | Mauritius |
| Belize | Nauru | **Lower-middle income** |
| Cuba | Papua New Guinea | Cabo Verde |
| Dominica | Samoa | Comoros |
| Dominican Republic | Tonga | São Tomé and Principe (LDC) |
| Grenada | Timor Leste | **Low income** |
| Guyana | Tuvalu (LDC) | Guinea-Bissau (LDC) |
| Jamaica | **Lower-middle income** | |
| St. Lucia | Solomon Islands (LDC) | |
| St. Vincent and the Grenadines | Timor Leste | |
| Suriname | Vanuatu (LDC) | |
| **Low income** | | |
| Haiti (LDC) | | |

**Note:** Categories–**High income** > 12,376 USD **Upper Middle** 3,996 to 12,475 **Lower middle** 1,026 to 3,995 **Low-income** < 1,025

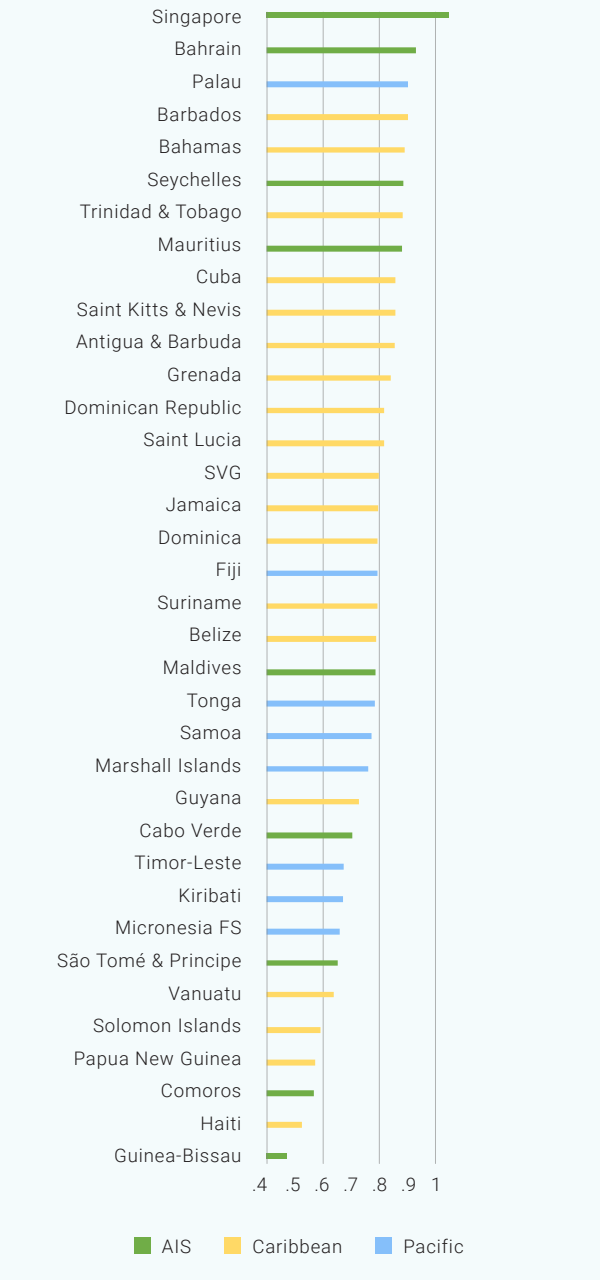
[1] World Bank, 2020, World Bank Country and Lending Groups, available at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-group

# 2.0 Background figures–demographics and human development

SIDS are a diverse group, including large geographical, cultural and other differences between and within the Pacific, Caribbean and AIS regions. The AIS region is particularly diverse geographically, with members on both sides of the African continent and into the South China Sea. SIDS compared to the rest of the world are generally small and have small populations, but are notably diverse. While comprising 20% of the UN member states, the total population in SIDS account for less than 1% of the world at 65 million in 2018.[2] 30 SIDS have populations below the 1.5 million limit to be included in the list of Small States by the World Bank Group (WB)[3]. Cuba, Haiti and, Dominican Republic have populations over 10 million, while another 8 SIDS have populations lower than 100,000.[4] Tuvalu had the lowest population in 2018 at 11,580. Land areas also vary, ranging from Papua New Guinea at 452,860 km$^2$, comparable to the size of Morocco, to Nauru at 20 Km$^2$.

SIDS vary significantly in terms of human development, as indicated by Human Development Index (HDI) scores. HDI is a summary of average achievement in key dimensions of human development: life expectancy at birth, years of schooling and Gross National Income (GNI). The HDI score is the geometric mean of normalized indices for each dimension. Singapore, Bahrain and Palau had the highest score in 2018, while Guinea-Bissau, Haiti and Comoros had the lowest.[5] [6] 9 SIDS are included in the Least Developed Country Category of the UN.[7] The category is based on Gross National Income (GNI), Human Assets Index (HAI) and the Economic Vulnerability Index (EVI). The list of LDCs is reviewed annually by the Committee for Development Policy which recommends changes to the General Assembly of the UN, which in turn ultimately decides which countries are awarded LDC status. SIDS which are LDCs have benefits in areas of trade, access to development cooperation and support to participate in international processes.

**Human Development Index score 2018 SIDS**
(1=max 0=minimum)




**Note:** To highlight difference between SIDS, X axis starts at .4

[2] World Bank, World Development Indicators, available at: https://data.worldbank.org/indicator/SP.POP.TOTL
[3] World Bank, Small States Forum, World Bank in Small States, available at: https://www.worldbank.org/en/country/smallstates/overview
[4] **Cuba, Haiti, Dominican Republic, Papua New Guinea, Singapore, Jamaica, Guinea-Bissau and Bahrain**
[5] No data is available for Nauru and Tuvalu
[6] UNDP, 2018, Human Development Data (1990-2018), available at: http://hdr.undp.org/en/data#
[7] Comoros, Haiti, Guinea Bissau, Kiribati, Sao Tome and Principe, Solomon Islands and Timor Leste, Tuvalu and Vanuatu

## 2.1 Common and Systemic Challenges

All SIDS share certain challenges to sustainable development to varying degrees. These include for example remoteness, small economies, limited capacities to mobilize domestic resources, high marginal costs of essential services and products, limited leverage in international affairs as well as vulnerability to environmental, economic and other external shocks, such as natural disasters, pandemics and climate change which continues to impact all SIDS. The combination of these and other challenges can strain public finances, expose SIDS residents to multidimensional poverty or otherwise limit their sustainable development.

Economies of scale are difficult to achieve in small economies, in particular in combination with remoteness. Another challenge is the lack of economic diversification. A larger country can often compensate for reduced income from one industry, or part of the country, with opposite trends elsewhere. Furthermore, SIDS also have a large informal sector making it more difficult to raise internal revenue. SIDS governments, therefore, have a narrower tax base, and their revenue can be more vulnerable to external shocks. These shocks include changes in international commodity prices, natural disasters, or the collapse of tourism at the start of the COVID-19 outbreak.

Small and narrow economies is also a challenge for human resources. Both the public and private sector struggle to source and pay for enough specialized staff domestically, while facing many of the same tasks as larger states or companies. This also constrains the ability of SIDS to absorb development aid, develop institutional capacity and implement development projects without external technical and financial support. For example, the time and resources spent on applying for and managing development projects is not proportional to the amount granted. Many SIDS are also dependent on academic research priorities and education opportunities in other states. For example, studies are disproportionally expensive to run in a small remote state. Which is also part of the reason data and analysis are insufficient for SIDS generally. Increased global and regional cooperation is essential to address this challenge, such as by involving SIDS ocean territories in oceanographic mapping exercises primarily funded by larger states.

Remoteness is also a hindrance to SIDS economic development. A clear effect is the high costs of transport and travel, whether to other countries or within some SIDS. For example, between the thousands of islands of the Maldives, or to inland areas not connected by roads in Papua New Guinea. Remoteness also increases the costs of public and private services, such as healthcare and internet access. The challenge is particularly limiting in the Pacific, which includes the most remote countries in the world. For example, the atoll nation of Kiribati with 810 $km^2$ of land area spread across over 3.5 million $km^2$ of ocean–an area larger than the entire Caribbean region. Furthermore, levels of development often vary widely between parts of SIDS. For example, the coast and hinterlands or between urban and rural areas on indicators for access to water, electricity and digital services.

Climate change vulnerability is also shared across SIDS. Increased extreme weather events, rising sea levels, biodiversity loss and ocean acidification are among the many serious threats to SIDS from climate change. Atoll SIDS in particular face existential threats as the ocean rises and the corrals protecting their shores wither from heat and acidification. Climate change profoundly limits opportunities for economic investment as hotels, factories or infrastructure can also be vulnerable. There is still time to limit the most detrimental climate change. However, the window for staying below 1.5 degrees is closing soon without radical action by the world's biggest polluters. SIDS have been at the forefront in climate negotiations and many have already committed to reaching climate neutrality by 2050–while their combined emissions are only about 1% of the world total.

There is also great potential for including women and other vulnerable groups into decision making both in the private and public sectors also in SIDS. While some SIDS have made progress towards SDG 5 to achieve gender equality and the empowerment of women, gender-based discrimination remains a serious concern. As an example, the proportion of women in Parliament are among the indicators for SDG 5. Out of the four countries with no female member of parliament, three are in the Pacific:[8] Papua New Guinea, Micronesia and Vanuatu (the last country being Yemen). The Pacific region in 2019 had on average 9.6% female representation, compared to 22.5% in the Caribbean and 14.8% in AIS. Haiti and Maldives are outliers in the Caribbean and AIS regions at 3% and 5% female representation respectively.[9]

[8] Inter-Parliamentary Union (IPU), 2019, Women in parliaments are the percentage of parliamentary seats in a single or lower chamber held by women, SG.GEN.PARL.ZS

[9] At the time of writing Haitian parliamentary elections which were supposed to occur in 2019 are still postponed.

# 3.0 Domestic and International Private Business and Finance

The growth in SIDS from 2014 to 2018 has been low and SIDS struggle with growing debt, and trade deficits in part due to the systemic challenges described above. Dependence on few large developed countries for their imports is another vulnerability in the face of the current varying levels of lock-down globally. Trade also comprises a larger share of the GDP in SIDS at 71% of GDP, compared to 60% for LLDCs and 50% for LDCs.[10] SIDS governments on average in 2018 relied on taxes on trade for 13% of their revenue on average, compared to 1% in OECD countries and 4.5% in middle income countries generally The total GDP in SIDS in 2018 was 733 USD billion, of which Singapore comprised about half. Since 2014 there has been a 6% growth. GDP per capita in SIDS in 2018 on average weighted by population was 11,200 USD ranging widely from about 64,600 in Singapore to 800 in Guinea Bissau.[11] In terms of GNI per capita Atlas method the average weighted by population in 2018 was 10,856 USD, a 4% reduction since 2014.[12] The low economic growth is in line with global trends for developing countries and indicates continued challenges for raising domestic revenue.[13]

Most SIDS have substantial trade deficits, with tourism and few primary commodities accounting for most of exports, while food, oil for energy and other essentials representing the bulk of imports in 2018. Value added from tourism account for nearly 30% of GDP of SIDS in 2018.[14] Since 2000, the trade deficits of SIDS economies as a group has persistently been at 2-3 times higher than the developing countries' median, often translating to large and persistent current account deficits. The current account balance is the sum of net exports of goods and services, net primary income, and net secondary income.

In 2018, the sum of the account balance of all SIDS was 65 USD Billion and that of Singapore was 61 USD Billion.[15] Not including Singapore, the total balance for SIDS was -4 USD Billion in 2018. Only Singapore, Trinidad and Tobago, Papua New Guinea and some of the smallest Pacific States had a positive balance that year.

Tourism and primary commodity exports are volatile and susceptible to external pressures, while the import demand of many small island economies is generally inelastic. This is particularly prominent for many SIDS which are net importers of food, energy and other essentials. Food imports comprise more than 15% of all merchandise imports for many SIDS, which is twice the world average. It is almost 30% for Cabo Verde, Sao Tome and Principe and Samoa.[16] Tourism also drives some of the food and oil imports in SIDS, which will decline in 2020 amid worldwide travel restrictions. Nevertheless, a shock to global food production and supply chains could hike food prices for many small island economies.

## 3.1 Remittances

SIDS in total received 15 USD billion in remittances in 2018, an increase of 23% from 2014.[17] Remittances worldwide have grown to a record high of 689 USD billion in 2018.[18] The data in this section on remittances is primarily based on WB estimates, which does not include Bahamas, Bahrain, Cuba and Singapore for the period under review. Furthermore, accurate statistics on migration are often challenging to acquire and the indicator often does not include small amounts sent by migrants but is based on an estimate including employee compensation and personal transfers. Both developed and

[10] UN DESA, 2020, The COVID-19 Pandemic puts small island developing economies in dire straits, available at: https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-64-the-covid-19-pandemic-putssmall-island-developing-economies-in-dire-straits/

[11] World Bank national accounts data, and OECD National Accounts data files, GDP per capita (USD current) 2018 and 2014, NY.GDP.PCAP.CD, 2014 figures deflated to constant USD 2018.

[12] World Bank national accounts data, and OECD National Accounts data files. GNI per capita, Atlas method (current US$) (NY.GNP.PCAP.CD), figures deflated to constant 2018.

[13] UNCTAD 2019, World Investment Report, available at: https://unctad.org/en/PublicationsLibrary/wir2019_en.pdf

[14] UN DESA, 2020, The COVID-19 Pandemic puts small island developing economies in dire straits, available at: https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-64-the-covid-19-pandemic-putssmall-island-developing-economies-in-dire-straits/

[15] No data available for Barbados, Cuba, Micronesia and Tuvalu. Data from 2017 used for Kiribati, Palau and Papua New Guinea.

[16] UN DESA, 2020, The COVID-19 Pandemic puts small island developing economies in dire straits, available at: https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-64-the-covid-19-pandemic-putssmall-island-developing-economies-in-dire-straits/

[17] Personal remittances, received (current US$) BX.TRF.PWKR.CD.DT

[18] https://www.worldbank.org/en/news/press-release/2019/04/08/record-high-remittances-sent-globally-in-2018


Tufui Faletau stands outside the Treasury building in Nuku'alofa, Tonga. She works at the Tongan Policy and Planning Ministry. Tonga's small and open economy is vulnerable to external shocks and was hard hit by the global financial crisis. Development challenges include high levels of debt, limited employment opportunities, and low private sector investment levels.

*Photo: Asian Development Bank (CC BY-NC-ND 2.0)*

developing countries benefit from migrant workers, while the bulk of added value can often remain with employers in the host country.[19] There is clearly great potential in increasing migrant laborers' earnings to increase the remittances flow. However, labor migration can also be negative for developing countries due to the loss of human resources. While remittances to some extent compensate for the loss of human capital, provide foreign currency, and can cushion economic shocks in SIDS, it can also cause challenges such as inflation in non-productive sectors and dependence.[20]

By SIDS regions, the Caribbean SIDS received 13.4 USD Billion and Pacific 0.85 and AIS 0.8. SIDS and regions depend on remittances to varying degrees, indicated by variance in the share of personal remittances received per GDP. The regional average remittances received per GDP weighted by total GDP are Caribbean 8.6%, AIS, 3.1% and Pacific 2.3%. It should be noted that Papua New Guinea is a relatively large economy, including extraction of oil and gold which are highly concentrated geographically, and received the lowest remittances by GDP at 0.01%. The Pacific regional average weighted by GDP not including Papua New Guinea was 6.6% in 2018. In the Caribbean, which receives the most remittances overall, Haiti receives the most per GDP in 2018 33%, an increase from 23% in 2014, followed by Jamaica at 15%, while Suriname received the least at 1%. In the Pacific, Tonga receives the highest share at 41%, and increase from 27% in 2014, followed by 17% in Samoa.

Migrants often face significant transaction costs on remittances. The current global average cost of remitting is 6.8% of the amount sent (as of 31 December 2019), and has been relatively stable since 2014.[21] For SIDS in particular, there is a broad lack of available data. However, all SIDS for which relatively recent data is available had higher costs than the global average in 2017. The highest average cost was to Marshall Islands at 17% of the amount sent, and to Tonga, which receives the most remittances per GDP, the cost was 10%. SDG 10 aims to reduce inequality within and between countries, and includes a target to reduce transaction costs for remitting to less than 3% of the sent amount and to eliminate remittancae corridors where transaction costs are above 5%, which would include most corridors towards SIDS.[22]

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[19] OECD, 2014, Is migration good for the economy?, available at: https://www.oecd.org/migration/OECD%20Migration%20Policy%20Debates%20Numero%202.pdf

[20] Matuzeviciute, Kristina, and Mindaugas Butkus. "Remittances, development level, and long-run economic growth." Economies 4.4 (2016): 28.; Das, A. and Serieux, J., 2010, 'Remittances and Reverse Flows in Developing Countries', IDEAs Working Paper Series, No. 02/2010

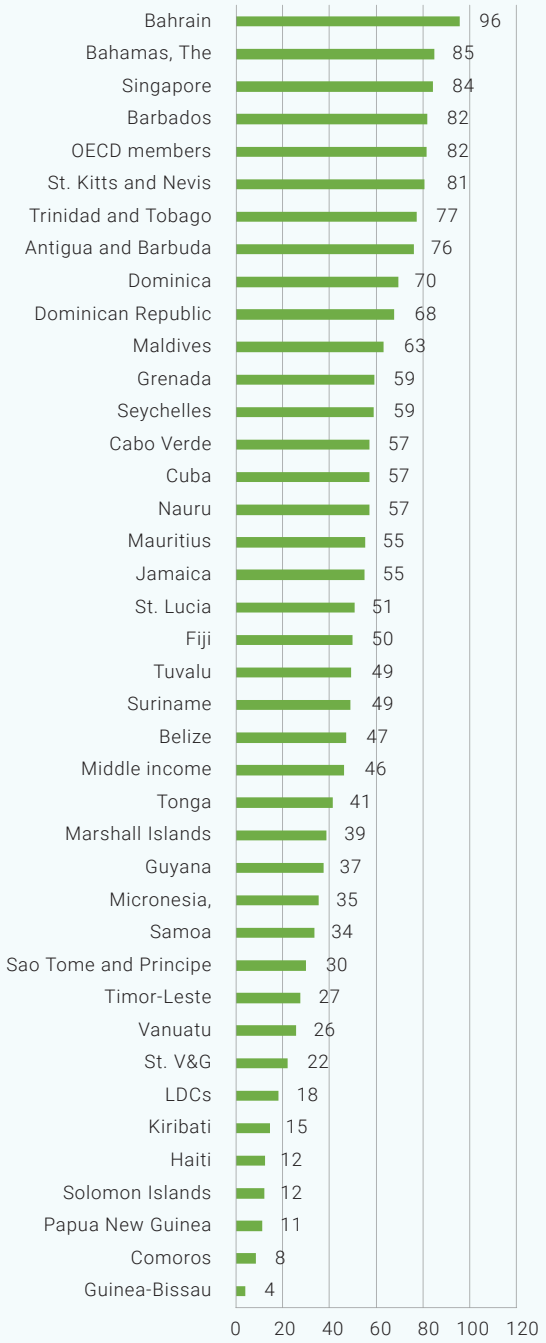
[21] World Bank, Remittance Prices Worldwide, Issue 32, December 2019

[22] World Bank, Remittance Prices Country Corridors, https://remittanceprices.worldbank.org/en/countrycorridors

One of the major challenges facing the remittance sector is the tendency of financial institutions to limit engagement with institutions facilitating remittances to vulnerable countries because they are considered high risk.[23] Money transfer institutions with extensive contact with small economies and vulnerable states are sometimes categorized as high risk despite complying with relevant standards.[24] Limited internet connectivity and availability of transaction accounts are also noted by WB as key factors for expensive remitting, which also affect some SIDS.

There is potential for financial technology (or 'fintech') innovation to lower the cost of remitting, including through online banking, and applying distributed ledgers to create decentralized financial institutions. However, for some SIDS basic electricity and internet connectivity is a challenge, in particular in remote communities. For example, in Solomon Islands and Guinea Bissau–the necessary infrastructure is lacking for many communities to take advantage of fintech developments. However, also raising awareness and confidence in services already available could be helpful, as indicated by the fact that despite the availability of fintech options in urban areas, at least 92% Samoans and at least 83% of Tongans who receive money from abroad rely on traditional money transfer operators.[25] [26]

**Share of SIDS populations using the Internet over the Last 3 months % 2017**




[23] Ramachandran, Vijaya. 2016. Mitigating the Effects of De-Risking in Emerging Markets to Preserve Remittance Flows. EMCompass,no. 22;. International Finance Corporation, Washington, DC.

[24] See for example: World Bank, 2016, Derisking in the Financial Sector, available at: https://www.worldbank.org/en/topic/financialsector/brief/de-risking-in-the-financial-sector, or, Inter American Development Bank, 2017, Impact of De Risking on Remittances and Trade Finance in Belize, available at: https://publications.iadb.org/publications/english/document/Assessing-the-Impact-of-the-De-risking-on-Remittances-and-Trade-Finance-in-Belize.pdf

[25] United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2020. (New York: United Nations, 2020), available from: https://developmentfi nance.un.org/fsdr2020.

[26] International Telecommunication Union, 2017 or latest year with available data, World Telecommunication/ICT Development Report and database, Individuals using the Internet (% of population)–No data for Palau.

## Remittances

### Case Study: Tonga

Tonga receives the highest percentage of Remittances per GDP.

US$

**$215 million**

PERSONAL REMITTANCE RECEIVED IN 2019

**$166.5 million**

EXPORT OF GOODS & SERVICES PRIMARY INCOME RECEIVED IN 2019

**$63 million**

ODA DISBURSEMENT, OECD 2018

**10%**

AVERAGE COST

To send Remittances from Australia or New Zealand to Tonga: World Bank, Remittance Prices Worldwide, Issue 32, December 2019

**Source:** World Bank Data. Available at: https://data.worldbank.org/indicator/DT.ODA.ODAT.PC.ZS?locations=TO

## Food Imports

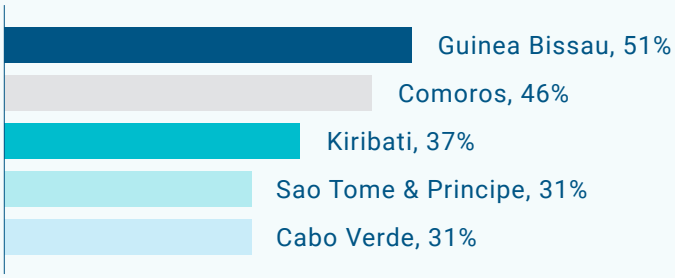

### Imported food consumption

FOR SIDS IN THE CARIBBEAN & PACIFIC has increased from 40% in 1990 to over 60% in 2017. Half import over 80%.

### Top 5 food imports

1. Highly Processed
2. Wheat
3. Corn
4. Meat
5. Dairy

### Top 5 SIDS: Food imports as share of merchandise imports




**Source:** World Bank, 2020, Food imports (% of merchandise imports), World Bank staff estimates through the WITS platform from the Comtrade database maintained by the United Nations Statistics Division.TM.VAL.FOOD.ZS.UN. Available at: https://data.worldbank.org/indicator/TM.VAL.FOOD.ZS.UN

## 3.2 Foreign Investment

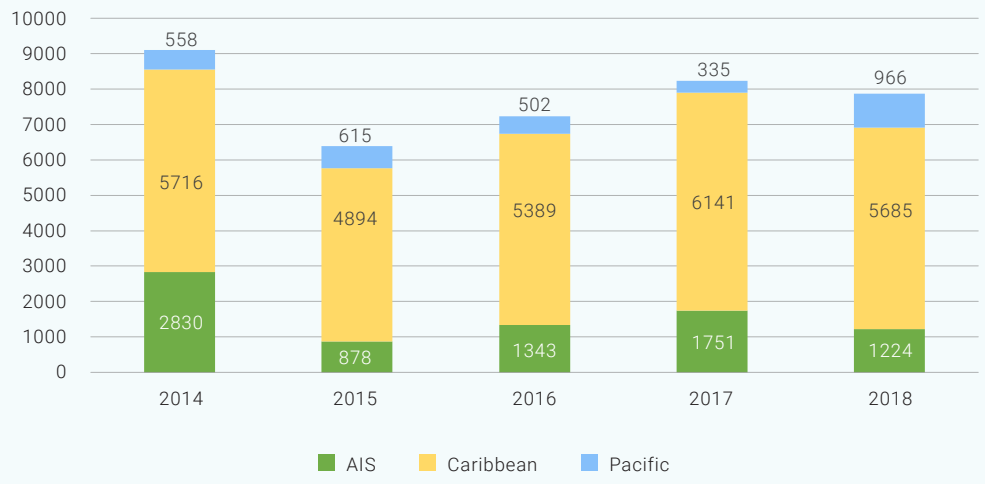
Foreign direct investment is a category of cross-border investment when a foreign resident partly owns, or otherwise to some degree controls, the management of an enterprise in another state. This is contrasted with indirect investments, such as stocks and bonds. From 2017 to 2018, global flows of foreign direct investment (FDI) fell by 13 %, to 1.3 USD trillion.[27] The last 3 years of reduction in FDI is explained by the 2019 UNCTAD Trade and Development Report as partly due to a large return of foreign earnings by US multinationals early 2018, following US national tax reforms. However, the trend was negative regardless. UNCTAD describes the growth in FDI from 2008 until 2018 as anemic.

The total FDI inflow in 2018 to SIDS was 90 USD billion, an increase of 9% from 2014, however, of the total 83 USD Billion was in Singapore alone.[28] Not including Singapore, the total inflow of FDI to SIDS was reduced by 13% from 2014 to 2018. The net inflow in the Caribbean region in 2018 was 5.7 USD billion, in AIS 1.2 and 1 in the Pacific. Portfolio investments net in SIDS between 2014 and 2018 went from 13.8 to 1.8 USD billion.[29] This does not include Singapore which saw a decrease from 47 to 36 USD billion in the same period. Mauritius had the highest net portfolio investment in 2018 of the remaining SIDS at about 6 USD billion. However, investment-flows to developing economies in general, and SIDS in particular, remain concentrated in a relatively small number of countries, and often in few industries, such as metal and fossil fuel extraction or tourism.

Noting Singapore, most other major recipients are in the Caribbean. From 2014 to 2018 FDI inflow in Caribbean SIDS was stagnant overall but increased in some countries including Antigua and Barbuda and Guyana in particular. The Pacific region saw an increase of 73%, driven also by large increases in Papua New Guinea and Fiji in particular. The AIS region except for Singapore, Maldives and Comoros saw a general decrease. There were also some major outflows of FDI from SIDS in the period. For example, In Timor-Leste, the Government invested about 300 USD million to buy a 27% stake of a joint venture producing crude petroleum and natural gas, owned by Western and Japanese companies.[30] The oil price collapse early 2020 is highly problematic for oil producing SIDS in particular.

While for developing countries overall FDI is larger than remittances, other investments, portfolio investments and ODA, this is not the case for many SIDS and LDCs where remittances and concessionary finance remain particularly important (ibid). For FDI to contribute significantly towards the 2030 Agenda and the renewable shift needed for the Paris Agreement, this trend would have to change drastically–which is unlikely in the short term given the projected recession in 2020.

**Net inflow of FDI to SIDS (not including Singapore) USD million constant 2018**

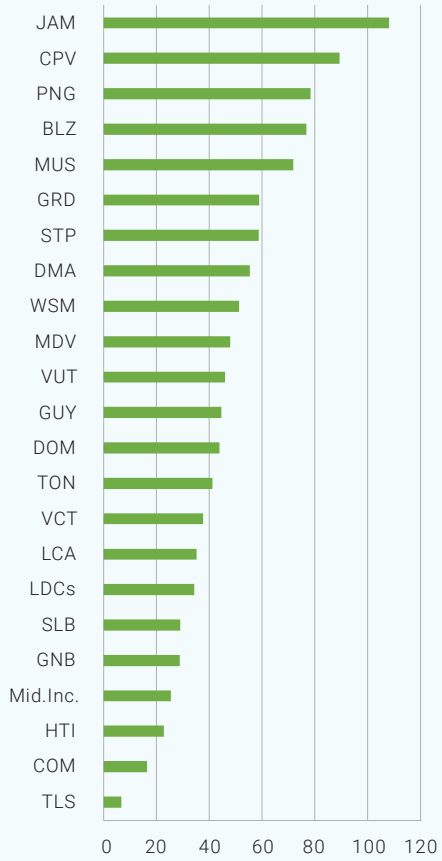


## 3.3 Debt and Debt Sustainability

SIDS generally struggle with debt sustainability, which has been stressed in strategic and academic texts for decades. The total external debt, public and private in SIDS included in the World Bank and IMF International Debt Statistics was 92 USD billion in 2018, a 9% increase since 2014,[31] with a resulting increase in debt servicing costs.[32] In a typical year, the external debt servicing burden of small island economies as a group is 5.3% of GDP, which is about four times times higher than the cost for low-income countries and higher than any other country group, including upper middle-income countries[33]. It should be noted that public debt also includes loans with concessional elements, however this is concentrated in low income SIDS–ranging from 85% in Haiti and Comoros to 0.5% in Jamaica. The Caribbean SIDS in particular have high levels of debt distress, and less concessional debt as a share of their total. The rising debt in SIDS is part of the global trend for developing countries. The total external debt of all developing countries and economies in transition, rose from 4.5 trillion to 9.7 trillion in 2018 (UNCTAD 2019). A 2015 assessment by UNDP and UN-OHRLLS concluded that if debts continued to rise in SIDS, their ability to develop sustainably would be severely hampered.[34] This is what has occurred.

The IMF and WB produce regular assessments of debt sustainability in countries eligible for concessional financing from the two. In the latest installment in November 2019, out of the 21 included SIDS 2 are in external debt distress (Grenada and Sao Tome and Principe), 11 are in high risk of debt distress, 7 are in moderate risk and Timor Leste is at low risk.[35] However, Timor Leste is currently facing signifiant challenges due to fallen oil prices. One indicator for debt distress is the external debt stock as a share of GNI, which has been high but stable for SIDS overall since 2014. Jamaica had the highest in 2018 at 108%, with the average for SIDS being 50%. The below figure shows the available data for 2018, and how most SIDS included are significantly above the average for Middle Income- and Least Developed Countries.

**External Debt Stocks as Share of GNI 2018**
**SIDS + LDCs and Middle Income Countries**

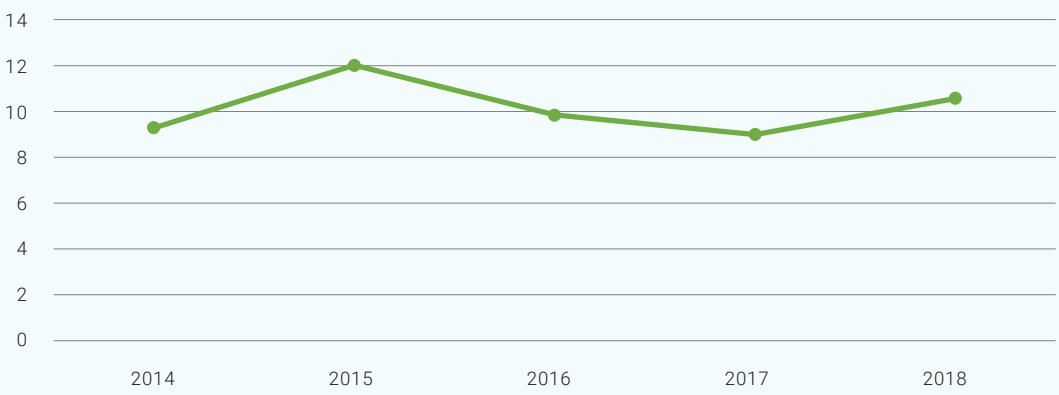


For SIDS governments to manage national debts, the ratio of debt servicing as a share of government revenue is an important indicator. However, there is a significant lack of recent data. Another relevant indicator is the ratio of external debt service to the export of goods, services, and primary income. Income from exports, including tourism, is particularly important as external debt is paid in foreign currency, for SIDS the majority is in USD but also other foreign currencies. SIDS on average spent 15% of this income on debt servicing, twice the world average.[36] The SIDS with the highest debt servicing costs as a share of exports and primary income for which data is available was Papua New Guinea in 2018 at 26% followed by Mauritius. Jamaica, Dominican Republic and other Caribbean SIDS have particularly high costs, in part due to larger shares of market-rate and private debt. Furthermore, one structural challenge is the lack of a common framework to negotiate debt to private creditors, which was different in previous decades when a larger share of the debt was bilateral, especially to members of the Paris Club of creditors.

Debt restructuring is common amongst SIDS and many have restructured portions of their domestic or external debt more than once. UNDP has identified many instances of debt restructuring over the last decades.[37] The debt composition, terms, creditor countries and so on vary among SIDS. Solutions therefore must address the peculiarities of each SIDS, in particular given their small size which statistically highlights extremes. The shared and persistent challenge of debt, however, indicates that the problem is not one of exceptional SIDS struggling with debt sustainability but rather a systemic problem.[38] Servicing debt reduces governments' ability to invest in sustainable development and resilience, further weakening their ability to pay. Furthermore, external debt is often old and represents democratic and undemocratic decisions that no longer necessarily reflect the priories of citizens–or emerging challenges.

Climate change and disasters can have devastating impacts on SIDS debt sustainability and their credit ratings. This is also a challenge beyond SIDS control, in particular as they only emit about 1% of total emissions. An UNCTAD, 2010 study assessed the impact on debt sustainability for 21 large natural disasters that struck lower-income countries between 1980 and 2008, concluded that a large disaster adds 24% to the debt to GDP ratio on average over the three years following the disaster. Furthermore, if concessional grants are not provided, the debt to GDP added can reach up to 43%. Poor and even middle-income developing countries hit by natural disasters can still find themselves in a long term debt trap as the use of public debt and renewed external borrowing to absorb the impact of a disaster leads to higher debt servicing costs and constrains the capacity to invest in long-

**Total Debt Service as % of Exports of Goods, Services and Primary Income–SIDS (Includes 21) Simple Average**




[36] UN-DESA, 2020, The COVID-19 Pandemic Puts Small Island Developing Economies in Dire Straits, available at: https://www.un.org/development/desa/dpad/publication/un-desa-policy-brief-64-the-covid-19-pandemic-putssmall-island-developing-economies-in-dire-straits/

[37] UNDP and OHRLLS 2015, https://sustainabledevelopment.un.org/content/documents/2181(UNDP%20&%20OHRLLS%202015)%20Financing%20for%20development%20and%20SIDS%20A%20snapshot%20and%20ways%20forward.pdf

[38] Abdulkadri, Abdullahi. "Debt Sustainability and Sustainable Development in SIDS." Debt and Development in Small Island Developing States. Palgrave Macmillan, New York, 2014. 219-238.; King, Damien, and Michele Robinson. "An Agenda for Debt Sustainability in SIDS." Debt and Development in Small Island Developing States. Palgrave Macmillan, New York, 2014. 239-250.

United Nations Peacekeepers (MINUSTAH), Haitian government agencies, international organizations, and residents, work to distribute food and emergency supplies, and to repair the massive damage caused by the passage of Hurricane Matthew in the western Haitian town of Les Cayes.

*Photo: UN Photo/Logan Abassi (CC BY-NC-ND 2.0)*

term climate-change adaptation and resilience. With each new disaster, financial vulnerabilities grow; and domestic response capacities weaken.

Systemic vulnerabilities of SIDS persist and without systemic approaches to solve their debt distress, this challenge will likely persist. SIDS economies growing their way out of debt distress is unlikely given low growth in SIDS, pessimistic global trends and the increasing rate of natural disasters. Furthermore, in international affairs there is no equivalent mechanism for bankruptcy as at the national level to clear one's slate. Mechanisms for debt restructuring that do exist generally do not apply to SIDS. This includes the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) to which only 5 SIDS are eligible, and have indeed been able to reduce their debt distress to some extent. Regardless of the form, it is clear that access to increased funds for developing countries in debt distress during the current crises is necessary. The International Financial Institutions with consent from their member states have tools at their disposal such as extended eligibility to IDA funds, expanded Special Drawing Rights or cancellation of multilateral debt payments. Imposed structural adjustment programmes by International Financial Institutions, however, have historically not been successful, for example austerity measures in Caribbean SIDS.[39]

There are some suggested approaches to debt relief, such as debt for nature or debt for adaptation swaps which could to some extent relieve SIDS debt burden. Debt for nature swaps emerged in the 1980s. The basic idea is that debt is bought up by willing donors and restructured, in exchange for nature conservation. The savings from reduced debt servicing often go to a conservation trust fund which operates the conservation. These are often called blue or green bonds for maritime or terrestrial areas respectively. For example, in the Seychelles, The Nature Conservancy restructured 21 USD million worth of debt in exchange for the conservation of 30% of its ocean territory, which freed up about 430k USD per year for ocean conservation. For context, the total external debt of the country in 2017 was 5,565 USD million.[40] A general motivation for lenders to sell debt at a discount can be, for example, low expectations for the loans to be paid back soon, or at all, so creditors can prefer to liquidate the debt to the consortiums behind the bonds.

Sustainable nature and debt management are required for sustainable SIDS and these swaps can often be in line with government priorities. It is therefore often portrayed as a win-win scenario. However, while debt for nature swaps can be positive overall, it is important to address negative effects to ensure national and local buy-in, also to safeguard conservation. For example, the initiatives

[39] Bissessar, Ann Marie. "Whose Governance? IMF Austerities in a Small Island State: The Case of Jamaica." Journal of Reviews on Global Economics 3 (2014): 190-199.

[40] IMF, 2019, Country Report No. 19/194 SEYCHELLES STAFF REPORT

so far have not reduced the total debt substantially, you cannot conserve more than 100%, and in terms of global equity and SDG 10 it is problematic if debt forces developing countries to conserve, while developed countries can continue with high-income activities on their historically natural areas. The positive effects of nature conservation, especially of the ocean, are shared globally, while this approach risks locking in the burdens, as well as the benefits, of conservation of the world's oceans on SIDS. Another challenge is that while elites may have acquired the debt in the first place, indigenous groups or local communities in the areas conserved could need support to change livelihoods due to enforced conservation.

Debt for adaptation swaps have also been suggested, in particular by ECLAC during the High-Level week of the General Assembly in 2019. There it was suggested that the GCF could purchase SIDS debt and reduce their servicing burden in exchange for the implementation of adaptation with the savings.

A Caribbean Resilience Fund was also proposed to target the region in particular. Adaptation measures are clearly needed across SIDS, so there is potential for significant scale of support through debt for adaptation swaps with favorable conditions. Payments to mitigate and address climate impacts, including a comprehensive mechanism to pay Loss and Damage is also a way developed countries can pay their debts, as outlined in the Paris Agreement, to SIDS and other developing countries. In addition, sovereign debt contracts could include disaster and debt suspension clauses to allow SIDS to address the impacts of natural disasters, which occur frequently in SIDS and are becoming more prevalent as climate change progresses. This language would provide governments with fiscal flexibility, instead of having to choose between debt service payments or domestic stability. Regulation against inhumane debt collection from vulnerable countries could also be written in major financial centers, such as London or New York.

The exploration of a novel disaster relief fund targeting SIDS was also included in the outcome of the SAMOA Pathway Midterm Review, which could include elements for debt for adaptation, conservation, resilience or other swaps. Debt for adaptation and resilience-building have the potential to address broader SIDS sustainable development concerns than debt for nature swaps, as socio-economic development is a key factor for climate change vulnerability. The creation of debt for health swaps would also be a valuable debt relief tool. This debt instrument was put forth during an ambassadorial dialogue in the summer of 2020 on debt distress in LDCs, LLDCs, and SIDS during the COVID-19 pandemic. This debt restructuring mechanism would provide the liquidity needed to address the immediate issues of the pandemic but would also provide the opportunity to better prepare for future health crises and improve the capacity of health care systems.[41] However, for SIDS debt levels to become sustainable long term and not be another burden more substantive changes are needed, such as creating a suitable international regulatory framework for debt relief and restructuring for persistently vulnerable countries. The Secretary General of the UN has repeatedly supported debt-relief, including for middle-income countries, also as measures to also address global challenges such as climate change and the impact of COVID-19.[42]

Early spring 2020 the G20 and the Paris Club, initiated the Debt Service Suspension Initiative (DSSI) a time-bound suspension by bilateral official creditors of debt service payments for the poorest countries that request forbearance. Private creditors are not required to pause costs. The communiqué of the spring meeting of the Development Committee of WB and IMG supported this call and instructed the institutions to monitor the debt crisis and report back to the committee. Eligible countries for the suspension must be "current" on any debt service payments to the IMF and WB. While the communique stresses progress in the debt standstill decision, it should be noted repayments are not cancelled and countries will owe the funds later, will continue to pay interest—and, the measures currently only applies to some SIDS.

There are still SIDS and other debt distressed countries, such as the LLDCs, however, who would not be eligible for this initiative because income measures used to determine eligibility categorize them as middle income countries despite persistent risk of debt distress. Some eligible countries have been hesitant to request forbearance, in part due to fears that such a default could risk their credit ratings, and ultimately increase debt servicing costs. The WB and IMF claim on the contrary that credit rating companies a unlikely to downgrade participating countries. However, the WB has posted an example of credit rating companies citing requests for the DSSI as a negative towards the rating of Ethiopia and Pakistan. It further explains that the three major credit

[41] Birch, Eugenie L. "A Review of "Climate Change 2014: Impacts, Adaptation, and Vulnerability" and "Climate Change 2014: Mitigation of Climate Change" Intergovernmental Panel on Climate Change.(2014).(Contribution of Working Group II to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change). New York, NY: Cambridge University Press. 2,621 pages. Available online at http://ipcc-wg2.gov/AR5/report/final-drafts/

[42] UN-EOSG, 2020, Notes on Correspondents on Debt Vulnerability and COVID-19, available at: https://www.un.org/sg/en/content/sg/note-correspondents/2020-05-06/note-correspondents-debt-vulnerabilityand-covid-19

rating agencies, Moody's, Standard & Poor's and Fitch, have made it clear that if private sector creditors are to participate in the DSSI this could lead to downgrading.

The communiqué also asks, inter alia, the WB and IMF to review the debt challenges of middle-income countries, and to explore expeditiously a range of solutions to fiscal and debt stress in those countries on a case-by-case basis. The development and debt situation in SIDS and other developing countries vary widely so this exercise is important. However, solutions are urgent given the impact of COVID-19 on SIDS economies, and a productive review should look beyond case-by-case issues and address institutional alternatives to the current rules. Furthermore, credit ratings in developing countries would also improve by developed countries addressing other structural strains on revenues, such as lowering agricultural subsidies in developed markets and addressing exploitative extractive industry practices.

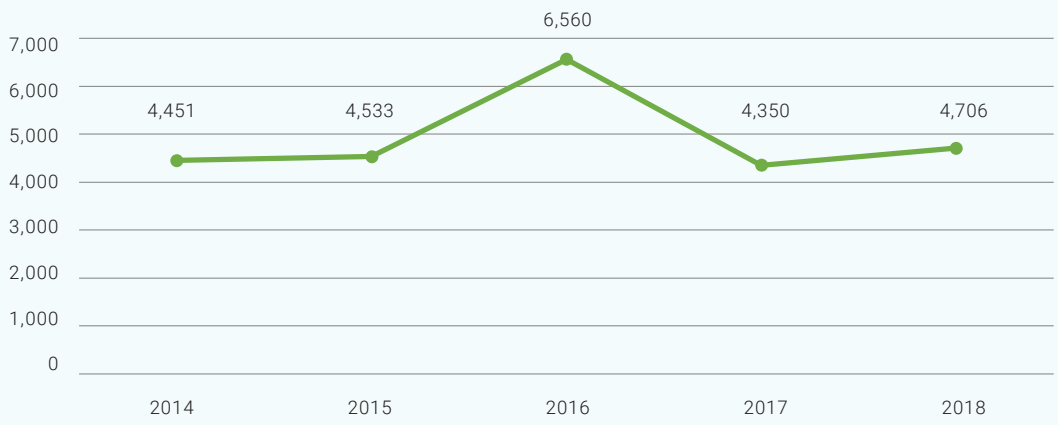
## 3.4 Official Development Assistance

Official development assistance (ODA) is government aid to promote economic development and welfare in developing countries both bilaterally and through multilateral institutions. Military funds are excluded. ODA includes grants, concessionary loans (where the grant is at least 25% of the total) and technical assistance.[43] ODA to SIDS in 2018 amounted to 4.7 USD billion, a 6% increase from 2014.[44] Only 5 OECD countries follow their commitments, to provide 0.7% of their GNI as ODA–a commitment repeatedly echoed from the 1970s.[45] SIDS generally depend on a single donor state for ODA. On average, the largest contributor provided 46% of concessional finance between 2012 and 2015.[46] At the same time, concessional finance is often splintered across small projects, burdening SIDS' capacities: 70% of transactions accounted for 2% of total concessional finance.

There are significant differences between SIDS, years and regions on the amounts of ODA received from international donors. Pacific SIDS are more aid-dependent, while the Caribbean and AIS, rely more on concessional and market-rate loans. As a simple average, SIDS received 508 USD per capita in 2018. However, many smaller SIDS receive substantially more per capita. Weighted by population, the average per capita net ODA received across SIDS was 72 USD. Least Developed Countries received 53.2 USD per capita the same year.

The Pacific received 2 USD billion in total ODA in 2018. Net ODA received in per capita terms average weighted by population was 161 USD.[47] Note that Papua New Guinea's population comprises 70% of the Pacific SIDS's total, and received the region's lowest ODA per capita at 91 USD. Not including Papua New Guinea, the Pacific receives 321 USD ODA per capita weighted by population. Papua New Guinea despite large extractive and other

**Net ODA Received SIDS Total in Constant USD Million 2018**




[43] OECD 2019, Making Development Work for Small Island Developing States, available here: https://www.oecdilibrary.org/development/making-development-co-operation-work-for-small-island-developingstates_9789264287648-en

[44] Development Assistance Committee of the Organization for Economic Co-operation and Development, 2018, Geographical Distribution of Financial Flows to Developing Countries, Development Co-operation Report, and International Development Statistics database. Data are available online at: stats.oecd.org- deflated to current 2018.

[45] https://www.oecd.org/dac/stats/the07odagnitarget-ahistory.htm

[46] https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-SIDS-2018-Highlights.pdf

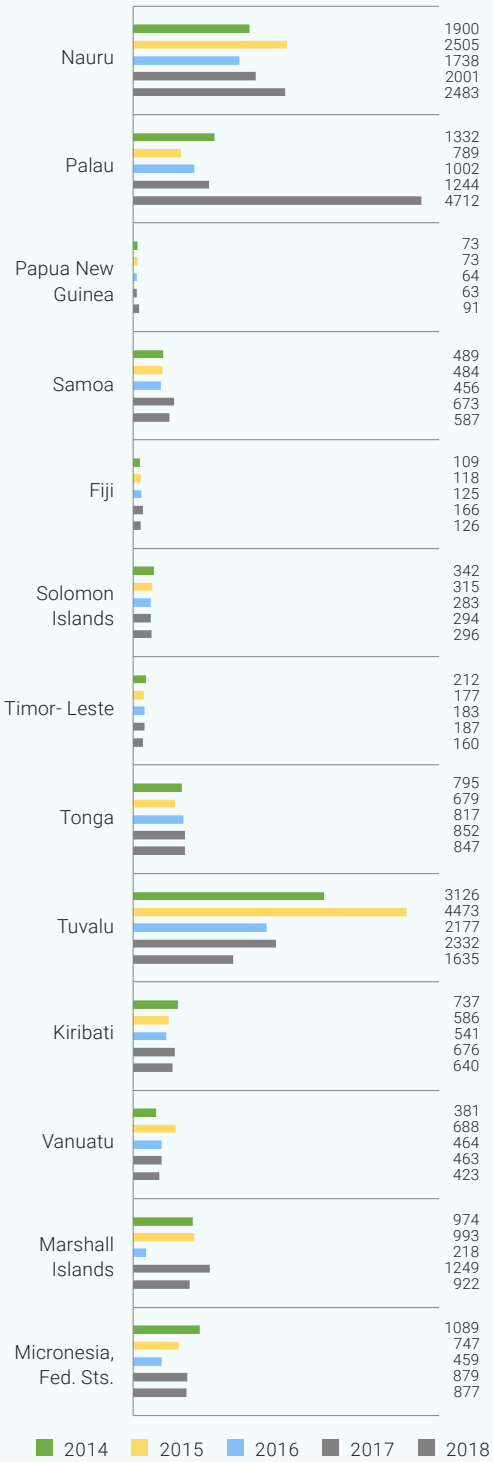
[47] Net ODA received per capita (current US$)DT.ODA.ODAT.PC.ZS

industries, which boost the country's GDP, many in the country struggle with poverty. For example, 46% lacked electricity access and 49 per 1,000 died before the age of 5 in 2017, some of the highest figures among SIDS.[48][49] Despite these challenges, the country receives less ODA per capita. Some small Pacific SIDS received very high ODA per capita in 2018, including Palau and Nauru, however, both have a population below 25 thousand and so the figures fluctuate widely.[50] In terms of ODA as a share of GNI, the Pacific also receives the most ODA, ranging from 2% in Fiji to 29% in Tuvalu in 2018.[51]

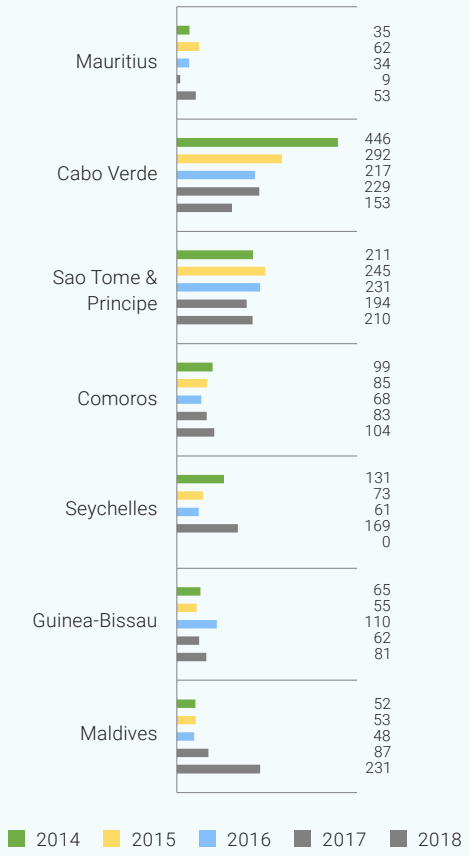
The AIS region received a 0.6 USD billion in total ODA in 2018.52 The AISs received 107 USD average per capita weighted by population (not including Bahrain and Singapore). Western African SIDS receive substantially more ODA per GNI compared to Indian Ocean SIDS, and of course Singapore. Guinea Bissau received the most at 10.4%, followed by Sao Tome and Principe and Comoros at 7.3%. These are also the countries with generally lower scores on several key human development indicators–including the HDI score listed above. For example, Guinea Bissau has the highest mortality before age 5 among the SIDS in 2018 at 82.[53]

The Caribbean received the least ODA per capita in 2018 at 57 USD on average weighted by population.[54] No recent data is available for St Kitts and Nevis, Bahamas and Barbados. It should be noted that 81% of the population in the Caribbean live in Cuba, the Dominican Republic and Haiti. Some Caribbean countries receive relatively high amounts of ODA following natural disasters or other shocks. For example, in the 2016 spike in Cuba was in part due to the 2016 debt crisis. The Caribbean Development Bank (CDB) has noted a declining trend in ODA to the region over the last 20 years, falling from 0.72% of global ODA in 2000 to 0.52% in 2016.

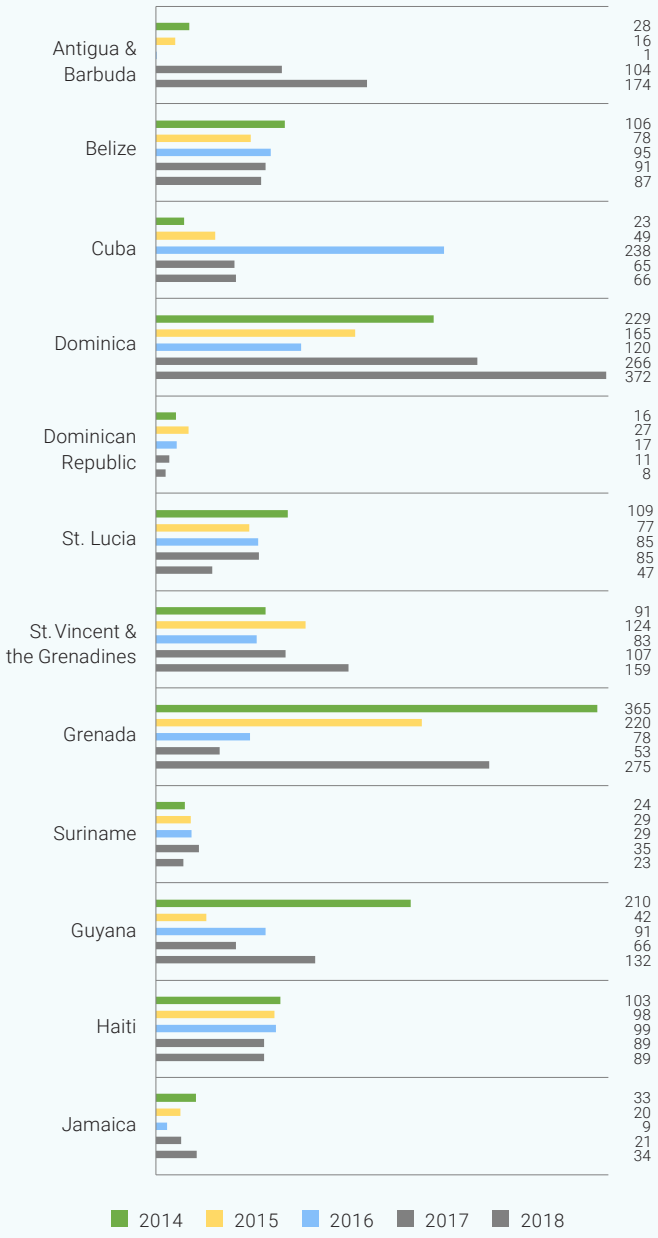
**Net ODA Received Per Capita 2014–2018 Pacific (Current USD)**



## Net ODA Received Per Capita AIS Region




## Net ODA Received Net Per Capita Caribbean




## 29 SIDS are on the DAC List of ODA Recipients Effective for Reporting in 2020

**LDC:** Comoros, Guinea Bissau, Haiti, Kiribati, Sao Tome and Principe, Solomon Islands, Timor Leste, Tuvalu, Vanuatu

**Lower middle:** Cabo Verde, Micronesia, Papua New Guinea

**Upper middle:** Antigua and Barbuda, Cuba, Dominica, Dominican Republic, Fiji, Guyana, Jamaica, Maldives, Marshall Islands, Mauritius, Palau, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Suriname, Tonga

Vanuatu (will graduate on 4 December 2020). Sao Tome and Principe (will graduate on 13 December 2024) Solomon Islands (will graduate on 13 December 2024).

Antigua and Barbuda, and Palau exceeded the high income threshold in 2017 and 2018, if the 7 and 2018. Accord to the OECD Development Assistance Committee, if they remain high income countries until 2019, they will be proposed for graduation from the DAC list.

## 3.5 World Bank IDA

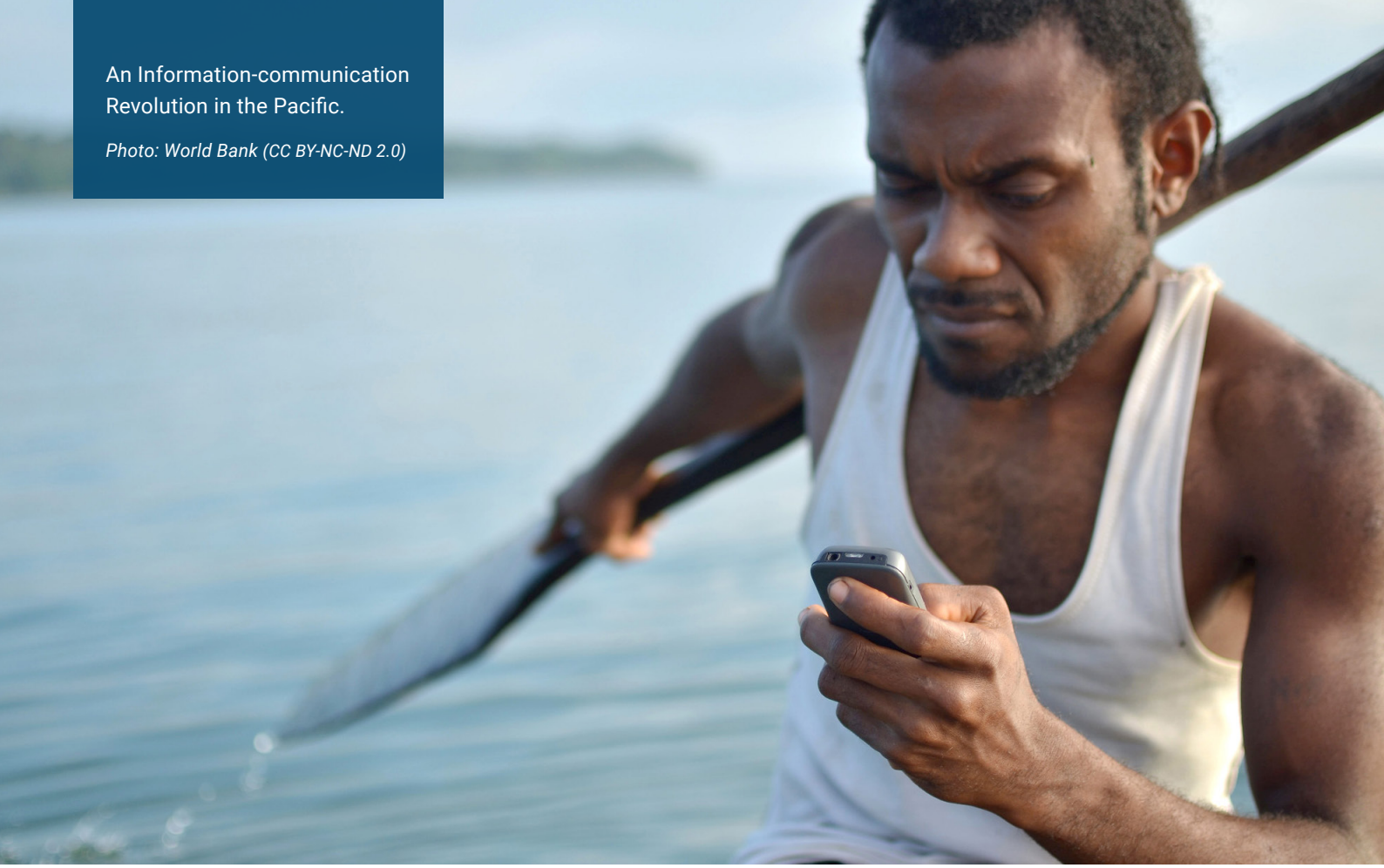
International Bank for Reconstruction and Development (IBRD) loans and International Development Assistance (IDA) credits are public and publicly guaranteed debt extended by the World Bank Group. The International Development Association (IDA) provides both grants and credit at concessional rates. IDA is included in the ODA figures above. The International Bank for Reconstruction and Development (IBRD) lends at market rates. In total in 2018 the IDA eligible SIDS received 3.7 USD Billion in IBRD and IDA loans and credit[55]. The International Development Assistance 22 SIDS are currently eligible for IDA, the 4 West African AIS SIDS and Maldives; 6 in the Caribbean and 11 in the Pacific.[56] Eligibility for IDA depends primarily on relative poverty, as GNI per capita below an annually reviewed threshold (1175 USD in the 2020 fiscal year). IDA also supports some countries, including several SIDS, that are above the limit but lack the creditworthiness needed to borrow from the IBRD.

| Current List of IDA Eligible SIDS[57] | | |
|---|---|---|
| **AIS** | **Caribbean** | **Pacific** |
| Cape Verde | Dominica | Fiji |
| Comoros | St Vincent and Grenadines | Kiribati |
| Guinea-Bissau | Grenada | Marshall Islands |
| Sao Tome and Principe | Guyana | Micronesia |
| Maldives | Haiti | Papua New Guinea |
| | St Lucia | Samoa |
| | | Solomon Islands |
| | | Timor Leste |
| | | Tonga |
| | | Tuvalu |
| | | Vanuatu |

[55] IBRD loans and IDA credits (DOD, current US$) (DT.DOD.MWBG.CD)

[56] World Bank, 2020, IDA borrowing countries, available at: http://ida.worldbank.org/about/borrowing-countries

[57] http://ida.worldbank.org/about/borrowing-countries#:~:text=Some%20countries%2C%20such%20as%20Nigeria,to%20as%20%E2%80%9Cblend%E2%80%9D%20countries

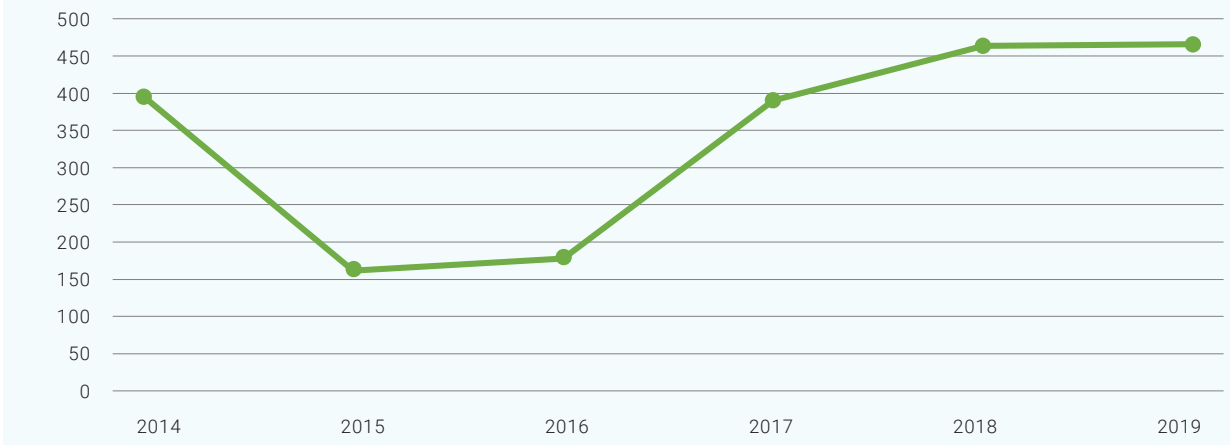


An Information-communication Revolution in the Pacific.

*Photo: World Bank (CC BY-NC-ND 2.0)*

The Small Island Exception (SIE) has been in place since 1985, for small island economies (islands with populations less than 1.5 million) that would otherwise not have qualified. In 2017, for the 18th replenishment of IDA resources (IDA18) this was extended to all IDA-eligible small States (countries with populations less than 1.5 million). In 2019, the SIE was further extended to IBRD-only small islands if their per capita income was below the IBRD graduation commercial credit, and access to IBRD was constrained by creditworthiness or ability to acquire further non-concessional debt sustainably.

**Total IDA Allocations to SIDS (Grants and Credits)**



## 3.6 Development Aid from Developing and Emerging Economies

The field of development finance providers has broadened over the last decades, including at the regional level, the Inter-American Development Bank, Asian Development Bank and African Development Bank also have important shocks and emergency liquidity funds, many of which were created or strengthened during the global financial crisis from 2008.[58] There has also been increased south-south cooperation, in particular from China and India, as well as increased funds from other non-traditional aid providers such as the Gulf States. However, aggregated and readily comparable data from the non-OECD providers is a challenge.

India has substantially increased its financial support to SIDS. At the India-Pacific Island Sustainable Development Conference held in Suva in 2017, during Fiji's UNFCCC presidency, it pledged a sum of 500 USD millions of grants 1 USD billion in soft loans over the next three years to SIDS.[59] Over the three years before, it contributed around 75 USD millions in grants for development partnership projects to SIDS. Furthermore, India has established significant research cooperation, including research institutes, coastal surveillance and hydrographic surveys. Venezuela through Petrocaribe is still a large holder of concessional loans, which were provided to facilitate Caribbean SIDS oil imports.

China has also significantly increased its grants and loans to SIDS, including 1.8 USD billion to Pacific SIDS in the period 2006-2016, of which about 80% were concessional loans and 20% grants.[60] There have also been significant infrastructure and other projects in the Caribbean region. The Republic of China (from now referred to as Taiwan), also provides significant development finance to some Pacific SIDS a well as cooperation with Eastern Caribbean SIDS in particular. China provides significantly more funding to the Pacific than Taiwan, notably in large infrastructure projects, but Taiwan's contributions are higher in per capita terms in historically more supportive SIDS in the Pacific in particular, such as Nauru, Tuvalu, and until recently Kiribati and the Solomon Islands.[61]

The Asian Development Bank has 13 SIDS, 12 Pacific SIDS and Maldives, among its developing member countries. Of these, all have access to its concessional assistance as of 1 January 2019. Eligibility for the financing groups (listed below), according to ADB guidelines, are largely determined by their nominal per capita GNI, creditworthiness, and risk of debt distress. From 2016 to 2018 commitments to SIDS grew from 191 USD million in 2016, to 229 million. Similarly, total commitments (including ADF grants, concessional ordinary capital resources, and regular ordinary capital resources) expanded from about 239 USD million in 2012 to 438 USD million in 2018.

| Group A – Concessional only | | | Group B | Group C |
|---|---|---|---|---|
| ADF-only (100% grants) | ADG-blend (50% grants) | Concessional ordinary capital lending-only (no grants) | Concessional loans and regular capital resources | Eligible for concessional resources only |
| Micronesia, FS<br>Marshall Islands<br>Nauru<br>Samoa<br>Tonga<br>Tuvalu | Maldives<br>Solomon Islands<br>Vanuatu | | Palau<br>Papua New Guinea<br>Timor-Leste | Cook Islands<br>Fiji |

Riibeta Abeta, from Kiribati's Ministry of Environment contemplates the future. He more than most knows the importance of educating people about the impacts of climate change.

*Photo: DFAT/Lorrie Graham*

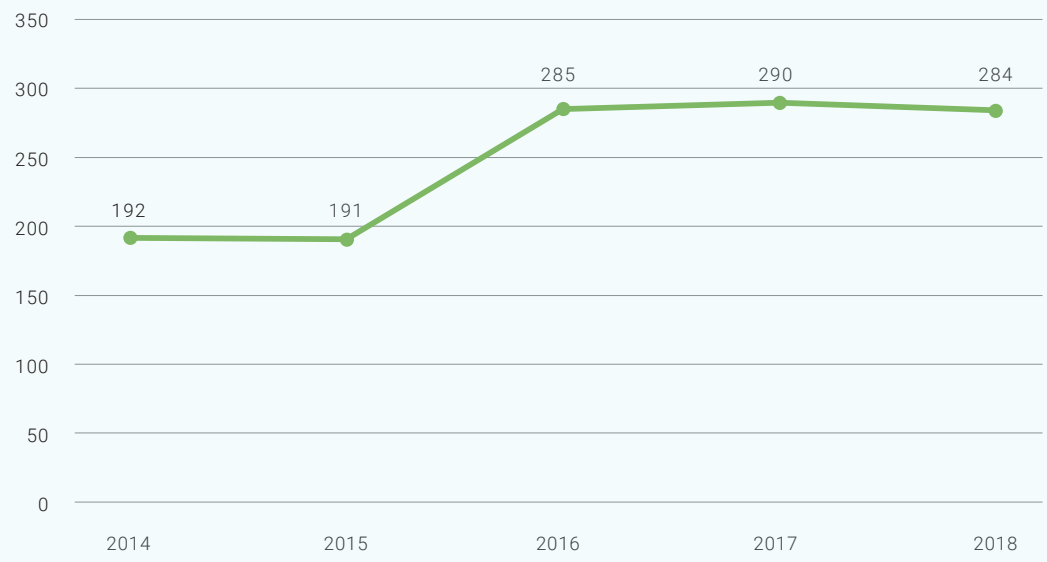
# 4.0 Focus Issues

## 4.1 Climate Change Finance

Natural disasters and the delayed onset effects of climate change severely affect SIDS and their ability to achieve sustainable development. From 2014 to 2018. Destructive weather events have increased by 30% globally.[1] SIDS are also highly vulnerable to non-climate-driven disasters, due in part to their location in some most disaster-prone parts of the world in part as the geological forces which have created some of the islands drive earthquakes and tsunamis. Climate change further exacerbates disasters, such as hurricanes, storm surges, and cyclones–and can increase vulnerability also to non-climate driven disasters. Furthermore, climate change is having a complex but negative impact on cultural and social institutions such as languages, customs and social support systems, including through migration, displacement and changing livelihoods. Building resilience is essential to achieve sustainable development in SIDS, but available financing is limited and difficult to access. Resources for resilience still represent a small share of concessional finance, although climate adaptation projects often address resilience broadly.

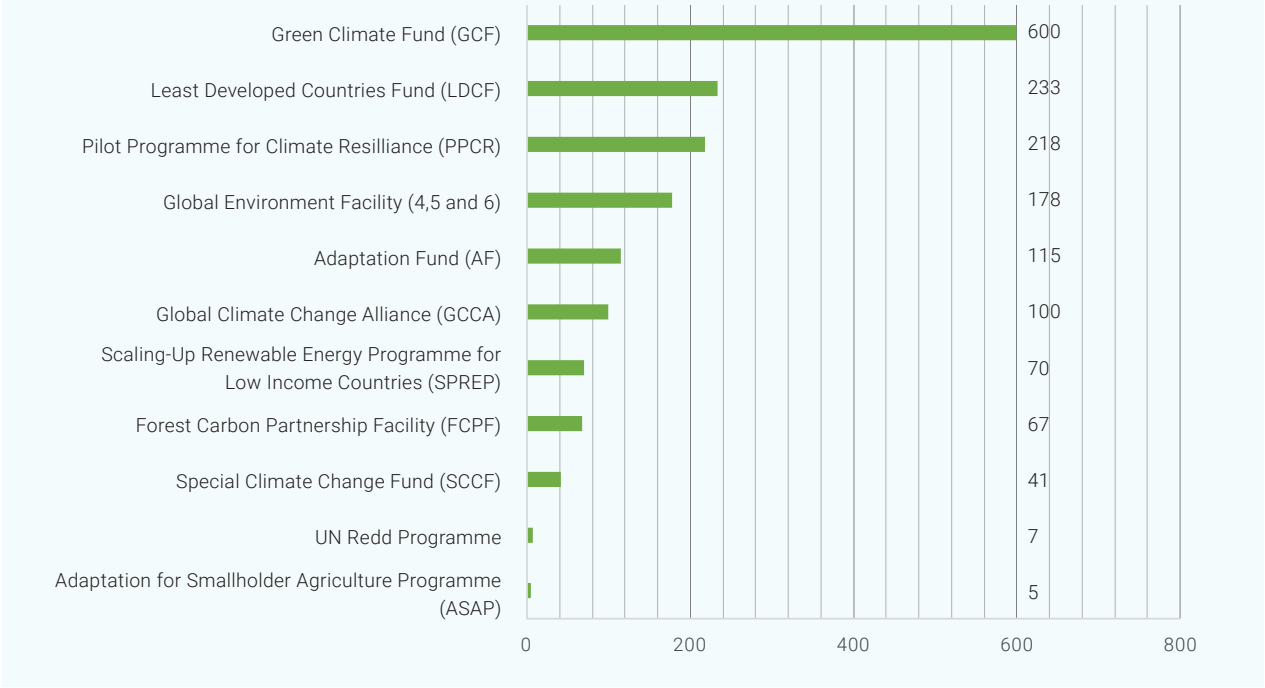
Climate Finance Update provides a compilation of climate finance from a range of climate finance institutions, such as the Green Climate Fund (GCF), Adaptation Fund (AF), and the Least Developed Country Fund (LDCF) and others. According to this data from 2014 to 2018, SIDS received about 1.2 USD billion in terms of approved climate-related grants and concessional loans also including regional and global projects targeting SIDS. SIDS received about 10% of the total concessional grants and loans. About half of these funds were provided by the GCF, which has been the largest contributor to SIDS since 2017. About 80% of climate finance to SIDS from the multilateral climate funds was grant-based, with the remaining being concessional loans.

**Climate-Related Grants and Concessional Loans from Multilateral Sources SIDS 2014–2018**
**USD Million Current**




[1] Munich Re, NatCatSERVICE analysis tool. Available at https://www.munichre.com/en/solutions/for-industryclients/natcatservice.html.

**Climate Fund Support for SIDS 2003–2018 Approved Amounts in USD Million Current**




**Source:** Climate Funds Update, 2019, Climate Finance Briefing: Small Island Developing States, Watson. C. and Chalatek L., HBS, available at https://climatefundsupdate.org/publications/climate-finance-briefing-small-island-developing-states-2018/

By region from 2014 to 2018, the Pacific received approximately 566 USD Million, the Caribbean 445 and AIS 202. All SIDS have received some concessional financing except for Singapore, and this estimate includes also some small island territories. Climate action in SIDS remain poorly funded given the magnitude of the challenge, and approved finance fulfills only a small part of actual needs. While in the rest of the world, most funds are directed at mitigation efforts, in SIDS funding for adaptation and mitigation has been more balanced.[62] Again, according to the Climate Finance Update data, about half of the climate finance for SIDS from 2014 to 2018 was for adaptation, and the remainder was for mitigation, mitigation through REDD and multi-focus projects. The global climate finance architecture is complex, and often involves lengthy application processes that are particularly challenging for small offices. Some progress has been made, such as the establishment of the Simplified Approval Process for GCF in 2017, however, SIDS still report significant hurdles for accessing climate finance; and the duration between project proposals to project implementation does not reflect the urgency of the climate crisis and our 2030 targets.

There still is no operational mechanism for financing loss and damage, as prescribed by article 8 the Paris Climate Agreement also in accordance with the principle of common but differentiated responsibility. Loss and damage refer to the negative impacts of climate change which occur despite mitigation and adaptation efforts. This was a central topic for the Conference of the Parties to UNFCCC in Madrid 2019, although the progress made was meagre. A positive decision in COP25 was for the Export Group on the Executive Committee of the Warsaw International Mechanism on Loss and Damage to the UNFCCC (WIM) to explore with GCF how developing countries can access finance for loss and damage. One central point of contention was the inclusion of language on additionality of loss and damage finance, and operationalizing the mechanism.

Another important decision was on the launch of an expert group on loss and damage for slow onset events and non-economic losses. Climate change is also having an impact on social and cultural value, including through migration, displacement and changing livelihoods. Languages, knowledge, community-support systems and other important social institutions can be lost as a result. None of which are easily nor sufficiently quantifiable in terms of monetary value. Regardless, costs are running and an operational mechanism with funding is essential to address immediate and emerging threats to SIDS. Furthermore, as recognized also in the COP25 decision, less funding for mitigation and adaptation now means need for more funding for loss and damage both now and later.

[62] See e.g. Watson, Charlene; Patel, Sejal; Durand, Alexis; Schalatek, Liane 2016/11Climate Finance Briefing: Small Island Developing States. Available at: https://gullivern.org/wp-content/uploads/wXaT57jq9c/think-tank-review/FI-Hj183T/fic1list/VEI1-2016-47a-66.pdf

The Marshall Islands coping with the effects of climate change and rising sea levels.

*Photo: Asian Development Bank (CC BY-NC-ND 2.0)*

As the SIDS Package to the 2019 Climate Action Summit describes, the political commitment for SIDS for mitigation and the transition to renewable energy is clear. The members of AOSIS have indicated that they will submit Nationally Determined Contribution (NDCs) in line with the 1.5 degree target in 2020. Furthermore, 12 SIDS have set targets aiming for more than 80% renewable energy penetration in the power sector, among which ten have set a target of 100% renewable energy.63 Renewable energy currently only accounts for about 10% of total installed capacity in the power sector for SIDS. Further efforts are needed to accelerate the energy transformation. In addition to finances, there are opportunities for technical innovation for small islands to rely completely on renewables, such as for battery capacity to balance peak demand and supply.

Many SIDS also rely on expensive imports of fossil fuel. For example, fuel imports amount to more than 20% of all merchandize imports in many SIDS across each of the three regions in 2018, although data is only available for about half of the SIDS64. Due to the constant fluctuation in oil prices, this high degree of dependence on imported fossil fuels is a major economic concern for some SIDS, in addition to the aim of mitigating climate change. However, in the first quarter of 2020 the price of oil has dropped significantly, reducing the cost for SIDS and the incentive for a renewable transition worldwide. At the same time, the front end investment in renewable energy infrastructure is high and many SIDS markets small and lacking in finances. Renewable energy is a classic case where difficulties in achieving economies of scale is particularly problematic for SIDS.

## 4.2 COVID 19 Response and Recovery

The impact of COVID-19 in the world and SIDS remains highly uncertain. The future will depend on both the impact of the virus itself, as well as national, regional, and global policy decisions at this crucial junction. SIDS are highly vulnerable to the impacts of COVID-19 both to the potentially devastating impacts on human health and to the broader social and economic effects of the virus and containment policies. According to a recent policy brief by UN DESA, the reported number of COVID-19 related deaths per 100,000 people is higher in these countries compared to other developing country groups and regions, including LDCs and LLDCs. As of 1st of May 2020, Bahamas, Dominican Republic and Trinidad and Tobago, are experiencing mortality rates as high as hard hit European countries. The number of confirmed cases and mortality rates could rise very quickly with the easing of travel restrictions and increased testing and reporting of COVID-19 cases.

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[63] IRENA Lighthouse initiative, 2019, https://islands.irena.org/-/media/Files/IRENA/Sids/IRENA_SIDS_Brochure_September-2019.ashx

[64] World Bank 2018 staff estimates through the WITS platform from the Comtrade database maintained by the United Nations Statistics Division. Data only available for half the SIDS. TM.VAL.FUEL.ZS.UN

In the initial outbreak of COVID-19 remoteness and small size appeared to limit contagion and propagation of the virus so in particular in the Pacific. All SIDS in the Caribbean and SIDS in every region are highly vulnerable and have severely limited capacity, including for detection and treatment of the disease. Furthermore, extensive lockdowns in developed countries have been followed by large fiscal stimulus packages. SIDS are generally unable to provide such countercyclical stimulus without external support. Vulnerable countries have broadly recognized their severe weaknesses for treatment, and many have therefore need to focus on mitigation measures. Most SIDS across the Caribbean, AIS, and Pacific have closed their borders for international travel, and some also for cargo shipments.

The Global Health Security index was released in 2019, a measure of the preparedness of the healthcare systems of the 195 countries parties to the International Health Regulations of the WHO.[65] The GHS Index is intended to be a key resource in the face of increasing risks of high-consequence and globally catastrophic biological events, such as the COVID 19 outbreak. As is clear from the scores in the table below, SIDS are among the worst prepared for the ongoing outbreak, in part due to lack of surge capacity: no SIDS fall in the Most prepared category, 9 are listed as More prepared, while 29 are categorized as Least prepared.

The combined effects of existing vulnerabilities and the COVID-19 pandemic presents urgent challenges for SIDS. Some SIDS also have high levels of non-communicable diseases, some of which can significantly increase the lethality of the disease.[66] Discrimination and violence against women is high across SIDS and if trends from other countries are replicated during lockdowns, domestic violence could rise to even higher levels, in particular in the Pacific region.[67] SIDS' lack of leverage in international affairs is also a major challenge as the impact in SIDS will to a large extent depend on decisions by larger states. For example, through extreme price hikes on essential Personal Protective Equipment, ventilators and other necessary supplies–unless active steps are taken. There are reports of medical equipment being already paid for by some states being diverted to others, such as Barbados claiming that the US seized shipments destined for the island.[68]

The GDP of SIDS will likely shrink by 4.7% this year, compared to a global contraction of around 3%. Contractions in these economies will be significantly larger than in LDCs and LLDCs[69], underscoring their extreme vulnerability to global economic shocks. The Bahamas, Maldives, Seychelles and Palau are expected to shrink by 8% or more, making the current crisis the worst in recorded history. The massive economic contraction will lead to significant increases in poverty and undermine the ability of these economies to withstand natural disasters. Cyclone Harold, which devastated four Pacific Island nations earlier this year, exposed the extreme vulnerability of these economies as pandemic-induced quarantines and lockdowns impeded the delivery of urgent humanitarian assistance.

What has emerged as a health crisis in the short term may well also have far-reaching impacts on the achievement of the SDGs and SAMOA pathway in the longer term. SIDS often depends heavily on a few industries, such as tourism or extractive industries, which as reiterated, makes them vulnerable to external shocks. Limited land areas for agriculture and high dependence on imported food, also weaken food security. A country with one airline landing, or one shipping company exporting goods can be in a difficult position also to recover from the global lockdown after the crisis. Furthermore, natural disasters, debt servicing and other SIDS challenges are not on lockdown–as demonstrated by hurricane Dorian hitting Bahamas last year. Concessional finance, technical support and other development efforts planned before the crisis should continue, and additional funds must be mobilized for SIDS not to fall further behind.

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[65] Global Health Security Index, 2019, available at: www.ghsindex.org

[66] Samuels, T., and Henry Fraser. "Caribbean Wellness Day: mobilizing a region for chronic noncommunicable disease prevention and control." Revista Panamericana de Salud Publica 28 (2010): 472-479. Savage, Amy, Lachlan McIver, and Lisa Schubert. "the nexus of climate change, food and nutrition security and diet-related non-communicable diseases in Pacific Island Countries and Territories." Climate and Development 12.2 (2020): 120-133.

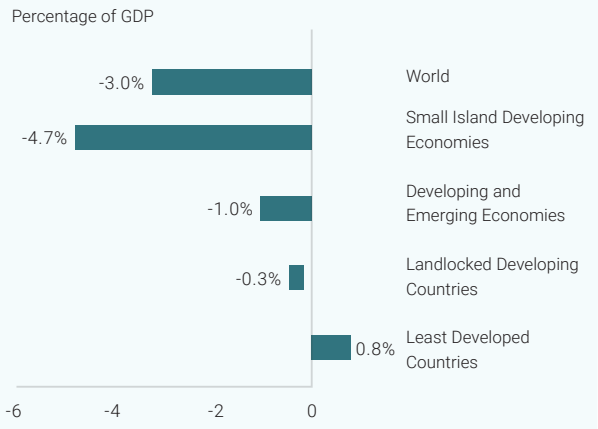
[67] United Nations Statistics Division (UNSD), Proportion of women subjected to physical and/or sexual violence in the last 12 months is the percentage of ever partnered women age 15-49 who are subjected to physical violence, sexual violence or both by a current or former intimate partner in the last 12 months: SG.VAW.1549.ZS; Taylor, Charlotte A. (2016) Domestic violence and its prevalence in small island developing states–South Pacific region. Pacific Journal of Reproductive Health, 1 (3). pp. 119-127; Pan American Health Organization, Violence Against Women in Latin America and the Caribbean: A Comparative Analysis of Population-Based Data from 12 Countries

[68] https://barbadostoday.bb/2020/04/05/ventilators-destined-for-barbados-seized-by-u-s/

[69] DESA 2020 SIDS Polciy Brief COVID 19

In addition to having large impacts on trade, for example an approximately 50 USD billion drop in global exports in February[70], the virus is also having a dramatic effect on remittances and tourism, which are both key sources of government revenues and livelihoods for SIDS. For example, in Antigua and Barbuda and Maldives, the share of inbound tourism expenditure over GDP was 59% and 57% respectively in 2018. The drop in global tourism demand will have devastating effects on certain SIDS economies, magnified by the duration of low demand. Remittances also comprise important revenue for most SIDS, which overall provides more funds than Official Development Assistance. Longer-term restrictions on migration and/or reduced income for migrants in developed economies in lockdown could severely reduce the remittance flow in the longer term.

## Projected GDP Growth Rated of Selected Country Groups, 2020




**Source:** UN DESA calculations, based on data from IMF, World Economic Outlook database.

## Transmission Chanels of COVID-19's Economic Impact on Small Island Developing Economies


**Source:** UN DESA

## Tourism and Covid


**Source:** UNWTO, 2020, Tourism in SIDS: the challenge of sustaining livelihoods in times of COVID-19, UNWTO Briefing Note, Tourism and COVID-19, Issue, 2, June 2020 https://www.e-unwto.org/doi/epdf/10.18111/9789284421916

[70] IMF estimate, 04.03.2020 https://news.un.org/en/story/2020/03/1058601

## SIDS–The Global Health Security (GHS) Index Scores

| | World Ranking (out of 195) | SIDS | Score | Visual Score |
|---|---|---|---|---|
| More prepared | 24 | Singapore | 58.7 | |||||||||||||||||| |
| | 88 | Bahrain | 39.4 | |||||||||||| |
| | 91 | Dominican Republic | 38.3 | |||||||||||| |
| | 99 | Trinidad and Tobago | 36.6 | |||||||||||| |
| | 100 | Suriname | 36.5 | |||||||||||| |
| | 108 | St Lucia | 35.3 | |||||||||| |
| | 110 | Cuba | 35.2 | |||||||||| |
| | 114 | Mauritius | 34.9 | |||||||||| |
| | 121 | Maldives | 33.8 | |||||||||| |
| Least prepared | 123 | St Vincent and The Grenadines | 33.0 | |||||||||| |
| | 124 | Micronesia | 32.8 | |||||||||| |
| | 133 | Barbados | 31.9 | |||||||||| |
| | 133 | Seychelles | 31.9 | |||||||||| |
| | 135 | Belize | 31.8 | |||||||||| |
| | 137 | Guyana | 31.7 | |||||||||| |
| | 138 | Haiti | 31.5 | |||||||||| |
| | 142 | Bahamas | 30.6 | |||||||||| |
| | 146 | Cabo Verde | 29.3 | |||||||| |
| | 147 | Antigua and Barbuda | 29.0 | |||||||| |
| | 147 | Jamaica | 29.0 | |||||||| |
| | 155 | Papua New Guinea | 27.8 | |||||||| |
| | 157 | Grenada | 27.5 | |||||||| |
| | 160 | Comoros | 27.2 | |||||||| |
| | 162 | Samoa | 26.4 | |||||||| |
| | 163 | St Kitts and Nevis | 26.2 | |||||||| |
| | 165 | Vanuatu | 26.1 | |||||||| |
| | 166 | Timor-Leste | 26.0 | |||||||| |
| | 168 | Fiji | 25.7 | |||||||| |
| | 171 | Tonga | 25.1 | |||||||| |
| | 172 | Dominica | 24.0 | |||||||| |
| | 179 | Palau | 21.9 | |||||||| |
| | 181 | Tuvalu | 21.6 | |||||||| |
| | 182 | Nauru | 20.8 | |||||| |
| | 183 | Solomon Islands | 20.7 | |||||| |
| | 186 | Guinea-Bissau | 20.0 | |||||| |
| | 189 | Kiribati | 19.2 | |||||| |
| | 191 | Marshall Islands | 18.2 | |||||| |
| | 192 | São Tomé and Príncipe | 17.7 | |||||| |

# 5.0 Financial Flows for Sustainable Development in SIDS

Financial flows to SIDS have overall not increased as much as one could have hoped during the first half of implementation of the SAMOA Pathway. To recap some of the trends in financial flows, from the beginning of the SAMOA Pathway in 2014 to 2018 Economic growth in SIDS has been low, FDI has fallen, ODA has increased somewhat, and remittances increased. At the same time, external pressures such as natural disasters, climate change, COVID-19 and creditors' demands continue to rise. SIDS risks and vulnerabilities as well as the need for concessional finance is acknowledged in a range of UN assessment and policy documents, while so far adequate support has not materialized as many SIDS continue to be unable to access concessional funding windows and struggle with unsustainable debt. For the successful implementation of Agenda 2030 and the SAMOA pathway more institutional changes are needed to sufficiently expand finance for development for SIDS.

The achievement of the 2030 Agenda and the SAMOA Pathway in SIDS will require unprecedented investment. If these investments are made through non-concessionary loans SIDS debt distress will only get worse. UNCTAD estimates, through an assessment of 31 developing countries, that meeting the basic SDG-related investment requirements to address poverty, nutrition, health, and education goals, would result in an increase of public debt-to-GDP ratios from around 47% in 2018 to minimum 185%, on average.71 Achieving the levels of investment through economic growth is equally unrealistic, as they estimate developing countries would have to grow at an average annual rate of 12% per year. These projections are from before the COVID-19 crisis, currently having a devastating impact on many SIDS economies.

A range of initiatives at the UN and the wider development sector aim at attracting private investment to achieve the SDGs by 2030, including tackling climate change. Furthermore, the Financing for Development Forum Outcome Document from 2020 only includes one specific mention of SIDS, in the paragraph on enabling sustainable investment. However, from 2014 to 2018 FDI to SIDS, developing countries and across the world has been stagnant. The immediate future of global investments is also not optimistic, and some international institutions, including the UN Task Force on Financing for Development, UNCTAD and IMF have amended their projections for 2020 to a possible recession, or even depression.7273 It is therefore not realistic to expect a surge of non-concessional investment will sufficiently address SIDS concerns in the near term. 2030 is approaching fast, in particular in view of the lack of progress over the last years. This is particularly true for ambitious climate action, which the IPCCC recommended to have been done decades ago to stay below the 1.5-degree target and to achieve SDG 13.

Proposals to attract private investment include innovative financing mechanisms, such as blended finance and de-risking of development projects, in particular for large renewable energy investment. De-risking means public funds are channeled into reducing the financial risk of investing in projects sometimes using securitization and hedging techniques to incentivize private investors. As UNCTAD 2019 highlights, experience suggests that de-risking and blended finance rather than reducing total risk, instead shifts the burden over to the public sector.74

Furthermore, the need for de-risking SIDS development projects in the first place arise in part due to their vulnerabilities discussed above, such as to climate change, debt and disaster risks, low purchasing power of local communities, remoteness and difficulties of achieving economies of scale. With increased recognized risks to SIDS, for example, that low lying SIDS will face existential threats from climate change, there is parallel recognition of the hazards of long-term investments. However, the risks are real even if projects are 'de-risked' and the cost will be borne by someone, whether in SIDS or in polluting coun-

[71] UNCTAD, 2019, World Trade and Development Report, Towards a Global Green New Deal, available at: https://unctad.org/en/PublicationChapters/tdr2019fas_en.pdf

[72] UNCTAD 2020, World Economic Situation and Prospects 2020, available at: https://www.un.org/development/desa/dpad/publication/world-economic-situation-and-prospects-2020/

[73] United Nations, 2020, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2020, available at: https://developmentfi nance.un.org/fsdr2020

[74] UNCTAD, 2019, World Trade and Development Report, Towards a Global Green New Deal, available at: https://unctad.org/en/PublicationChapters/tdr2019fas_en.pdf

tries. Furthermore, economic growth in SIDS is generally reliant on economic growth elsewhere. Global economic growth will further exacerbate climate change and environmental destruction. A realistic strategy to achieve the necessary shift of pace to achieve the SAMOA Pathway, the 2030 Agenda and the Paris Agreement cannot rely on economic growth globally, but must involve significant concessional financing quickly, in particular given the terrible start to the Decade of Action due to COVID-19.

A range of solutions to increase external financing for sustainable development in SIDS are available given sufficient political will also among large economies. For example, in particular through debt relief, debt for sustainable development swaps and systemic changes to the global debt architecture, dedicated or at least open windows in International Financial Institutions and development funds to concessional finance to address recognized vulnerabilities, including with tailored application and project management procedures, improved market access, lowering transaction costs for remittances, and, a range of other possible ways to provide urgent fiscal support to SIDS. This is necessary also in response to COVID-19, but the debt crises, climate crisis and other challenges will continue to devastate SIDS without institutional changes and changing priorities of the international community in accordance with its shared aspiration to reach the 2030 Agenda.

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## Small Island Developing States


**Note:** The boundaries and names shown and the designations used on this map do not imply official endorsement or acceptance by the United Nations.

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