



UN-OHRLS

supporting
Least Developed Countries
Landlocked Developing Countries
Small Island Developing States

United Nations Office of the High Representative for Least Developed Countries,
Landlocked Developing Countries and Small Island Developing States

FINANCING FOR DEVELOPMENT OF SMALL ISLAND DEVELOPING STATES



FINANCING FOR DEVELOPMENT OF SMALL ISLAND DEVELOPING STATES – ADVANCE UNEDITED COPY

GLOSSARY OF TERMS

AIS	Atlantic, Indian Ocean, and the South China Sea
CCRIF SPC Company	Caribbean Catastrophe Risk Insurance Facility Segregated Portfolio Company
CDB	Caribbean Development Bank
CRI	Climate Risk Index
DAC	Development Assistance Committee
DSSI	Debt Service Suspension Initiative
DTFT	Discrete-Time Fourier transform
ECLAC	Economic Commission for Latin America and the Caribbean
EVI	Economic Vulnerability Index
FDI	Foreign Direct Investments
GCF	Green Climate Fund
GDP	Gross domestic product
GNI	Gross National Income
HDI	Human Development Index
IADB	Inter-American Development Bank
IFC	International Finance Corporation
IoT	Internet of Things
J-CAP	Joint Capital Markets Program
LAC	Latin America and the Caribbean
LDC	Least Developed Countries
LDCF	Least Developed Countries Fund
MLAI	Machine Learning and Artificial Intelligence
MSMEs	Micro, Small, and Medium Enterprises
MVI	Multidimensional Vulnerability Index
NDCs	Nationally Determined Commitments
ODA	Official Development Assistance
ODF	Official Development Finance
OECD	Organization for Economic Cooperation and Development
OOF	Other Official Flow
PPE	Personal Protective Equipment
PPG	Public and Publicly Guaranteed
SAMOA	States Accelerated Modalities of Action
SDSN	Sustainable Development Solutions Network
SIDS	Small Island Developing States
SDGs	Sustainable Development Goals
UNCTAD	United Nations Conference on Trade and Development
UN DESA	UN Department on Social and Economic Affairs
UN-OHRLLS	Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States
WEF	World Economic Forum
WTTC	World Travel & Tourism Council

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CHAPTER 1: INTRODUCTION

The Small Island Developing States (SIDS)¹ are extremely vulnerable to external shocks due to their unique structural characteristics. For most SIDS, small, dispersed populations hamper the creation of sizable domestic markets and lead to capacity constraints. Their remoteness presents several logistical and competitiveness challenges related to limited connectivity and access to international markets (being less than one-third and well connected to other developing countries). For decades, most SIDS have relied on small, undiversified economies and often face high debt levels, most times accumulated from responses to external shocks, including natural hazards. In addition, many SIDS rely heavily on the rest of the world for remittances, official development assistance (ODA), and financial services. While as a group SIDS have little responsibility for climate change, contributing under 1% of global carbon dioxide emissions combined (UN, 2015), their impacts, combined with the economic vulnerabilities, continue to have severe implications for SIDS. Increasing climate change impacts and environmental challenges and the attendant development challenges from sea-level rise, altered rainfall patterns, and storm surges threaten to reverse progress made towards the Sustainable Development Goals (SDGs) and prevent the SIDS from achieving the SAMOA Pathway.

SIDS stand at a critical juncture in financing and addressing the acute challenges and development needs, exacerbated by the COVID-19 pandemic. SIDS have been recognized as a “special case” for development by the international community² (UN-OHLLS, 2015). It was recognized then that SIDS were a very distinct group, facing unique social, economic, and environmental vulnerabilities³. Subsequently, the 1994 Conference for SIDS was held, and the Barbados Declaration and Programme of Action for the Sustainable Development of SIDS (BPOA) was adopted. This Action Plan highlighted the need for international cooperation in finance, technology transfer, capacity building, and information sharing. Subsequent UN conferences for SIDS have been held since 2004 to review the implementation of the BPOA and other programmes of Action for SIDS, including in Mauritius in 2004 and Samoa in 2014, the progress on financing has been slow.

Nonetheless, SIDS have had some success in lobbying their collective efforts and vulnerabilities to promote some key decisions around climate change negotiations and climate finance. The Alliance of Small Island States (AOSIS) was established by SIDS in 1990 and used to successfully lobby for the recognition of the unique needs of SIDS in the text of the 1992 UN Framework Convention on Climate Change (UNFCCC). The work of the AOSIS has since evolved with success in ensuring that adaptation was given the same attention as mitigation and that funding would be made available to help countries adapt to climate change through the Adaptation Fund and Green Climate Fund. In addition, the AOSIS also mobilized

¹ A group of 38 Countries across three regions - the Pacific, the Caribbean, and Africa, the Indian Ocean, and the South China Sea (AIMS).

² At the 1992 UN Conference on Environment and Development (Earth Summit),

³ Chapter 17 of Agenda 21 (Protection of oceans, seas and coastal areas) recognizes the ecological fragility and vulnerability of SIDS due to their small size, limited resources, geographic dispersion, and isolation from markets.

support around the need to keep temperature rise below 1.5°C and pushed for the Intergovernmental Panel on Climate (IPCC) to produce a special report on the impacts of global warming of 1.5°C. SIDS were among the first to call for putting climate change on the agenda of the UN Security Council.

Financing for SIDS remains below the levels needed to advance the development goals and meet global objectives (UN 2022). Concessional flows (official development assistance) directed to SIDS in 2019 was \$5,742 million (mn)(OECD, 2021). SIDS receive very little Official Development Assistance (ODA) as a share of total ODA. The Pacific receives most aid, and some countries in the Caribbean, particularly Haiti, are heavily aid-dependent. In addition, several SIDS who have graduated to middle-income status have lost access to concessional finance from Multilateral Development Banks (MDBs) due to the eligibility requirements for access to concessional resources (determined by per capita income classifications). However, there are several exceptions that apply, the small island exception, which has been in place since 1985, allows small island economies (populations less than 1.5 million) continued access to WB IDA resources. High levels of public debt further exacerbate these financing challenges for most SIDS. Public sector debt (as a % of GDP) for SIDS has increased from an annual average of 33.8% in 2000 to an estimated 73.1% at the end of 2021. SIDS's external indebtedness is also considerably higher than in other developing countries. Between 2000 and 2019, the external debt of SIDS rose by 24 percentage points (of GDP), whereas external debt in developing countries declined by 6.2 points. By 2019, external debt accounted for 62% of GDP on average in SIDS, compared with 29% for all developing countries (UNCTAD, 2021).

The COVID-19 pandemic has amplified SIDS' pre-existing vulnerabilities related to exogenous shocks, climate change, small and remote populations, low diversification, and lack of competitiveness, evident in a decline in the islands' economic performance. In 2020, SIDS' GDP dropped by 6.9% versus 4.8% in all other developing countries (OECD, 2021), and some islands also witnessed unprecedented double-digit declines in real GDP and a slower recovery due to their heavy dependence on tourism and fisheries. For example, Fiji recorded a GDP contraction of about 15% and Cook Island recorded the largest contraction in the Pacific (32%). The pandemic has further undermined many of these countries' fiscal frameworks and debt sustainability, increasing debt default risks. High debt servicing and/or debt distress hamper the SIDS' ability to respond to the pandemic and invest in recovery and the 2030 Agenda and the Sustainable Development Goals (SDGs), including building climate resilience. The vulnerability to climate-related shocks and the prolonged impacts of the COVID-19 pandemic represent severe threats to the islands and have emphasized the need for SIDS to transition to more resilient and sustainable economies. Such transition requires adequate finance and efforts to increase the capacity of SIDS to access concessional financing. In SIDS, the difficulty of navigating a complex global architecture of funds and providers, combined with their lack of human and technical resources, limits their access to resources.

Before the COVID-19 pandemic, SIDS have called on the international community to acknowledge their challenges, particularly to external shocks and to provide greater targeted development cooperation support (UN 2022). The challenges set by the pandemic have accelerated this need and have forced SIDS to further appeal to the international community for financial assistance, warning that their economies were "in freefall." They called for debt relief and increased financing to build resilience to climate change and other shocks and stresses, including COVID-19 (IISD, 2021).

This publication will examine the financing needs of SIDS to achieve the 2030 Agenda and the SAMOA Pathway, recognizing the additional challenges brought on by the COVID-19

pandemic. The paper will provide an overview of development financing in SIDS by examining the latest available data on external financial flows to SIDS, including FDI, remittances, official transfers, climate aid, and other capital flows. It also investigates the impact of COVID-19 on such financial assistance and discusses the islands' ongoing debt sustainability issues in light of the pandemic. Chapter 2 will examine the structural challenges faced by SIDS to achieve the 2030 agenda and the SAMOA Pathway. Chapter 3 will explore the needs of SIDS for financing to achieve the 2030 Agenda and the SAMOA Pathway. Chapter 4 will provide an overview of what SIDS's have spent on the 2030 agenda, SAMOA pathway, and climate change. Chapter 4 will also assess the concessional and non-concessional current external financial resources SIDS access. Chapter 5 will outline SIDS's COVID support and recovery expenditures, including national and regional case studies. Chapter 6 will discuss the need to develop SIDS capital markets and digital finance as avenues of raising private finance. Chapter 7 will conclude with some recommendations and policy actions for consideration to address the significant financing for development challenges in SIDS.

CHAPTER 2: CONTEXT - THE STRUCTURAL CHALLENGES FACED BY SIDS TO ACHIEVE THE 2030 AGENDA AND THE SAMOA PATHWAY

INTRODUCTION

SIDS face unique structural challenges that the pandemic's prolonged impact has amplified. This chapter will discuss the challenges faced by SIDS, including the new dispensation that the COVID-19 pandemic has brought on. This chapter will discuss the most pressing issues around climate change, the increasing frequency and intensity of climate-related hazards, and the economic issues. While SIDS have been recognized as a special case for Sustainable Development since 1992, followed by a SIDS-specific sustainable agenda since the 1994 Barbados Programme of Action, the level of progress across various countries differs. This is partly due to many issues around competitiveness, productivity, and the inability of many SIDS to diversify their economies. In addition, exogenous shocks, as in the case of COVID-19, have derailed development progress. In the Caribbean, for example, recovery from the Global Financial Crisis varied across countries, from 5 to 10 years before levels of income could return to pre-shock levels. Other structural constraints include small population size, which creates a problem of economies of scale for most markets, high debt levels, high reliance on ODA and remittances, and rising sea levels⁴. Combined with the COVID-19 pandemic, these issues and the double-digit decline in real GDP in most economies will have long-lasting macroeconomic and social implications for SIDS.

DEFINITION OF SIDS

The definition of Small Island Developing States (SIDS) in this report refers to the 38 SIDS member states recognized by the United Nations and included in UN-OHRLLS and the UN Department on Social and Economic Affairs (UN DESA) list of countries⁵. SIDS are grouped across three geographical regions: the Caribbean, Pacific, and the Atlantic, Indian Ocean, and

⁴ OECD 2021. COVID-19 pandemic: Towards a blue recovery in small island developing states.

⁵ Small Island Developing States (SIDS) were recognized as a distinct group of developing countries facing specific social, economic and environmental vulnerabilities at the [United Nations Conference on Environment and Development \(UNCED\)](#), also known as the Earth Summit, held in Rio de Janeiro, Brazil (3-14 June 1992).

the South China Sea (AIS) region. SIDS also include 20 Non-UN Members/Associate Members of the United Nations regional commissions, not included in this study.

Table 1: SIDS Regions and Country Income Status

SIDS Regions and Country Income Status based on GNI per capita (WB 2022 Fiscal Year) categories:					
High Income >12,696 USD; Upper Middle 4,096 to 12,695; Lower Middle 1,046 to 4,095; Low-Income <1,045					
Caribbean SIDS (16)		Pacific SIDS (13)		Atlantic, Indian Ocean, and South China Sea (AIS) (9)	
High Income	Upper Middle Income	High Income	Upper Middle Income	High Income	Lower-Middle Income
Antigua and Barbuda	Guyana	Palau	Timor Leste	Bahrain	Cabo Verde
The Bahamas	Jamaica	Upper Middle Income	Tuvalu (LDC)	Singapore	Comoros
Barbados	Saint Lucia	Fiji	Lower-Middle Income	Seychelles	Sao Tome and Principe (LDC)
St. Kitts and Nevis	Saint Vincent and the Grenadines	Kiribati	Solomon Islands (LDC)	Upper Middle Income	Low Income
Trinidad and Tobago	Suriname	Marshall Islands	Vanuatu (LDC)	Maldives	Guinea-Bissau (LDC)
Lower Middle-Income	Cuba	Micronesia (Federated States of)		Mauritius	
Belize	Dominica	Nauru			
Haiti (LDC)	Dominican Republic	Papua New Guinea			
	Grenada	Samoa			
		Tonga			

Despite being a diverse group, SIDS face common structural constraints, including geographical location, cultural and other differences that span three regions across the Pacific, Caribbean, and AIS regions. In particular, the AIS region is the most geographically diverse, with members on both sides of the African continent and into the South China Sea. The structural challenges emanate mainly from small size, remote location, geographic dispersion, narrow asset bases, and high exposure and vulnerability to natural hazards and climate change impacts. However, they are not a homogenous group, as reflected in Table 1 above. Small and dispersed populations inhibit economies of scale due to small domestic markets and limited capacity, as SIDS are less than one-third as well connected as other

developing countries (OECD 2018)⁶. As such, competitiveness is hampered, and access to international markets is limited due to logistic challenges and high marginal costs of essential goods and services.

Figure 1: Key drivers of Vulnerability for SIDS



Source: Adapted from OECD (2018)

Most SIDS rely heavily on small, undiversified economies that are also vulnerable to global shocks, especially in service-based tourism economies, and depend on remittances and ODA. Many SIDS also face high levels of debt, linked in part to the cost of reconstruction following natural hazards, including hurricanes, cyclones, and other major disasters. Climate-related vulnerabilities have become more prominent with increasing frequencies. These include extreme weather events, sea-level rise, ocean acidification, and ecosystem degradation across SIDS. With the onset of the COVID-19 pandemic, social vulnerability has been brought to the fore. Many SIDS face challenges concerning their health responses and their ability to buffer social services for the most vulnerable populations.

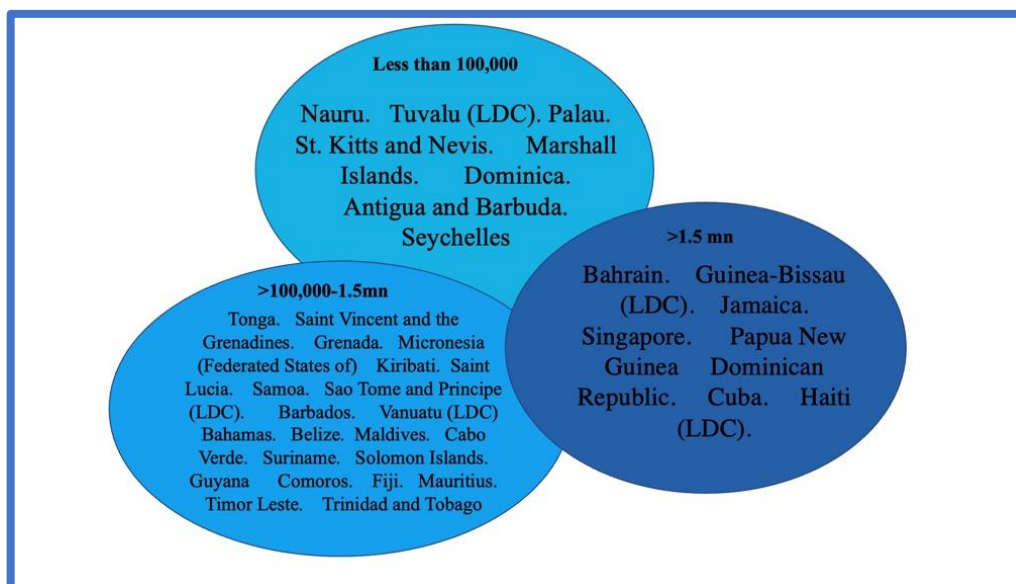
SIDS have small populations as compared to the rest of the world. SIDS account for 20% of the UN member states but less than 1% of the world population (at 66.7 mn in 2020)⁷. Populations of SIDS range from less than 100,000 to over 10 mn (see Chart 1). The lowest population is recorded in Nauru, with 10,830 persons as of 2020. In addition to population

⁶ OECD (2018), Making Development Co-operation Work for Small Island Developing States, OECD Publishing, Paris, <https://dx.doi.org/10.1787/9789264287648-en>

⁷ United Nations Statistics

size, land size varies widely from an estimated 452,860 km² in Papua New Guinea to about 20 km² in Nauru.

Figure 2: Population of SIDS (2020)



Source: World Bank 2021

Human development of SIDS, as measured by the Human Development Index (HDI), varies across the three dimensions of human development (life expectancy at birth, years of schooling, and Gross National Income (GNI))⁸. On average, the highest HDI was recorded for the Caribbean region (0.737), followed closely by the AIS SIDS (0.717) (see Table 2 below). Notwithstanding, the highest HDI scores were recorded in Singapore, Bahrain from the AIS region, and Palau from the Pacific in 2020, while Guinea-Bissau, Haiti, and Comoros had the lowest scores⁹. The range in HDI scores, from 0.480 to 0.938, highlights the challenges most SIDS face in making SDG progress given limited human, technical and financial resources. Most SIDS with low or medium HDI are also classified as least developed countries. However, some upper and middle-income countries, including Comoros, Papua New Guinea, Guyana, Timor Leste, Micronesia and Kiribati, and Cabo Verde, are also within that low to medium HDI group¹⁰. A combination of structural challenges and the low human capacity in most SIDS subject residents to high levels of poverty and inequality, with limited opportunities to realise their full sustainable development potential.

⁸ The GNI is a geometric mean of normalized indices for each dimension.

⁹ World Bank HDI scores 2020

¹⁰ HDI of less than 0.550 represents low human development, 0.550–0.699 is medium human development, 0.700–0.799 is high human development and 0.800 or greater is very high human development.

Table 2: HDI 2020

AIS		Caribbean SIDS		Pacific SIDS	
Guinea-Bissau (LDC)	0.480	Haiti (LDC)	0.510	Papua New Guinea	0.555
Comoros	0.554	Guyana	0.556	Solomon Islands (LDC)	0.567
Sao Tome and Principe (LDC)	0.625	Belize	0.716	Timor Leste	0.606
Cabo Verde	0.665	Jamaica	0.734	Vanuatu (LDC)	0.609
Maldives	0.740	Saint Vincent and the Grenadines	0.738	Micronesia (Federated States of)	0.620
Seychelles	0.796	Suriname	0.738	Kiribati	0.630
Mauritius	0.804	Dominica	0.742	Marshall Islands	0.704
Bahrain	0.852	Saint Lucia	0.752	Samoa	0.715
Singapore	0.938	Dominican Republic	0.756	Tonga	0.725
		Antigua and Barbuda	0.778	Fiji	0.743
		St. Kitts and Nevis	0.779	Palau	0.826
		Grenada	0.779		
		Cuba	0.783		
		Trinidad and Tobago	0.796		
		Bahamas, The	0.814		
		Barbados	0.814		
Average	0.717		0.737		0.664

Source: World Bank Development Indicators 2020

Common and Systemic Challenges

Low Economic Diversification and Economic Vulnerability

Most SIDS rely heavily on just a few products and sectors due mainly to the challenges of high production costs, limited competitiveness, and low integration into global value chains. Nearly half of all SIDS are service-based economies, with high dependence on tourism services for their economic and social development. The most tourism-dependent region is the Caribbean (average of 30% contribution to GDP in 2020), followed by the AIS SIDS (22.8% contribution to GDP in 2019) (see Table 3 below). However, the remoteness of many SIDS affects their ability

to participate in the global supply chain efficiently due to the high costs of imports, transportation, and labour, making them less competitive in the tourism industry. The World Travel & Tourism Council (WTTC) estimates that, on average, the tourism sector accounts for approximately 30% of the gross domestic product (GDP), of SIDS but can be over 50% for countries like the Maldives, Seychelles, St. Kitts and Nevis, and Saint Lucia. International tourism receipts make up over 80% of total exports in Saint Lucia, Palau and the Maldives (OECD, 2021). Travel and tourism in SIDS generate approximately \$30 billion per year¹¹. For many SIDS, this is a vulnerability (see Chart 3 below), which has severe economic and social consequences when a shock occurs. In the case of the COVID-19 pandemic, a decline in tourism receipts from 2020 has had far-reaching implications for revenue, debt, employment, and other socio-economic indicators due to the interconnectedness of tourism to other sectors of the economy. Many SIDS are witnessing record amounts of revenue losses resulting from the pandemic and subsequent fall in tourism. It is estimated that a 25% drop in tourism receipts will result in a USD 7.4 bn or 7.3% fall in GDP for SIDS as a group (OECD 2021). Such declines in revenue threaten to exacerbate SIDS' debt burdens as well as depress public investment and recovery responses (OECD, 2021). In Grenada, for example, tourist arrivals declined by 67% and consequently, GDP contracted by 13.8% in 2020. At the end of 2021, tourism had not returned to pre-COVID-19 levels, with significant impacts on the ancillary sectors which service the tourism industry, particularly MSMEs. In other SIDS, particularly LDCs, the economies are based on agriculture and some fisheries (23% of GDP in 2015, compared to just 7% in upper-middle-income SIDS)¹². Timor-Leste and Trinidad and Tobago are exceptions, with strong reliances on oil and natural gas. In these countries, oil and gas represent 90% and 40% of GDP respectively.

Table 3: Tourism (total % contribution to GDP)

	AIS		Caribbean SIDS			Pacific SIDS		
	2019	2020		2019	2020		2019	2020
Comoros	9.6	3.3	Haiti (LDC)	9.8	3.6	Papua New Guinea	2.0	1.4
Sao Tome and Principe (LDC)	14.7	6.1	Guyana	4.3	1.7	Solomon Islands (LDC)	9.3	3.5
Maldives	52.6	29.4	Belize	37.3	16.2	Vanuatu (LDC)	35.8	13.4
Seychelles	39.2	29.1	Jamaica	28.2	11.9	Kiribati	15.5	8.5
Mauritius	19.5	8.7	Saint Vincent and the Grenadines	41.7	16.4	Tonga	18.5	5.1
Bahrain	12.8	6.7	Suriname	2.6	1.0	Fiji	32.0	10.9
Singapore	11.1	4.7	Dominica	32.6	13.5			
			Saint Lucia	68.1	28.7			
			Dominican Republic	15.9	7.5			

¹¹ UNCTAD 2020.

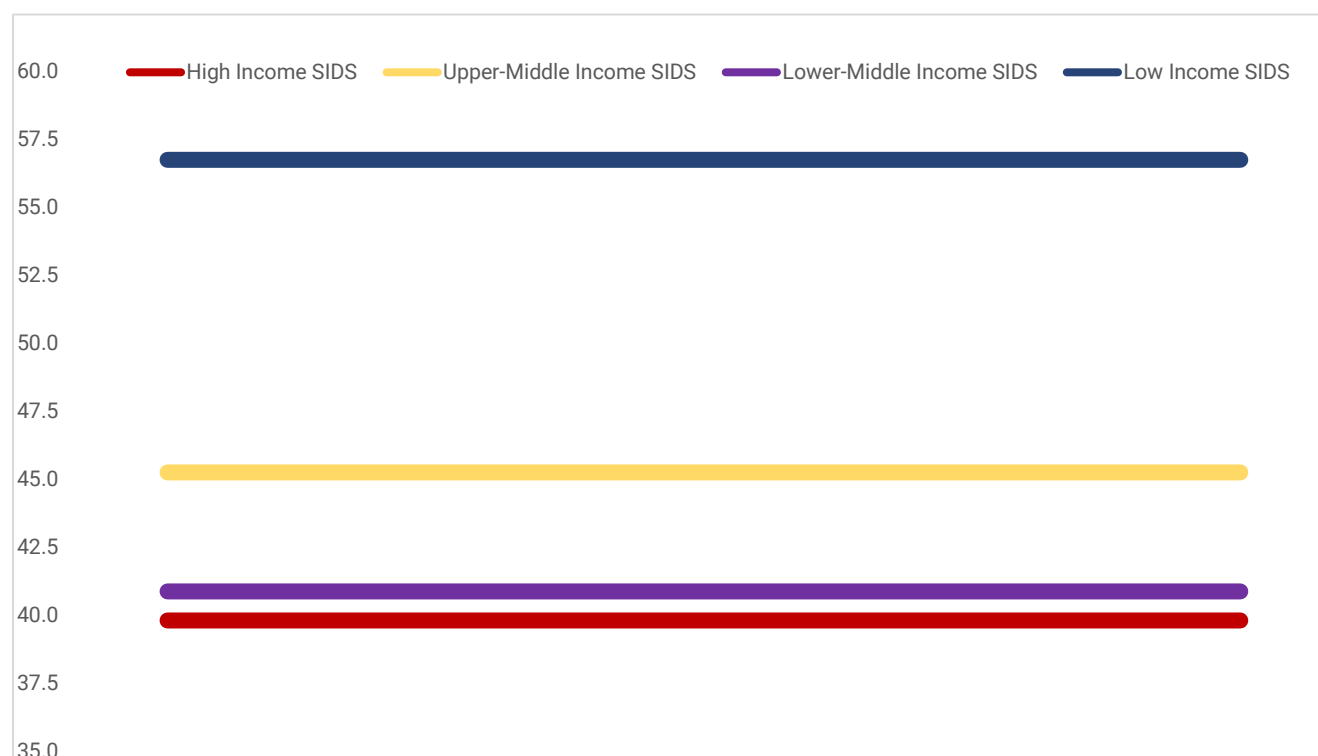
¹² OECD (2018), Making Development Co-operation Work for Small Island Developing States, OECD Publishing, Paris, <https://doi.org/10.1787/9789264287648-en>.

			Antigua and Barbuda	40.5	23.3		
			St. Kitts and Nevis	52.0	22.0		
			Grenada	40.7	16.6		
			Cuba	10.2	5.7		
			Trinidad and Tobago	7.4	4.2		
			Bahamas, The	44.4	20.0		
			Barbados	29.6	17.9		
Average	22.8	12.6		29.1	13.1		18.9 7.1

Source: WTTC

With limited natural resources and production bases, SIDS, as a group, score the highest among developing countries in terms of economic vulnerability. The economic vulnerability index (EVI) by Ferdi (2014) assesses the structural vulnerability of developing countries by measuring the impacts of economic and natural shocks but also includes other structural characteristics, including population size and remoteness from world markets¹³. The average EVI for SIDS for the period 2010-2018 was 40.2, with LDCs having an average of 45.3 compared to upper-middle-income SIDS that had a higher level of vulnerability (see Chart 3).

Chart 1: EVI Average 2000-2018



Source: Adapted from Ferdi (n.d.), Economic Vulnerability Index (database), Fondation pour

¹³ Feindouno S. and Goujon M. (2016) "The retrospective economic vulnerability index, 2015 update" Ferdi Working Paper P147, March 2016. Updated Data 2020 accessed on <http://byind.ferdi.fr/>

les études et recherches sur le développement international, Clermont Ferrand, France, <http://byind.ferdi.fr/en/indicator/evi/results/0bad6ab7965ccca0e81a70ddb010754ff774aa4>.

By geographical region, the Pacific region had the highest average EVI, followed by the AIS region for the period 2000-2018. The average EVI for the Caribbean was 38.9, slightly lower than that of the AIS region. However, this average EVI does not reflect the significant challenges faced by the Caribbean over the last few decades, including the erosion of trade preferences and loss of preferential market access for traditional products - such as sugar, bananas, and rice. For many SIDS, having moved away from agriculture, into services have increased vulnerabilities to global economic shocks, and raised issues of food security, as experienced during the early months of the pandemic. Even as countries recover, global supply chain disruptions and increases in prices make SIDS even more vulnerable to increases in prices and food supply shortages. The rapid change in global markets has led to the further marginalisation of many SIDS, putting them under increased pressure.

SIDS are on average, the most reliant countries on ocean economy sectors, such as tourism and fisheries, for jobs, foreign exchange, and income. Yet, they capture only a small fraction of the global value-added from the ocean economy (OECD, 2020). Against this backdrop, many SIDS governments have seen the blue economy as a vital opportunity to diversify their economies in recent years. They have undertaken several initiatives to advance the blue economy. For example, both Belize and Seychelles have issued debt for nature swaps to fund ocean and marine life conservation (See table 20), and Barbados established a Ministry of Blue Economy in 2018.

Applying a blue economy approach can allow SIDS to diversify from a narrow production base and invest in and develop growth and employment opportunities in many existing and new sectors. However, successfully undertaking a blue economy approach requires access to affordable long-term financing at scale. Domestic resources and traditional sources of funds, such as Official Development Assistance (ODA), are likely insufficient to fund sufficient investments in the blue economy in SIDS.

Despite their heavy dependence on ocean resources and the potential of the blue economy, SIDS receive only a small share of ODA towards the blue economy. Only 5.5% of ODA to SIDS targets the ocean economy, amounting to a total of USD 1.8 billion for the period 2013-18 or USD 296 million a year on average. This figure falls to 2.7% for ODA for the sustainable ocean economy in the same period, totalling USD 871 million or USD 145 million a year, on average. Among SIDS, the share of ODA channelled towards the sustainable ocean economy is highest in Nauru (20%), while it accounts for less than 1% of ODA in Cuba, Cabo Verde, Haiti, and Montserrat (OECD, 2020). Thus, there is a need for SIDS to receive additional tailored support to be able to take advantage of these opportunities.

Efforts to further diversify and improve economic resilience have also been hampered by low investments in infrastructure, including digital infrastructure, dependence on imported raw materials, and high costs of production and transportation, which have made it difficult to compete on world markets.

Table 4: EVI for SIDS

AIS		Caribbean SIDS		Pacific SIDS	
Guinea-Bissau (LDC)	56.768	Haiti (LDC)	34.538	Papua New Guinea	32.004
Comoros	48.682	Guyana	53.656	Solomon Islands (LDC)	53.136
Sao Tome and Principe (LDC)	44.239	Jamaica	34.454	Timor Leste	55.025
Cabo Verde	38.099	Saint Vincent and the Grenadines	42.144	Vanuatu (LDC)	47.560
Maldives	46.371	Suriname	61.424	Micronesia (Federated States of)	60.244
Seychelles	44.865	Dominica	39.894	Kiribati	80.689
Mauritius	26.082	Saint Lucia	39.104	Marshall Islands	64.022
Bahrain	34.052	Dominican Republic	22.820	Samoa	49.333
Singapore	30.884	Antigua and Barbuda	39.793	Tonga	60.869
		St. Kitts and Nevis	48.592	Fiji	40.514
		Grenada	42.172	Palau	69.501
		Cuba	33.958		
		Trinidad and Tobago	28.498		
		Bahamas, The	37.669		
		Barbados	24.623		
Average	41.1		38.9		55.7

Source: Adapted from Ferdi (n.d.), Economic Vulnerability Index (database), Fondation pour les études et recherches sur le développement international, Clermont Ferrand, France, <http://byind.ferdi.fr/en/indicator/evi/results/0bad6ab7965ccca0e81a70ddb010754ff774aa4>

Vulnerability to Natural Hazard Shocks and Climate Change

Due also to their geographic location, small size, high population density, and high per capita costs of critical infrastructure, including roads, bridges, and ports, SIDS are particularly vulnerable to extreme natural hazard shocks and climate change.¹⁴ Single natural disasters

¹⁴ UNCTAD 2020. Research Paper No. 55. Multiple Disasters and Debt Sustainability in Small Island Developing States. https://unctad.org/system/files/official-document/ser-rp-2020d14_en.pdf

have resulted in losses exceeding 200% of GDP in SIDS, such as Dominica¹⁵, undermining development gains and displacing communities. Losses from natural disasters are higher for SIDS, which make up approximately two-thirds of the countries that lose between 1% and 9% of their GDP each year¹⁶. More recent disasters such as Cyclone Harold in 2020 affected Vanuatu, Fiji, Solomon Islands, and Tonga. Haiti experienced an earthquake¹⁷ and Tropical Depression Grace¹⁸ in 2021 while St. Vincent and Grenadines experienced the eruption of the La Soufriere Volcano. In all these events, lives were lost, livelihoods impacted, and critical infrastructure damaged¹⁹. These events emphasise the systemic risks that small countries face, as a natural disaster can affect most parts of an island or territory at the same time²⁰. In terms of GDP, the estimated damage from natural disasters is higher for small states in the Caribbean, with an estimated average annual damage of 2.8% of GDP between 1970 and 2018¹⁸. For the Pacific small states, the estimated annual damage is 2% of GDP, which is in stark contrast to that of the rest of the world (0.3% of GDP) and other small states (0.2% of GDP).¹⁸

Furthermore, climate change poses a significant threat to SIDS. Rising sea levels and storm surges are already affecting critical infrastructure in the islands. Moreover, increasing ocean acidity is causing significant damage to coral reefs and marine ecosystems, which SIDS rely on for food and tourism. Additionally, present development trends are increasing SIDS' vulnerability to natural disasters. Pollution and ecosystem degradation and the extraction of coastal and marine resources for construction compromise natural buffers, leaving population and assets increasingly at risk. Thus, without integrating resilience and environmental conservation into development policies, these tendencies will continue to aggravate SIDS' structural challenges and vulnerability to shocks (OECD, 2021).

¹⁵ Losses from Hurricane Maria in Dominica in 2017 resulted in damages and losses exceeding 280% of GDP, with over 90% of housing stock impacted. Government of Dominica, Post Disaster Needs Assessment, 2017 and EM-DAT <https://www.emdat.be>

¹⁶ OECD/The World Bank (2016), Climate and Disaster Resilience Financing in Small Island Developing States, OECD Publishing, Paris, <https://doi.org/10.1787/9789264266919-en>.

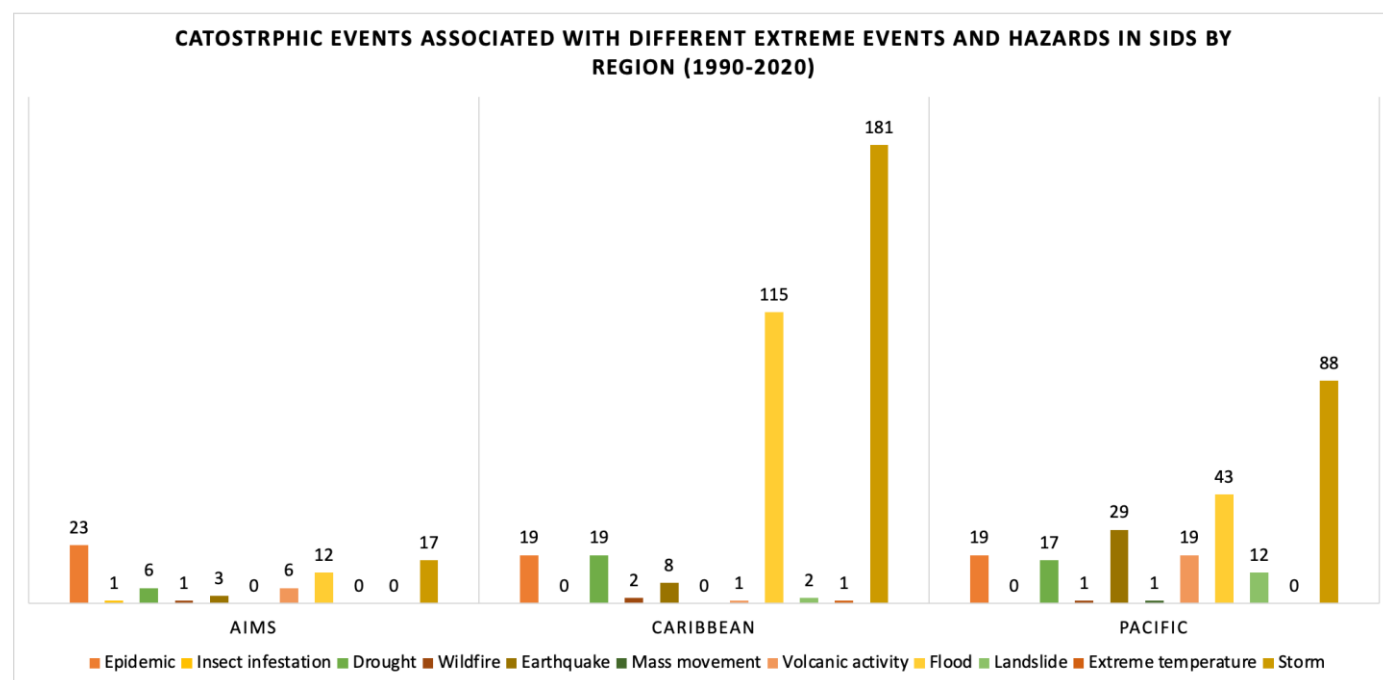
¹⁷ The 7.2 magnitude earthquake is estimated to have resulted in economic losses over US1.7bn, over 2,200 deaths and damage to over 130,000 buildings (CCRIF SPC).

¹⁸ Tropical Storm Grace also impacted the Dominican Republic, with over 500 homes affected

¹⁹ <https://www.undrr.org/news/extreme-weather-events-time-covid-19>

²⁰ Cebotari, A. and Youssef, K. (2020), Natural Disaster Insurance for Sovereigns: Issues, Challenges and Optimality, IMF Working Paper 20/3

Chart 2: Catastrophic events associated with different extreme events and hazards in SIDS by region (1990-2020)



Source: UNU-EHS 2021

Table 5: Top five SIDS with the highest climate and disaster risk and their ranking for risk, exposure, and vulnerability amongst SIDS and at the global level (based on the 188 countries considered in the InsuRisk Assessment tool)

	Risk		Exposure		Vulnerability	
	SIDS	Global	SIDS	Global	SIDS	Global
Haiti	1	2	4	6	8	70
Dominican Republic	2	3	2	3	9	79
Vanuatu	3	11	5	7	19	149
Jamaica	4	14	2	3	25	166
Saint Lucia	5	17	7	9	21	157

Source: UNU-EHS 2021

Climate change increases the exposure of SIDS to disaster and slow onset risks. With the increased frequency and strength of extreme weather events, rising sea levels, biodiversity loss, and ocean acidification, SIDS face increasing financing pressures on already strained budgets. According to the Global Climate Risk Index²¹ (2021), Dominica, Fiji, and Grenada are

²¹ The Climate Risk Index (CRI) indicates a level of exposure and vulnerability to extreme events, developed by Germanwatch, analyses quantified impacts of extreme weather events both in terms of the fatalities as well as the economic losses that occurred. In the CRI 2021, data from 180 countries were analysed.

the most vulnerable, with two LDCs, (Vanuatu and Haiti) in the top 10 vulnerable SIDS²². SIDS face high costs associated with The cost of disaster risk financing and management, reconstruction and rehabilitation following a disaster, and climate change mitigation and adaptation. Additionally, due to their high exposure to natural disasters, many SIDS mostly receive ODA support in response to large shocks and consequently receive inadequate long-term and predictable support to build resilience and address the drivers of vulnerabilities in SIDS. (OECD & WB, 2016).

Even though SIDS contribute less than 1% of global carbon emissions, the combined costs, including opportunity costs for investing in other social development areas such as health and education, will continue to hinder their progress towards the SDGs. In particular, the increased impacts of climate change on SIDS and ocean risks²³ will pose additional challenges to the economic growth and sustainable development of SIDS, with greater implications for social and human development.

Table 6: Global Climate Risk Index (CRI) (2000-2019)

AIS		Caribbean SIDS		Pacific SIDS	
Guinea-Bissau (LDC)	99.170	Haiti (LDC)	58.330	Papua New Guinea	90.830
Comoros	90.000	Guyana	108.170	Solomon Islands (LDC)	73.000
Sao Tome and Principe (LDC)	n.a.	Belize	48.670	Timor Leste	n.a.
Cabo Verde	137.670	Jamaica	63.830	Vanuatu (LDC)	58.830
Maldives	166.830	Saint Vincent and the Grenadines	59.170	Micronesia (Federated States of)	55.670
Seychelles	160.330	Suriname	164.000	Kiribati	116.330
Mauritius	124.170	Dominica	33.000	Marshall Islands	164.830
Bahrain	170.830	Saint Lucia	60.330	Samoa	72.670
Singapore	172.000	Dominican Republic	59.500	Tonga	75.670
		Antigua and Barbuda	64.500	Fiji	38.330
		St. Kitts and Nevis	116.000	Palau	n.a.
		Grenada	39.670		
		Cuba	n.a.		
		Trinidad and Tobago	148.000		
		Bahamas, The	n.a.		
		Barbados	135.330		
Average	140.1		82.8		82.9

²² David Eckstein, Vera Künzel, Laura Schäfer 2021

²³ Ocean risks refer to existing or potential impacts and experiences of socioeconomic and environmental stressors derived from the ocean or associated with the ocean economy that derail SIDS and LDCs from sustainable and equitable development paths (ORRAA, 2021)

Source: David Eckstein, Vera Kunzel, Laura Schafer 2021

As per the average Climate Vulnerability Index, the Caribbean and Pacific SIDS were the most vulnerable. This is consistent with the Intergovernmental Panel on Climate Change (IPCC) findings concerning the potential effects of climate change on SIDS. While the panel acknowledged the challenges with constructing climate information for SIDS due to observational and capacity issues as well as differentiating between human or natural influences on their climate, it was reported that SIDS are very likely that²⁴: (a) most small island regions have warmed from the levels observed in the 1960s; (b) sea level rises will continue in all SIDS regions and result in increased coastal flooding, and loss of shorelines²⁵; (c) Caribbean SIDS, in particular, will see declining rainfall, by up to 20-30% by 2100. While the probability of loss of shorelines for all SIDS is estimated at about 100 metres of the median shoreline, for the Caribbean, the estimate is as high as 200m²⁶.

According to the Global Ocean Health Index, The AIS SIDS was the top-performing SIDS region, with an average score of 72, This score was above the global average score of 70 and indicates the SIDS in this region are using their marine ecosystems more sustainably than other SIDS. Caribbean SIDS on average performed on par with the global average, with some islands such as Antigua and the Bahamas scoring well above at 79 and 77 respectively. Pacific SIDS scored generally slightly lower than the global average score of 70, with the exception of Samoa, Tonga, and Fiji who scored 70 or above. The top-performing SIDS was Seychelles with a total index score of 83, ranking 6th globally.

²⁴ IPCC, Climate Change 2021: The physical science basis, August 2021.

²⁵ Shoreline loss or shoreline retreat includes unundation, erosion or raising the mean water level.

²⁶ IPCC, Climate Change 2021: The physical science basis, August 2021.

AIS		Caribbean SIDS		Pacific SIDS	
Guinea-Bissau (LDC)	68	Haiti (LDC)	59	Papua New Guinea	67
Comoros	71	Guyana	63	Solomon Islands (LDC)	65
Sao Tome and Principe (LDC)	75	Belize	73	Timor Leste	n.a.
Cabo Verde	77	Jamaica	71	Vanuatu (LDC)	69
Maldives	70	Saint Vincent and the Grenadines	65	Micronesia (Federated States of)	63
Seychelles	83	Suriname	71	Kiribati	n.a.
Mauritius	69	Dominica	71	Marshall Islands	64
Bahrain	71	Saint Lucia	70	Samoa	73
Singapore	60	Dominican Republic	66	Tonga	76
		Antigua and Barbuda	79	Fiji	70
		St. Kitts and Nevis	72	Palau	69
		Grenada	70		
		Cuba	68		
		Trinidad and Tobago	66		
		Bahamas, The	77		
		Barbados	72		
Average	72		70		68

Table 7: 2021 Global Ocean Health Index Scores²⁷

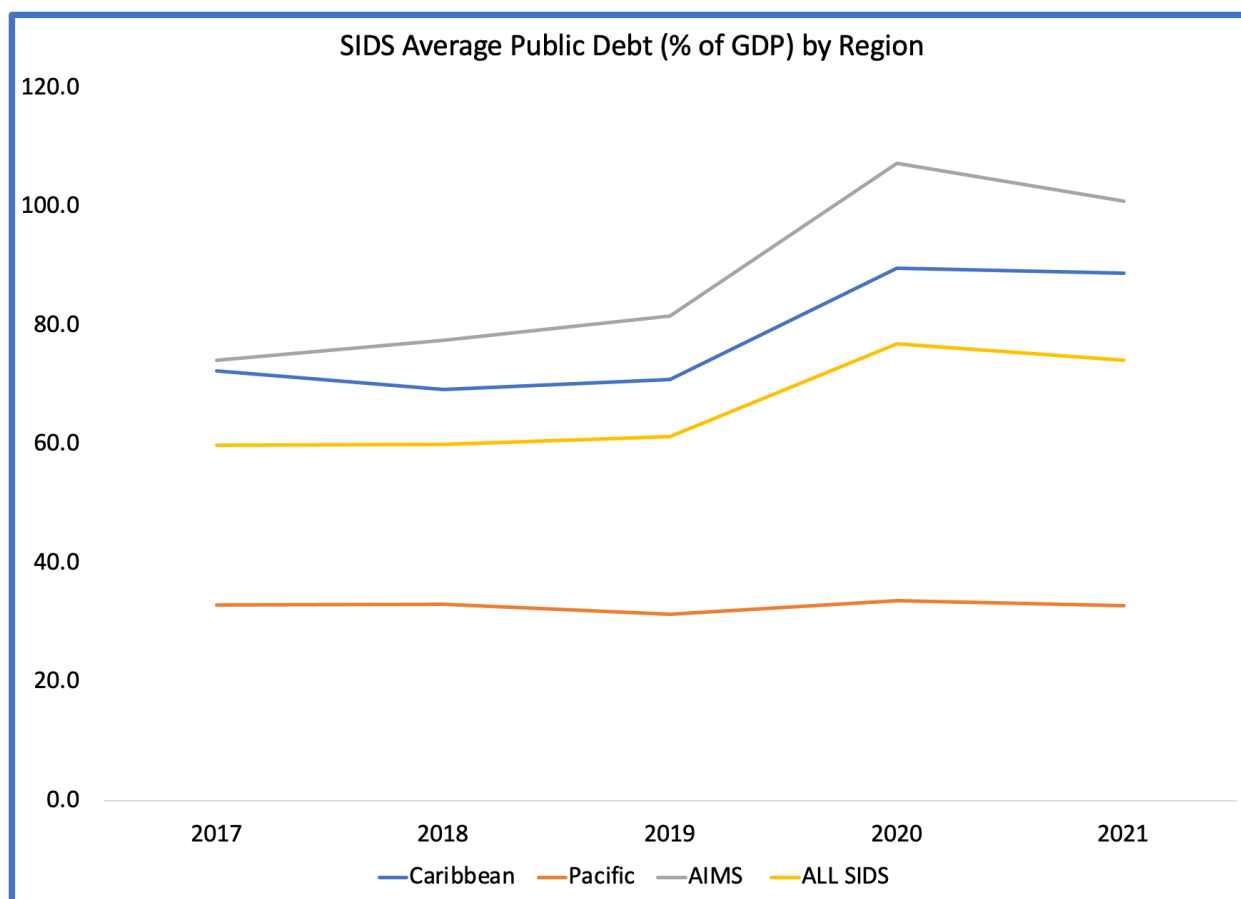
Source: Ocean Health Index 2021

Debt and Debt Sustainability

²⁷ A country's Index score is the average of 10 "goal" scores which represent the ecological, social, and economic benefits that people expect from healthy oceans. Each goal is scored from 0 to 100 based on the delivery of benefits with respect to a sustainable target. Lower scores indicate that more benefits could be gained or that current methods are harming the delivery of future benefits. A country's overall index score, which ranges on a scale from 0 to a 100, assesses how sustainably people are using marine ecosystem in a region (Ocean Health Index, 2015), with 100 being a healthy and productive ecosystem.

SIDS face long-standing debt challenges of different magnitudes. As of December 2021, 15 out of the 20 SIDS rated according to the World Bank and IMF Debt Sustainability Analysis²⁸ were either in debt distress or at a high risk of debt distress, while another 4 were moderately in distress. Public sector debt (as a % of GDP) for SIDS has increased from an annual average of 33.8% in 2000 to an estimated 73.1% at the end of 2021²⁹. This represents a total of US\$9.9 billion (bn) in 2021, a 7.3% increase from 2020.

Chart 3: SIDS Public Debt 2021 (as a % of GDP) by region



Source: IMF WEO October 2021 Update

Table 8: SIDS Public Debt 2021 (as a % of GDP) by region

	2017	2018	2019	2020	2021
Caribbean	72.3	69.2	70.9	89.6	88.8
Pacific	33	33	31.3	33.6	32.8
AIMS	74.1	77.5	81.5	107.2	100.9
ALL SIDS	59.8	59.9	61.3	76.8	74.2

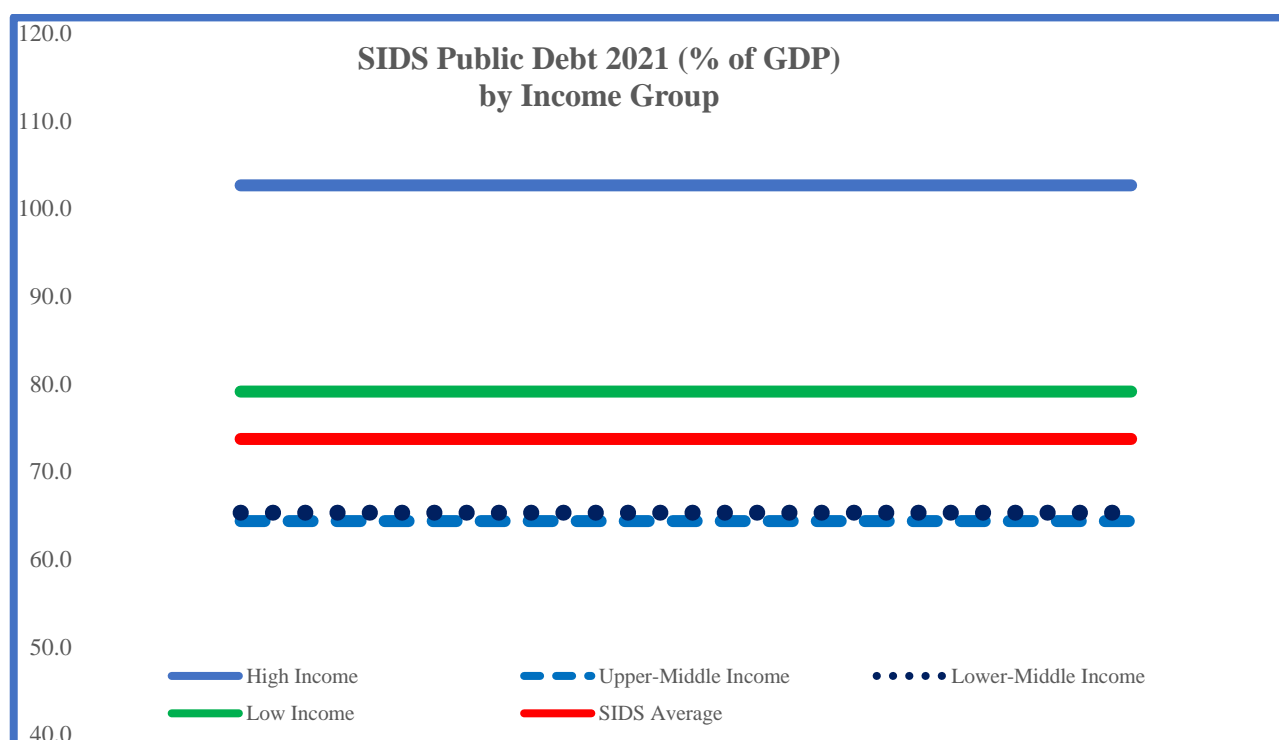
²⁸ The World Bank and the IMF prepare debt sustainability analysis for 20 SIDS using the list of IDA eligible countries, and subject to the Low Income Countries Debt Sustainability Framework (LIC-DSF), available online via: <https://www.worldbank.org/en/programs/debt-toolkit/dsa>

²⁹ IMF WEO, October 2021 Update. Debt data available for 37 out of the 38 SIDS. Cuba is not included.

AIMS SIDS remain the highest indebted SIDS. In 2021, all AIMS SIDS, with the exception of Comoros, Guinea-Bissau, Sao Tome Principe, and Seychelles, witnessed debt level over 100% of GDP.

Although the stock of debt includes concessional debt, the continuous increase in debt, which is projected to rise to US\$11.5 bn (79.7% of GDP) by 2026, will hamper the ability of SIDS to undertake activities related to inclusive, sustainable development as envisioned by the SDGs. The average debt for high-income SIDS was 102.7% of GDP in 2021, compared to 79.1% of GDP for low-income countries. The average for middle-income countries hovered above the 60% benchmark, with many in high debt distress³⁰. Debt service costs are also high, with external debt servicing costs averaging 5.3% of GDP for small economies³¹.

Chart 4: SIDS Public Debt 2021 (as a % of GDP) by income group



Source: IMF WEO October 2021 Update

There is also a difference in terms of debt levels, between SIDS that had benefitted from international debt relief initiatives such as the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) and those that have not. Only five SIDS were eligible for these schemes including Comoros, Haiti, Guinea-Bissau, Guyana, and São Tomé and Príncipe (UNCTAD, 2020). The debt situation of these five SIDS has drastically improved over the past 15 years, but the remaining SIDS have seen, on average, an increase in their debt to gross national income (GNI) ratios. (OECD, 2018)

³⁰ High debt distress: Dominica, Kiribati, Maldives, Marshall Islands, Micronesia, Papua New Guinea, Samoa, St. Vincent and the Grenadines, Tonga, Tuvalu, Cabo Verde, Haiti. Debt Distress: Sao Tome and Principe and Grenada

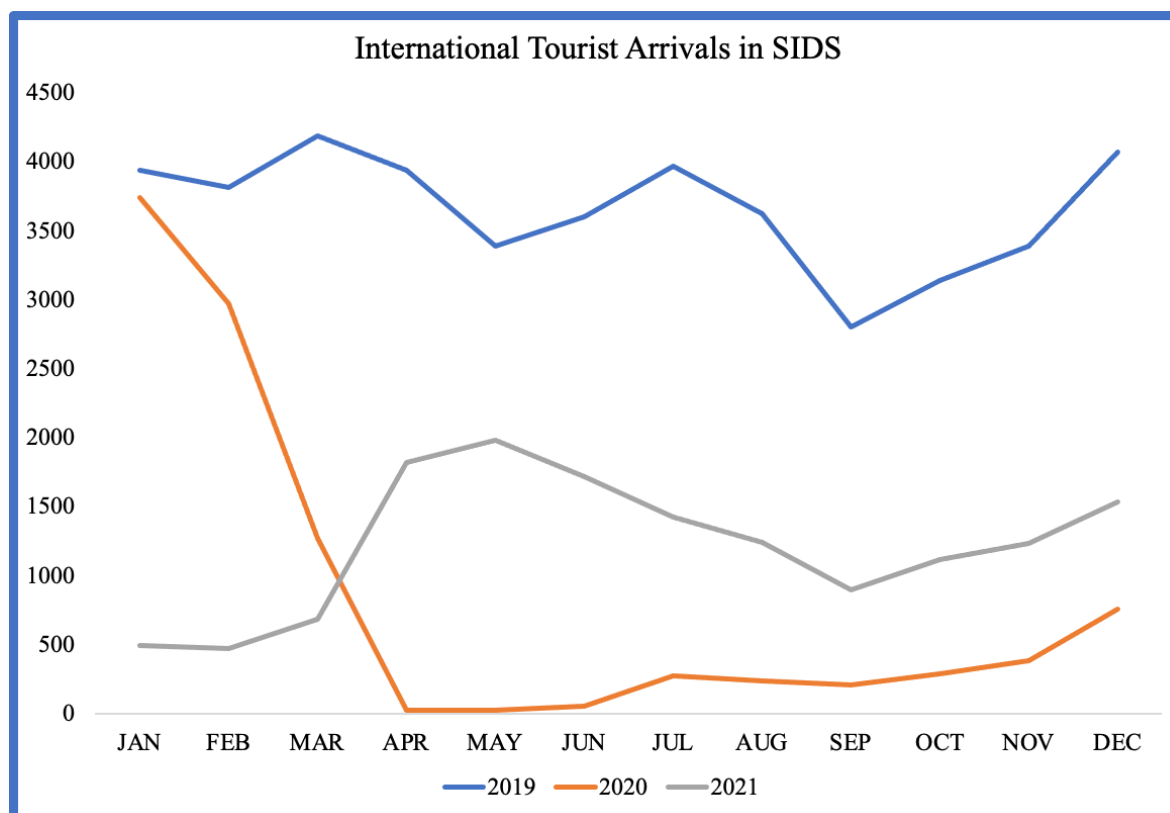
³¹UN-DESA, 2020, The COVID-19 Pandemic Puts Small Island Developing Economies in Dire Straits, available at: <https://www.un.org/development/desa/dpad/publication/un-des-policy-brief-64-the-covid-19-pandemic-puts-small-island-developing-economies-in-dire-straits/>

The debt sustainability of SIDS has been severely impacted by climate change and natural disasters, and now a health pandemic. Disasters add to countries' debt to GDP ratio immediately following the disaster, with implications for all income country groups. The possibility of high-debt-low-growth nexus is always present after a shock, which further constrains the capacity to invest in long-term development, climate change adaptation, and resilience. Each new shock poses new financial vulnerabilities and further weakens the capacity of the domestic response. In the case of COVID-19, many countries, especially SIDS have seen an increase in borrowing levels to help cushion the impacts of the pandemic. As the pandemic lingers, it is expected to put further pressure on the public finances of many SIDS, with higher healthcare spending, lower revenues from taxation, and a greater need for increased transfers and social spending for safety nets. As this pandemic continues, SIDS will become increasingly vulnerable, as fiscal deficits will rise and access to finance for maturing debt will become more costly and challenging.

COVID 19 Impacts

The impact of COVID-19 on SIDS remains highly uncertain. The outlook depends on both the duration and impact of the virus itself and national, regional, and global policy decisions, including the access and uptake of vaccinations. The limited scope of most SIDS to adequately respond to the health and social impacts of the pandemic are expected to have potentially long-lasting effects on human health and social development. Additionally, SIDS suffered more severe economic impacts than other countries because of the contraction in tourism and fisheries and their over-reliance on these sectors (OECD, 2021). On average, tourism accounts for over 30% of total exports in most SIDS and over 50% for some, including the Maldives, Seychelles, and Bahamas. In countries like Saint Lucia and Palau, tourism revenues make up 98% and 88% of total exports, respectively. In 2019, SIDS attracted approximately 44 million visitors and the tourism sector earned USD 55 billion in export revenues. However, in just the first four months of 2020, international arrivals were down 47% in SIDS (UN WTO, 2020). According to the latest data from the UN World Tourism Organization, Caribbean destinations, for example, experienced a 67% fall in international tourist arrivals in 2020 compared to 2019 (UNWTO, 2021). The economic implications of SIDS' over-reliance on the tourism and fisheries sector imply the need for SIDS to identify and develop new sustainable economic sectors that foster economic diversification and resilience. In order to contribute to a faster and more resilient recovery in SIDS, supporting new and emerging ocean-economy opportunities in ways that encourage significant linkages and multiplier effects across many economic and social sectors is vital (OECD, 2020).

Chart 5: International tourist Arrivals in SIDS 2019-2021 (million)



Source: UNWTO, 2021

Table 9: Monthly International Tourist Arrivals in SIDS (Thousands)

MONTH	2019	2020	2021	% CH 21/20	% CH 21/19
JAN	3938	3741	490	-87%	-88%
FEB	3812	2967	474	-84%	-88%
MAR	4188	1273	684	-46%	-84%
APR	3936	28	1819	6396%	-54%
MAY	3389	27	1979	7230%	-42%
JUN	3597	52	1717	3202%	-52%
JUL	3968	276	1422	415%	-64%
AUG	3623	239	1240	419%	-66%
SEP	2800	210	898	328%	-68%
OCT	3137	290	1114	284%	-64%
NOV	3390	383	1235	222%	-64%
DEC	4069	760	1537	102%	-62%
TOTAL	43847	10246	14609	43%	-67%

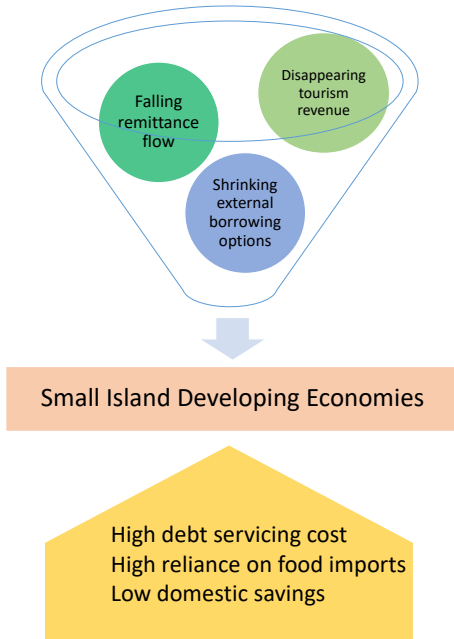
Source: UNWTO, 2021

SIDS managed the first wave of the COVID-19 pandemic relatively well in 2020. However, a prolonged pandemic and pre-existing vulnerabilities have weakened the ability of national governments to respond. In the face of a fourth wave and a new variant, SIDS find themselves in a peculiar position with limited scope for further lockdowns and countercyclical stimulus measures. According to the Global Health Security Index, many countries, including SIDS, remain unprepared for future epidemic and pandemic threats due to a lack of surge capacity (see Table 9 below). The combined effects of existing vulnerabilities and the prolonged COVID-19 pandemic present urgent challenges for SIDS. Health outcomes in many SIDS were already poor, with high levels of non-communicable diseases, low investments in health, and limited human resource capacity. From a development perspective, the implications of the pandemic could be far-reaching for SIDS to achieve the SDGs and SAMOA pathway, as many states will take longer to recover from the COVID-19 scarring without an increase in development aid and financing.

Table 10: SIDS-Global Health Security Index (GHS) 2021 (out of 195 countries)

High Income			Upper-Middle Income			Lower-Middle Income			Low Income		
Country	Index Score	Rank	Country	Index Score	Rank	Country	Index Score	Rank	Country	Index Score	Rank
Antigua and Barbuda	30.0	136	Dominica	26.4	160	Belize	29.7	139	Guinea-Bissau	21.4	183
The Bahamas	30.1	135	Fiji	25.8	169	Cabo Verde	34.1	105			
Bahrain	36.3	92	Grenada	26.7	157	Comoros	24.9	175			
Barbados	34.9	98	Guyana	30.8	128	Haiti	30.4	130			
Seychelles	31.8	120	Jamaica	31.8	120	Sao Tomé and Príncipe	26.6	158			
Singapore	57.4	24	Kiribati	26.2	63	Solomon Islands	23.3	180			
St. Kitts and Nevis	31.7	122	Maldives	32.0	118	Vanuatu	25.9	168			
Trinidad and Tobago	36.8	88	Marshall Islands	24.6	176						
			Mauritius	39.7	79						
			Micronesia	28.5	150						
			Nauru	18.0	190						
			Papua New Guinea	25.0	174						
			Samoa	28.8	145						
			St. Lucia	34.7	100						
			St. Vincent and the Grenadines	33.5	110						
			Suriname	35.0	97						
			Timor-Leste	27.8	154						
			Tonga	26.4	160						
			Tuvalu	20.0	188						

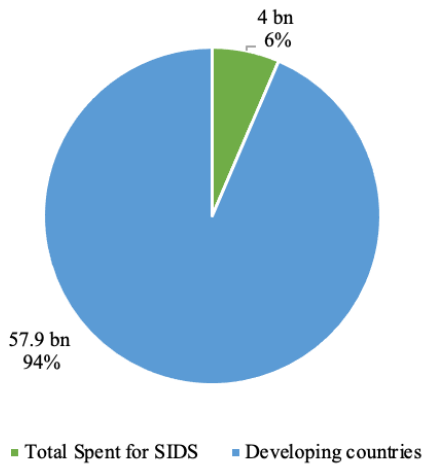
Figure 3: Transmission channels of COVID-19's economic impact on SIDS



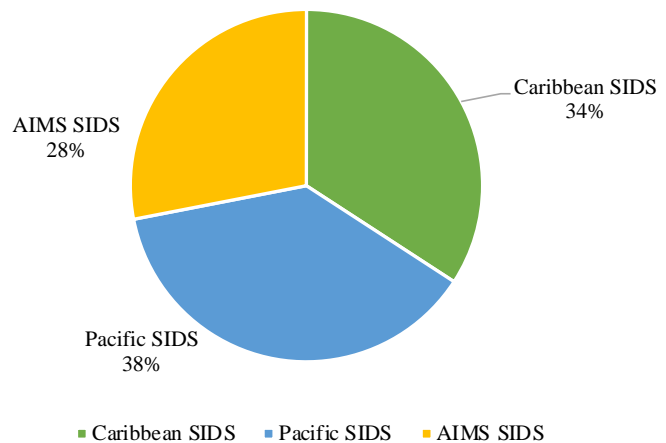
Source: Adapted from UNDESA

Figure 4: Global responses to Support SIDS

COVID-19 support by International Partners to SIDS vs Developing countries



COVID-19 Support by International Partners disbursements to SIDS by region



Source: Adapted from UN, 2021

COVID-19 support to SIDS by International partners was approximately US\$4 bn compared to US\$57 bn spent for Developing Countries and US\$21 trillion spent globally³² (See appendix 1 for a breakdown of international disbursements by SIDS).

Recognising developing countries' new liquidity problems, in April 2020, the World Bank and the IMF, supported by the G20 and the Paris Club, launched a debt service alleviation mechanism targeting the poorest countries called the "Debt Service Suspension Initiative" (DSSI). The DSSI allowed low-income countries (LICs) to temporarily suspend their debt payments owed to their official bilateral creditors. However, the middle-income classification of many SIDS has prevented them from access to the DSSI, despite their high public debt and debt service burdens. Thus, only twenty-two SIDS were eligible for the DSSI, and only thirteen participated.

The low levels of participation of some SIDS may be related to the pre-conditions related to the structure of the debt, as the DSSI applied only to bilateral debt, and debt levels. In addition, a country needed to be in an IMF financing arrangement, or it could have requested financing (including emergency financing) from the IMF to benefit from the DSSI. Countries that were not eligible for IMF financing due to debt sustainability issues could have benefited from the DSSI. However, the initiative focused solely on IDA countries, the poorest countries deemed most in need during the pandemic. For middle-income countries that did not qualify for the G20 official bilateral debt service suspension, international financial institutions such as the IMF provided rapid support through emergency financing facilities and policy loans.

For SIDS, 22 were eligible for the DSSI and, as of September 2020, but only 17 had participated by the end of 2021 (see Table 10). These include, for example, Cabo Verde, Comoros, Dominica, Grenada, Maldives, Papua New Guinea, Samoa, Sao Tome and Principe, Saint Lucia, and Tonga. Among DSSI participants, the highest beneficiary as of December 2021 was Maldives (4.1% of GDP), followed by Tonga (2.8% of GDP) and Samoa (2.1% of GDP).

In 2020, 11 SIDS were deemed ineligible for debt suspension under the G20 initiative, 6 had high public debt and debt service burdens, at over 40% of revenue on average (UN DESA 2020). Some DSSI-eligible SIDS who participated in the initiative also exhibited a high risk of external debt distress, including Haiti, Saint Vincent, and the Grenadines. In contrast, others such as Tuvalu and the Marshall Islands did not participate (OECD 2020).

³² United Nations 2021: <https://www.un.org/ohrrls/content/covid-19-sids> accessed on December 28th, 2021.

Table 11: List of DSSI eligible SIDS and their participation in December 2021

Country	% of GDP	US\$mn
Cabo Verde	1.7	34.3
Comoros	0.4	4.6
Dominica	1.3	7.5
Fiji	0.5	29.6
Grenada	0.9	11
Guinea-Bissau (LDC)	0.5	6.8
Guyana	0.5	28.4
Haiti (LDC)	0.9	127.5
Maldives	4.1	228.7
Papua New Guinea	0.3	72.9
Saint Lucia	0.3	6.6
Saint Vincent and the Grenadines	0.7	5.5
Samoa	2.1	18
Sao Tome and Principe (LDC)	1.3	5.5
Solomon Islands (LDC)	0.1	1.5
Tonga	2.8	14.3
Vanuatu (LDC)	1.4	13
		615.7

Source: IMF

Furthermore, the IMF has facilitated some rapid financing mechanisms to assist developing countries facing liquidity problems through the Rapid Credit Facility, the Rapid Financing Instrument, the Catastrophe Containment and Relief Trust, and through augmentation of the Extended Credit Facility. (See chapter 5 for breakdown). Regional banks have also created response facilities aimed at financially supporting their members. Because of the diverse origins of the debt, these initiatives haven't been adequate to meet the financing needs of many SIDS, as those with the highest debt burdens remain outside the scope of this G20 debt program.

CHAPTER 3: THE FINANCING NEEDS OF SIDS TO ACHIEVE THE 2030 AGENDA AND THE SAMOA PATHWAY

Before the COVID-19 pandemic, SIDS faced financing challenges with limited fiscal space and high debt. Most SIDS have faced mounting challenges to increase spending to respond

adequately to the health emergency and provide stimulus support to reenergize the economies. This has proved challenging as revenues have declined, and remittances have, in some instances, been lower than in prior years. While the development community has responded to the needs of SIDS through ODA, there is a need for greater support if SIDS are to meet the 2030 Agenda. The sectoral allocation of official development support has changed substantially in the last 15 years, with a shift away from some social infrastructure sectors like education and civil society and into economic infrastructure related to energy, transport, banking and financial services, and other areas (UNCTAD 2022). In terms of productive sectors, the industry has been increasingly prioritised, while support for agriculture has declined (UNCTAD 2022). Significant infrastructure requirements of SIDS, due in part to their structural characteristics such as small population size, geographic remoteness, economic reliance on trade and tourism, as well as high vulnerability to natural disasters and climate change are related to both building new facilities and maintaining and adapting existing ones (OECD 2018). For new and emerging sectors, and given SIDS' heavy dependence on ocean and coastal resources and the potential of the blue economy, it is of concern that SDG 14 is the least funded SDG. In 2013-2018, SIDS received only 2.7% of ODA for the sustainable ocean economy (a proxy for SDG 14).. Approximately \$2.8 bn was provided to SIDS in 2020 through different initiatives, including new initiatives and the revision of existing rules for accessing funds³³. For instance, ODA-eligible SIDS have accessed International Monetary Fund's support, either through the rapid financing instrument (\$1.2 bn), the rapid credit facility (\$666 mn), or the Catastrophe Containment and Relief Trust (USD 18 mn). This chapter will present the estimated financing needs and challenges faced by SIDS in achieving the 2030 agenda and the SAMOA Pathway.

The trends observed in developing countries could be applied to SIDS. Mixed investment trends and monitoring capacities were found for 10 SDG-relevant sectors across developing economies from 2014 to 2019³⁴ (see table 11 below). This suggests that not all SDGs are equally important to SIDS or require similar volumes of support. Six sectors saw a rise in investments, including transportation, infrastructure, telecommunications, food and agriculture, climate change mitigation, ecosystems and biodiversity, and health. The evidence suggests an increase in public financing for critical sectors, except power and food and agriculture, where private finance was the main driver.

Meanwhile, investments in other critical sectors were declining, such as education as well as water and sanitation. Despite some positive steps, the level of financing remains below what is required to fill the estimated investment gaps. For LDCs in particular, investment levels across all SDG sectors remain high due to the low investment volumes. Other areas, such as investments in gender equality, access to affordable housing, early childhood education and care, health and nutrition, and crime and violence, have not been given adequate consideration. With the onset of the pandemic, these issues have been brought to the fore more frontally and raise questions as to what is being done to holistically support human and social development. For example, COVID-19 has refocused efforts on high levels of non-communicable diseases (NCDs), access to quality and affordable health care, and how the

³³ OECD 2021. COVID-19 pandemic: Towards a blue recovery in small island developing states.

³⁴ World Investments Report 2020. Using the SDG Investment Trends Monitor 2019, the estimated investment gaps are based on World Investment Report 2014, and based on available data covering all types of investment and financing, including domestic and cross-border, public and private, and finance mobilization (in addition to capital expenditures).

most vulnerable to the health impacts of the pandemic are those with pre-existing conditions and co-morbidities.

Resource mobilisation remains an important component of financing development in SIDS, and with the COVID-19 pandemic threatening the progress towards the SDG achievement, it is even more critical to leverage domestic sources of development finance. Tax revenues are on average lower in SIDS than in other developing countries at all levels of development (OECD 2020). However, the fiscal space in many SIDS is greatly constrained. Low levels of revenue collection restricts available government resources to invest in country plans which contribute towards the SDG achievement. Tax revenues are a key part of domestic resources, yet tax revenues in SIDS are, on average, lower than in other developing countries at similar developmental levels (OECD, 2020). Boosting tax collection could therefore significantly increase available finance for development.

Furthermore, SIDS economic bases are not large enough to generate revenues to fully finance their priority spending needs. Fostering diversification of SIDS through the establishment and development of new economic sectors can therefore also aid in revenue generation. Additional challenges that affect domestic resource mobilisation in SIDS include a narrow tax base and pervasive tax avoidance, large informal economies, corrupt administrative practices, and weak institutional capacities (ID4D, 2021).

Therefore, there is a need to enhance SIDS administrative capacity building, tax reform and other measures to improve tax compliance as well as facilitate strong governance and coordination mechanisms among key actors of the economy. Such measures can facilitate a more effective use of the available resources, bolster the diversification of SIDS economies and broaden their tax bases. Public financial management must also be improved, including through good budgeting and effective resource allocation towards priority areas. Against this backdrop, Sierra Leone's developed an Integrated National Financing Framework to identify and prioritise financing instruments and policies to promote growth through resource mobilization. A key objective of the Framework is to help the government meet its financing and investment needs to support the national development plan and to catalyze the strategic approach necessary to mobilise private and public resources and to invest in them effectively. Such a framework could provide a valuable benchmark for other SIDS to follow.

For countries heavily reliant on tourism and services, mobilisation of domestic resources could be further enhanced by better management of key traditional and emerging sectors. These include ocean economy sectors, including fisheries and tourism. Policies to reduce "leakages" from such key sectors, particularly tourism, and to support linkages with other domestic sectors (such as food and agriculture, and construction) could effectively expand the taxable production base. Focusing on new and emerging ocean-based sectors can also tie into the larger picture of building resilience and climate change. These concepts, if implemented well, could help with the diversification of the economies of many SIDS.

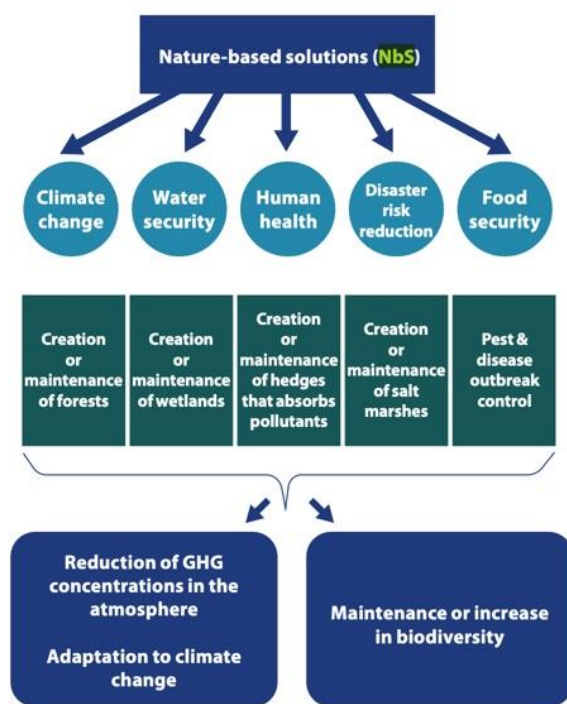
The Blue Economy has been a key economic area in both the Caribbean and the Pacific for new investment opportunities that will not only promote sustainable oceans but create new value chains. In Grenada, for example, a Blue Economy Master Plan was the key feature of the intention of policymakers, albeit the progress on many aspects remains slow. Many financial instruments have been identified but not widely tested across SIDS, especially around the ocean economy.

The Blue Bond issued by the Seychelles in 2017 remains a flagship for a 'Blue' Bond and the domestic mobilisation of resources for other areas of development. In the case of the

Seychelles, the proceeds of the bond were used to support the expansion of marine protected areas, improve governance of priority fisheries, and develop the Seychelles' blue economy (OECD 2020)³⁵. Seychelles also implemented the first debt-for-ocean swap, which allowed the Government of Seychelles to reduce immediate debt burdens while also increasing resources targeted toward ocean and climate action. More recently, in 2021, Belize has become the first Caribbean SID to issue a blue bond that is expected to help conserve 30% of the oceans. Further, new impact investment schemes and insurance schemes in SIDS have also been developed in connection to the ocean economy to support SIDS in diversifying their economies and mobilising greater public and private funding (OECD, 2020).

In terms of new avenues for SIDS to access new resources, there are some efforts to explore financial products and markets that value natural assets. SIDS are endowed with coastal and marine ecosystems, such as mangroves, coral reefs, and seagrasses, which are critical to human well-being and global biodiversity. Nature-based Solutions (NbS), are an important part of the climate finance architecture, which can help SIDS with meeting their sustainable development goals for better outcomes. NbS typically involves actions that protect, sustainably manage, restore or modify ecosystems to address societal challenges, such as climate change, while also safeguarding biodiversity and human well-being (see Chart xx). It is estimated that approximately US\$2.4 bn of ODA is channelled towards NbS, but this is mainly through climate finance (Pettorelli et al. 2021).

Chart 6: Relationship between Nature-based solutions (Nbs), biodiversity, and climate change
































Source: Pettorelli et al., 2021.

³⁵ OECD, 2020, Sustainable Ocean for All: Harnessing the Benefits of Sustainable Ocean Economies for Developing Countries

In addition, there is a huge opportunity to develop pioneering finance and insurance products that reduce ocean risk and build the resilience of coastal areas to emerging hazards. Exploring these possibilities presents critical new avenues for SIDS to access new resources. One example is nature-based insurance which provides immediate funding for post-disaster/storm restoration of natural capital. For example, the Mexican state of Quintana Roo adopted a parametric type insurance instrument in 2019 that seeks to protect approximately 160km of coastline in the Cancun and Puerto Morelos region. The first of its kind, this insurance policy was triggered in 2020 due to Hurricane Delta. As such, it was the first time that a reef had benefited from this kind of insurance payout (US\$800 000) to repair damage sustained from a hurricane. The significance of the coral reef goes beyond just livelihoods, it protects hundreds of thousands of people and billions of dollars in built infrastructure, which are essential for supporting the tourism industry. Other instruments of this type could be of tremendous benefit to SIDS.

Table 12: Summary of SDG Investment gaps and directional trends

Main investment requirements	Most relevant SDGs	UNCTAD estimated amount investment gaps (Billion of dollars)	Overall SDG investment trends	International private sector investment trends
POWER (excl. renewables) Investment in generation, transmission and distribution of electricity		370-690		
TRANSPORT INFRASTRUCTURE Investment in roads, airports, ports and rail	 	50-470		
TELECOMMUNICATIONS Investment in infrastructure (fixed lines, mobile and internet)		70-240		
WATER, SANITATION AND HYGIENE (WASH) Provision of water and sanitation to industry and households		260		
FOOD AND AGRICULTURE Investment in agriculture, research, rural development, etc.		260		
CLIMATE CHANGE MITIGATION Investment in relevant infrastructure, renewable energy generation, research and development of climate-friendly technologies, etc.		380-680		
CLIMATE CHANGE ADAPTATION Investment to cope with impact of climate change in agriculture, infrastructure, water management, coastal zones, etc.		60-100		N.D

<p>ECOSYSTEMS AND BIODIVERSITY Investment in conservation and safeguarding ecosystems, marine resource management, sustainable forestry, etc.</p>		N.D		N.D
<p>HEALTH Investment in infrastructure, e.g. new hospitals, and R&D on vaccines and medicines</p>		140		
<p>EDUCATION Infrastructural investment, e.g. new schools</p>		250		

Source: Adapted from UNCTAD (2020)

In 2019, the Midterm Review of the SAMOA Pathway which led to the General Assembly resolution A/RES/74/217, reiterated that SIDS remain a special case for sustainable development, and the need for a tailored response from the international community was even more critical. Since then, the circumstances have been exacerbated by COVID-19, and the call on the international community even direr. Financial flows to SIDS have lagged behind initial expectations during the first half of the implementation of the SAMOA Pathway (UN 2021). Despite the availability of finance, it has not been channelled towards sustainable development at the scale and speed required to achieve the SDGs and goals of the Paris Agreement. At the launch of the global agenda for development, the financing gap to achieve the SDGs in developing countries was estimated at approximately US\$2.5 trillion to US\$3.0 trillion per year³⁶. Although there are indications that investments in sustainable development have been on the rise in some countries, the magnitude and scale vary across regions. This trend continues despite estimates which show that investing in the SDGs could potentially unlock up to US\$12 trillion of market opportunities and create over 380 mn new jobs. SIDS have been at the forefront of the call for more diverse financing instruments for small states, particularly in the areas of the ocean economy. Some of the instruments used include blue bonds and debt-for-nature swaps, with a growing interest in insurance types and nature-based instruments. This is based on recognizing that the sustainable ocean economy presents new investment opportunities for development and climate change. The international community must, however, continue to support SIDS to take advantage of these new opportunities to mobilize more public and private resources for sustainable development.

For SIDS, financial flows from the beginning of the SDG Agenda and the SAMOA Pathway from 2014 to 2021 have been on a declining trend. Despite the SAMOA Pathway calling for developed countries to increase ODA to SIDS and reduce barriers to accessing concessional finance, the opposite has occurred. Net ODA to SIDS rose from US\$3.56 billion in 2014 to US\$6.24 billion in 2016, then dropped to US\$4.16 billion in 2018. ODA flows have since diminished further due to the effects of the COVID-19 pandemic (UNCTAD, 2021)

Due to a combination of low economic growth in SIDS, high debt, dwindling FDI, ODA, and fluctuations in remittance flows, SIDS have not adequately invested in the SDGs. At the same time, external shocks, as experienced by increasing frequency and intensity of natural disasters, climate change impacts, and now the COVID-19 pandemic-induced shock, continue to place additional financial burdens on national governments. Except for the pandemic, the risks and vulnerabilities faced by SIDS have been well articulated across the development

³⁶ UNCTAD (2014) . World Investment Report

community. However, the level of support required has not materialized as many SIDS remain highly indebted. Climate-related development finance for SIDS for example was estimated at US\$1.5bn in 2019 (UN 2022). However, these flows are short of what has been estimated in the Nationally Determined Contributions (US\$92bn) for SIDS (UN 2022). Some are unable to access concessional finance due to eligibility requirements in some instances and cases, lack of capacity to apply for and implement projects.

COVID-19 has exacerbated SIDS's investment, and financing needs to achieve the 2030 Agenda and the SAMOA Pathway. Non-concessional funding of the investments required will further inhibit fiscal space, debt capacity, and potential debt overhang. For a group of 31 developing countries, meeting the basic SDG-related investment requirements for addressing poverty, nutrition, health, and education would increase public debt to GDP ratios from an estimated 47% (2018) to an average of 185% of GDP³⁷. This estimate does not consider building resilience and the challenges related to environmental sustainability. Furthermore, if the COVID-19 pandemic impacts were to be considered, these numbers would be even higher if learning loss, the health-related impacts, and the increase in inequality and poverty that the pandemic has brought about for many SIDS are considered. The prior estimates for GDP growth to average 12% annually are even more unrealistic now, considering the contractions in real GDP in 2020 and the prolonged impacts of the pandemic, which will hinder a return to pre-pandemic output levels over the short to medium term.

Foreign Direct Investment (FDI)

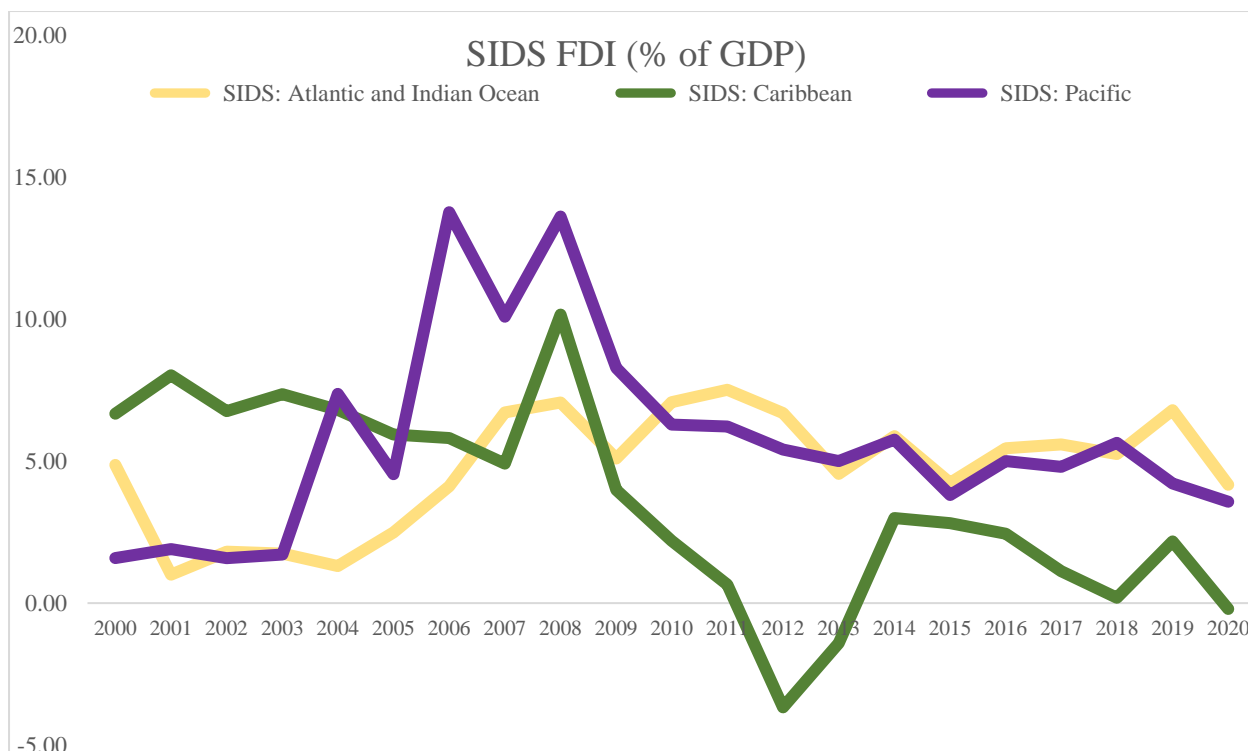
FDI continues to be an important component of financing for SIDS. As a share of GDP, FDI inflows into SIDS have averaged 12.2% of GDP annually between 2000 and 2020³⁸. That share fell from 19.2% of GDP in 2019 to 16.6% of GDP in 2020. In keeping with the initiatives undertaken globally to increase private investment to achieve the SDGs by 2030, an increase in FDI flows to SIDS is visible between the two periods of 2000 to 2010 (10.5% of GDP) and 2011 to 2020 (14.0% of GDP). Despite the increase, it is not likely that the current level of FDI will sufficiently address the needs of SIDS in the short-term to medium term. With COVID-19 induced impacts hampering the anticipated start to the Decade of Action for addressing the 2030 Agenda and a lack of progress, especially on the ambitious climate action of 1.5-degrees to achieve SDG 13, a higher level of FDI will be required across SIDS to meet the global agenda adequately. To achieve this, policy and regulatory reforms are necessary to facilitate a better alignment between private sector incentives and public goals, including incentivising long-term investments in sustainable development.

Chart 7: FDI Inflows for SIDS (% of GDP)

³⁷ UNCTAD 2019. Trade and Development Report-Financing a Global Green New Deal. United Nations Publications, New York.

³⁸ UNCTAD Database, accessed on January 9th, 2021:

<https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740>



Source: UNCTAD 2021

Official Development Assistance (ODA)

ODA³⁹ from members of the OECD’s Development Assistance Committee (DAC) volumes are estimated to have increased to their highest levels recorded in 2020. The total recorded contribution is estimated at US\$161.2 bn, an increase of 3.5% from the levels recorded in 2019. This is in direct response to the COVID-19 pandemic as economic output fell, and revenues fell, but financing needs rose as policymakers attempted to respond to the urgent economic, health, and social crisis. An estimated US\$12 bn was disbursed for COVID-19-related activities in 2020. For SIDS, the amount increased by 16% to US\$5.2 bn in 2020.

Climate finance, particularly as it relates to adaptation and building resilience is the largest area of financial need for SIDS. This recognition contributed to the decision of the Green Climate Fund (GCF) to prioritise SIDS in adaptation efforts with 50% of its total adaptation finance being targeted at Lesser Developed Countries,, SIDS and African states (GCF, 2020). Climate finance, however, is heavily skewed towards energy, transport, and storage sector (41 % in SIDS) and this is usually through loans (UN 2022). An increase in grant finance and greater climate finance could potentially help SIDS in meeting their NDCs, but also help to support the recovery from COVID-19, building resilience and in part addressing the fiscal and debt sustainability challenges faced by most SIDS (UN 2022). As part of the efforts to build resilience, investing in health and social sectors is also important under the COVID-19

³⁹ Official development assistance (ODA) is flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions that are: i. Provided by official agencies, including state and local governments, or by their executive agencies; and ii. Concessional (i.e. grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective. The [DAC list of countries eligible to receive ODA](#) is updated every three years and is based on per capita income.

conditions. ODA to the health sector for developing countries have declined since 2015 with less attention to strengthening national health systems (UN 2022). Similarly, social protection systems have not been highly prioritized for ODA, (UN 2022). The impact of COVID-19 has brought to the fore the importance of health and social sectors in national development, particularly for small states.

ODA is an important component in the financing landscape of SIDS and even more important for critical sectors such as ocean-based industries and ecosystems for their economies and livelihoods, only 5.5% of ODA to SIDS targets the ocean economy over the period 2013-2018 (OECD 2020). The contribution is even lower for these sustainable ocean economy activities, at 2.7% of ODA in the same period. Among SIDS, the share of ODA channelled towards the sustainable ocean economy is highest in Nauru (20%), while it accounts for less than 1% of ODA in countries such as Cabo Verde and Haiti. In addition, SIDS most often benefit from funding immediately after shocks have occurred while more long-term and predictable funding to build resilience, accelerate growth and break the spiral of high debt and low growth is often lacking (OECD 2018). The Inter-American Development Bank (IADB) (2012) finds that ODA typically increases significantly relative to pre-disaster flows (i.e., median aid flows increase by 18 % after disasters), but the amount is not directly related to the size of the economies or the actual damages (IADB 2012). This trend is reflected in the data, the top SIDS beneficiaries have proven to be those most affected by a shock or who had a debt cancellation as in the case of Haiti, for example (see Table 13). ODA flows to SIDS are generally more responsive to occasional crises/needs of some SIDS, for example, ODA to SIDS reached an extraordinary peak in 2010 because of Haiti's earthquake and in 2015 (OECD 2020).

Even before the pandemic, ODA to SIDS's health sector had been on the increase. The trend had been increasing until 2013 and remained stable until 2020. Between 2009 and 2018, the average health-related yearly disbursements to SIDS equalled USD 609 million, accounting for 12% of ODA disbursed to SIDS over the period. Almost half of this was targeted towards population policies and reproductive health, including STD control. At the same time, the remaining part was allocated for other types of health support such as basic healthcare and health policy and administrative management. In the Caribbean, smart health facilities have been promoted and supported. Caribbean SIDS have received the most health-related ODA, especially for reproductive health (OECD 2020).

The latest data available for ODA flows indicates Pacific SIDS benefited from the highest average share of ODA as a share (6.1%) of Gross National Income (GNI), while the Caribbean received the lowest share (3.5%). The amounts of ODA assistance received by SIDS varies by year and region. For instance, Pacific SIDS are more aid-dependent, while the share going to the Caribbean remains relatively small and in decline. The largest recipients of ODA from the Caribbean are Haiti, Cuba, and the Dominican Republic. The list of eligible SIDS for ODA is expected to shrink even further by six countries due to the updated list of DAC ODA eligible countries. General Assembly resolution A/73/L.40/Rev.1 adopted on 13 December 2018 decided that São Tomé and Príncipe and the Solomon Islands will graduate six years after the adoption of the resolution, i.e. on 13 December 2024. However, Antigua and Barbuda, and Palau will graduate from the DAC List of ODA Recipients on 1 January 2022, following an agreement by the DAC during the 2020 triennial review of the List to an exceptional one-year delay to updating the List of countries that are eligible to receive ODA. For Mauritius and Nauru, who exceeded the high-income threshold in 2019, by the DAC rules for revision of this List, if they remain high-income countries until 2022, they will be proposed for graduation from the List in the 2023 review.

Table 13: ODA by Country (ODA/GNI as a %)

AIS		Caribbean SIDS		Pacific SIDS	
	ODA		ODA		ODA
Guinea-Bissau (LDC)	8.4	Haiti (LDC)	8.6	Papua New Guinea	2.7
Comoros	6.6	Guyana	2.7	Solomon Islands (LDC)	16.5
Sao Tome and Principe (LDC)	12.1	Belize	2.2	Timor Leste	9.7
Cabo Verde	7.9	Jamaica	0.8	Vanuatu (LDC)	14.1
Maldives	1.4	Saint Vincent and the Grenadines	10.3	Kiribati	14.8
Mauritius	0.1	Suriname	0.7	Samoa	15.2
		Dominica	8.8	Fiji	2.7
		Saint Lucia	1.6		
		Dominican Republic	0.2		
		Antigua and Barbuda	1.7		
		Grenada	1.3		
Average	6.1		3.5		10.8

Source: OECD Database 2021

Over the period 2000-2018, there was moderate growth in ODA to SIDS (3.2% per year on average). However, the data showed that ODA to SIDS responds to crises and needs of SIDS. For example, in 2010, ODA peaked in 2010 following the earthquake in Haiti, and similarly, the estimates for 2020 point to an increase in flows on account of COVID-19. In 2017-18 ODA to SIDS was estimated to have been approximately 16% of their total external inflows. SIDS have traditionally been classified as more ODA dependent than other developing countries⁴⁰, however, with a reduction in private flows at market terms, ODA to SIDS and to 'other developing countries' have converged to the same level (OECD 2020).

Climate Finance

Depending on per capita income levels, SIDS require substantial external assistance to adapt to climate change.⁴¹ With the highest need for climate finance, particularly for adaptation and resilience, SIDS also have the lowest implementation capacity⁴². As part of the funding response strategy, the Green Climate Fund (GCF) has committed to prioritising SIDS and LDCs in adaptation efforts and providing up to 50% of its funding to adaptation, of which half is to

⁴⁰All countries included in the DAC recipient list including SIDS.

⁴¹ At present, SIDS receive very small amounts of external financial assistance relative to their needs. The Organisation for Economic Co-operation and Development (OECD) estimates that Total Official Support for Sustainable Development to all SIDS in 2017, which includes ODA, concessional and non-concessional finance, amounted to \$4.1 billion (OECD, 2020a).

⁴² Robinson, S-A. (2019) 'Mainstreaming climate change adaptation in small island developing states' *Climate and Development* 11(1): 47–59.

be spent on LDCs, SIDS, and African states⁴³ (GCF, 2020). However, the commitment to scaling up climate finance to at least US\$100 bn per year by 2020 has not been met and is not likely to be met in the short term without significant effort on the part of developed countries. Against this backdrop, at the COP26 in Glasgow, a commitment was made by developed countries to double their collective share of adaptation finance by 2025 and to reach the US\$100 billion goal as soon as possible. Developed countries also agreed to establish a mechanism for dialogue to support efforts to avert, minimize and address loss and damage from climate change. The EU also donated €100 million to the Climate Adaptation Fund.

For the most part, climate finance is not entirely grant-resources, with a significant proportion being committed in the form of loans. Half of the climate finance to SIDS between 2017-2018 was non-concessional⁴⁴. In addition, most public climate finance is provided in the form of loans and other non-grant instruments: in the period 2017–2018, around half of climate finance to SIDS was non-concessional (a higher proportion than for public climate finance overall – at 40%) (Oxfam, 2020).

Twelve multilateral climate funds are active in the SIDS, and between 2003 and 2020, a total of USD 2.1 bn was approved for 388 projects. The biggest contributor of finance was the GCF, which has cumulatively approved USD 846 mn for SIDS since 2015, followed by the Least Developed Countries Fund (LDCF), which has supported USD\$ 233 mn.

In 2020, US\$ 239 mn was approved for projects in all SIDS, 75% of which was programmed by the GCF, which also accounts for the 11 largest projects in SIDS.

Table 14: Climate Finance provided to SIDS (2003-2020)

Fund/Initiative	Amount Approved (USD mn)	% of Total	# of projects approved
Green Climate Fund (GCF)	846.3	41.0%	27
Least Developed Countries Fund (LDCF)	232.8	11.3%	55
Pilot Program for Climate Resilience (PPCR)	226.5	11.0%	18
Global Environmental Facility (GEF)	202	9.8%	85
Global Climate Change Alliance (GCCA)	152	7.4%	28
Adaptation Fund (AF)	145.3	7.0%	43
Clean Technology Fund (CTF)	86	4.2%	5
Scaling Up Renewable Energy Program in Low-Income Countries (SREP)	78.5	3.8%	11
Special Climate Change Fund (SCCF)	41.9	2.0%	7
Forest Carbon Partnership Facility (FCPF)	40.9	2.0%	7
UN-REDD Programme	6.9	0.3%	2

⁴³ GCF – Green Climate Fund (2020) ‘Climate action during the pandemic. Green Climate Fund Annual Results Report’ (www.greenclimate.fund/sites/default/files/page/gcf-annual-results-report-2020_0.pdf).

⁴⁴ Oxfam (2020) Climate finance shadow report 2020: assessing progress towards the \$100 billion commitment. Oxford: Oxfam.

Adaptation for Smallholder Agriculture Program (ASAP)	5.1	0.2%	2
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Source: Climate funds Update (2021)

The largest amount of approved climate finance has been channelled towards the Pacific region, coming mainly from multilateral climate funds (USD 919 million, or 43%). This is followed by the Caribbean SIDS, with project approvals of approximately USD 785 million (37%), and US\$414 mn for AIS SIDS (20%). This finance is dominated primarily by adaptation finance. The Solomon Islands, an LDC, has received the most finance of any of the SIDS at the country level, with USD 132 mn approved for project activities, followed closely by Samoa with USD 129 mn. Apart from the GCF, the Caribbean and Pacific SIDS have also benefited from REDD+ (reducing emissions from deforestation and forest degradation plus the conservation and sustainable management of forests and enhancement of forest carbon stocks) finance (with 3% and 4% for this objective, respectively)⁴⁵. In the Caribbean, Guyana⁴⁶ is the largest beneficiary of REDD+.

Table 15: Approved funding across themes (2003-2020)

Theme	Amount approved (USD millions)	Number of Projects approved
Adaptation	1179.4	151
Mitigation	443.8	75
Multiple foci	439.3	151
REDD+ (reducing emissions from deforestation and forest degradation, forest conservation, sustainable forest management, and the enhancement of forest carbon stocks)	57.5	11

Source: Adapted from Climate Update 2021.

Finance for loss and damage from human-induced climate change impacts, as recognised in the Paris Agreement has been discussed in international negotiations, albeit no firm resolution has been agreed upon. However, the discussion and development of loss and damage have been recognized in three main arenas: i) the establishment of the Warsaw International Mechanism for Loss and Damage (WIM) in 2013 at COP19 (UNFCCC, 2014a, UNFCCC, 2014b), ii) the prioritisation of L&D in the standalone Article 8 in the Paris Agreement established in 2015 at COP21 (UNFCCC, 2015) and iii) the inclusion of L&D in the New and Enhanced Transparency Framework (NETF) in the Katowice Climate Package at COP24 in 2019 (UNFCCC, 2019b). SIDS remain at the forefront and advocating for loss and damage since the very beginning of UNFCCC negotiations.

⁴⁵ Climate Finance Update 2021. <https://climatefundsupdate.org/wp-content/uploads/2021/03/CFF12-ENG-2020-Digital.pdf>

⁴⁶ In 2009, Guyana launched the Low Carbon Development Strategy (LCDS), and signed a 5-year innovative bilateral REDD+ agreement worth US\$250 million with the Kingdom of Norway. This was the formal beginning of Guyana's entry into REDD+ readiness preparation.

However, it took more than 15 years for the issue to gain traction within the UNFCCC and more than two decades before a dedicated mechanism on loss and damage was established – the 2013 Warsaw Mechanism on Loss and Damage (WIM). In the absence of international solutions, many governments in vulnerable countries have started developing their own mechanisms for loss and damage. Some are attempting to quantify these impacts in their Nationally Determined Contributions (NDCs). For example, Bangladesh has established a contingency fund for climate-related disasters and is now considering the development of a dedicated loss and damage mechanism. In the case of the Caribbean and the Pacific, risk pooling insurance initiatives have been undertaken through regional risk pooling solutions. These include the Caribbean Catastrophe Risk Insurance Facility-Segregated Portfolio (CCRIF-SPC) and the Pacific Catastrophe Risk Insurance Company (PCRIC). In the Caribbean, CCRIF-SPC has been an integral instrument in disaster risk management, which has enabled governments to respond to immediate needs from a disaster once the trigger is met. Recognizing the ambiguities around a universal definition, acceptance, and calculation, the process is expected to take longer for L&D to be fully recognized. In the meantime, the Green Climate Fund was established with the mandate of helping to finance climate change adaptation and mitigation in all developing countries including SIDS.

Despite the increase in climate finance over the years, SIDS still face several challenges in accessing climate finance. Many SIDS struggle to secure sufficient resources for climate and disaster resilience due to inadequate policy prioritization. For those SIDS for which data is available, disaster risk management alone represented between 0.04% and 1.1% of the national budget, with only SAMOA and Haiti recording higher shares (3.5% and 15%, respectively). (OECD & WB, 2016). Additionally, many SIDS rely on a handful of donors and often depend on a single donor for the majority of climate funding. However, they also receive relatively small amounts of funding from various other sources. Such a combination makes SIDS extremely vulnerable to fluctuations in external finance while also burdening their limited administrative capacity. Moreover, access to climate funds remains a challenge for SIDS due to their limited administrative and technical capacities at the national level as well as the array of complex accreditation and project proposal procedures. (OECD & WB, 2016).

CHAPTER 4: MACRO VIEW ON WHAT SIDS'S GOVERNMENTS SPENT ON THE 2030 AGENDA, SAMOA PATHWAY, AND CLIMATE CHANGE

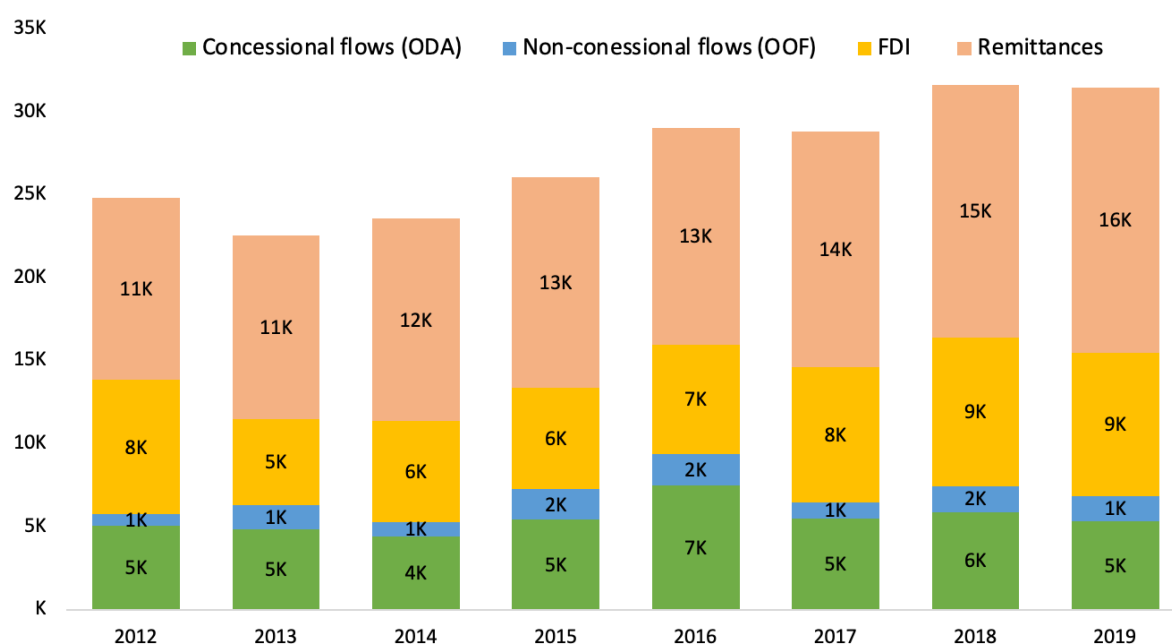
SIDS receive multiple external financial flows, including official development finance, consisting of concessional finance⁴⁷ from bilateral and multilateral providers as well as non-concessional flows⁴⁸ from bilateral and multilateral providers. Additional significant sources of external financial flows include FDI and remittances. Estimates for aid targeting climate-related objectives in SIDS have grown and reached 34% of total bilateral sector allocable aid in 2017-18 (or USD 1.2 billion on average per year) compared to all developing countries (26%)⁴⁹. However, for 2017-18, aid activities focusing on climate mitigation only represent 8% of the total climate-related amounts, and 7% of the funding is focused only on climate adaptation.

⁴⁷ Concessional finance refers to gross bilateral ODA and concessional flows from multilateral organizations meeting the ODA definition

⁴⁸ Non-concessional flows refer to official flows that do not meet the ODA definition

⁴⁹ OECD Factsheet 2020 “ External financing to Small Island Developing States: where we stand”.

Chart 8: External, Flows to SIDS (USD mn)



Source: OECD (2021)

Climate adaptation funding over the period 2014-2019 committed to SIDS totalled \$5.7 billion⁵⁰. The Caribbean region was the main recipient with \$2.9 bn, with Pacific SIDS receiving \$2.4 bn, and other SIDS receiving \$424 mn. The disbursements to the Caribbean reflect a higher level of exposure and more severe natural disasters, as reflected in the ODA peaks during natural disasters. However, disbursement problems are also common across SIDS, the Pacific and the Caribbean being no exception. However, in terms of the GCF funds disbursed, Pacific islands outperform their peers.

Remittances

Table 16: Remittances in SIDS by Region (USD mn)

	2015	2016	2017	2018	2019	2020
Caribbean SIDS	10,737.58	11,190.23	12,344.28	13,471.44	14,373.70	15,650.66
Pacific SIDS	779.56	795.97	792.10	862.49	921.07	1043.98
AIMS SIDS	683.35	622.57	747.44	824.44	918.88	838.12

Source: World Bank, 2021

⁵⁰ IMF 2021, Ms. Manal Fouad, Natalija Novta, Gemma Preston, Todd Schneider, and Sureni Weerathunga “Unlocking Access to Climate Finance for Pacific Island Countries.” DOI: <https://doi.org/10.5089/9781513594224.087>

Remittances represent the largest source of external financing to SIDS, reaching on average about three-quarters of total external funding in 2017-18⁵¹. Owing to large diasporas, remittances represent the predominant source of external financing for SIDS. In 2019, remittances represented 51% of total external flows. Such high dependence on remittances reflects challenges related to competitiveness, raising funds in capital markets and, in other cases, especially in the Caribbean, the recent deterioration in the international capital market and debt sustainability ratings (ECLAC & OECD, 2018). Debt sustainability issues, and particularly ratings of “debt distress” for many SIDS make it more challenging to access the markets for financing. This does not however preclude them from accessing finance from bilateral partners or the international development community.

However, reliance on remittances differs among SIDS. In 2018, remittances reached levels as high as 37.6% of GDP in Tonga and almost nil in Suriname. By SIDS regions, the Caribbean SIDS received the most remittances overall, 13.4 USD bn, followed by the Pacific, which received 0.86 bn, and AIS 0.8 bn. In the Caribbean SIDS, Haiti received the most remittances per GDP at 33% in 2018, followed by Jamaica at 15%. Tonga had the highest share in the Pacific at 41%, followed by 17% in Samoa.

Many SIDS witnessed historic increases in remittances during height of the COVID-19 pandemic in 2020 and are expected to have increased in 2021. Remittances to low and middle-income countries in 2021 are estimated to have grown by 7.5% (reaching US\$589bn) over the 2020 flows (WB 2021). This reflects the trend in all developing regions of the world, where migrants increased their support to families in light of the impacts of COVID-19 on their families back home. Part of the reason for the positive trends observed was increased economic activity and employment in most migrant destination countries.

Official Development Finance (ODF)

Official Development Finance (ODF) showed a moderate but steady growth over 2012-19. In 2019, ODF to SIDS reached 23% of total external inflows. The top three providers of ODF to SIDS in 2012-19 were Australia (mainly through ODA contributions to Pacific SIDS through governance and civil society projects), the Inter-American Development Bank (mainly through Other Official Flow (OOF) projects to LAC SIDS, both in infrastructure and social sectors), and the United States (mainly through ODA interventions in social sectors in Haiti).

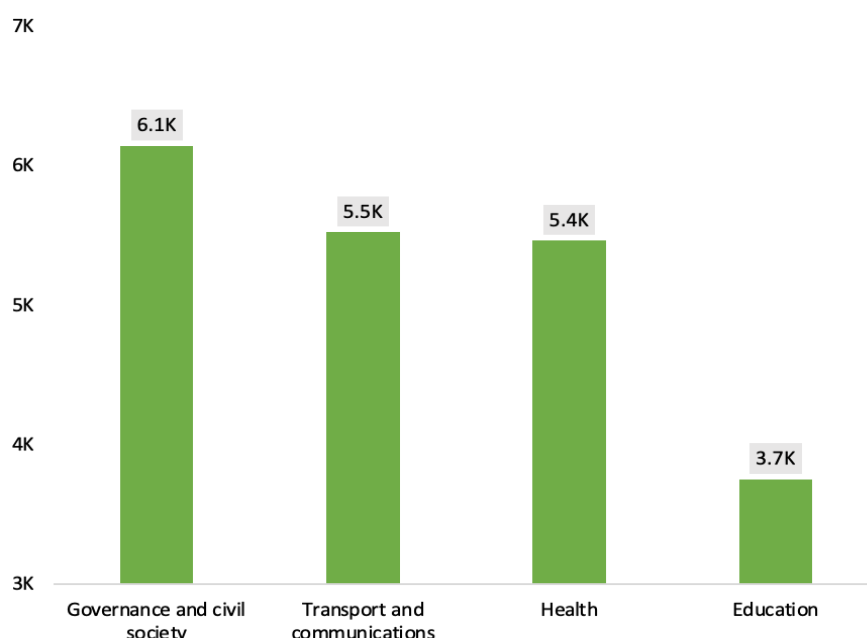
Concessional Finance (ODA)

Concessional finance provided by the international community remains an essential source of financing for development in SIDS. Despite an increase in ODA flows in 2020, as a % of GNI, the total was below the United Nations target of 0.7 percent of GNI, reflecting the continued trend of ODA commitments to LDCs (as a share of GNI) which remains below target (UN 2022). However, in several SIDS, concessional finance represents a substantial part of public budgets, significantly contributing to the funding of public services and functions. Such finance usually targets key sectors, such as transport, health, and education, where

⁵¹ OECD Factsheet 2020 “ External financing to Small Island Developing States: where we stand”.

investments have large net social returns, yet domestic resources may be insufficient (OECD, 2018).

Chart 9: ODA to SIDS Top 4 sectors



Source: OECD (2021)

Concessional finance is also greatly important for assisting SIDS in building climate resilience. Many SIDS have limited capacity (including insufficient personnel and funds) to respond to and recover from extreme events. Such limited capacity is further exacerbated by the need to divert resources into disaster response from existing public programs that may increase capacity (such as sustainable development and adaptation), leading to increased capacity constraints. Thus, SIDS often rely on concessional finance to meet their climate financing needs adequately. To date, concessional loans and guarantees represent 13% of total SIDS climate finance (Climate funds Update, 2021)

However, despite more sources of concessional finance becoming globally available (including from global climate funds) in recent years, many SIDS continue to struggle to access concessional finance. Difficulties in accessing concessional finance are due to multiple reasons, such as capacity constraints and the complex array of accreditation and application processes to access such funds. Additionally, access to concessional finance is further constrained by eligibility criteria that mainly rely on GNI per capita and fail to capture SIDS' vulnerabilities and funding needs (OECD, 2018). Such criteria prohibit highly indebted middle-income SIDS from accessing concessional funds, with some exceptions.

While eligibility to MDB concessional windows has been primarily based on income per capita, MDBs have increasingly incorporated elements of vulnerability into access criteria (UN 2022). As such, increasingly, funding allocations in concessional windows of MDBs are determined both by need (with poorer countries receiving more based on lower per capita income) and policy performance and institutional capacity that reflect absorptive capacity (Un 2022). This is based on instruments such as the World Bank's Country Policy and Institutional Assessment (CPIA) and by extension a similar rating by the Caribbean Development Bank using a similar methodology (with countries with higher CPIAs and stronger institutions,

receiving more). For the International Development Association (IDA) the graduation process starts when per capita income exceeds an operational cut-off which is currently \$1,205 as of 2020 (UN 2022). At that point, the country is no longer eligible for IDA grants but will continue to benefit from ODA well after graduation, albeit on more expensive terms of finance (UN 2022). However, several exceptions make IDA resources accessible to graduated countries. The small island exception, which has been in place since 1985, allows small island economies (populations less than 1.5 million) continued access to IDA (UN 2022). In 2017, this exemption was extended to IDA-eligible small States, which benefited Bhutan, Djibouti, Guyana, and Timor-Leste. In 2019, this was further extended to small island economies based on income, vulnerability, and creditworthiness criteria, which benefited Fiji. In addition, the IDA Crisis Response Window (CRW) and regional programme during the 19th replenishment (IDA19) provide additional resources to help eligible countries to respond to severe economic crises as well as major humanitarian and climatic disasters (UN 2022). This exemption clause is also applicable across several regional development banks' concessional facilities including the Asian Development Bank (ADB) and Caribbean Development Bank which still makes allowance for SIDS to access concessional funding (special pools of funding) even if they exceed income thresholds.

In addition, many international agencies have given credibility to the concept of an "index" as a tool for quantifying countries' vulnerabilities. The argument is made that vulnerability to climate shocks has exacerbated debt challenges, particularly in SIDS. As such, The United Nations along with other development partners have sought to develop a Multidimensional Vulnerability Index (MVI) that moves away from the strict income per capita classification rule. In measuring vulnerability, it is anticipated that allocation of concessional finance for SIDS will to some extent truly reflect the environmental challenges and the cost of rebuilding following a disaster. The MVI will be expected to complement the existing tools, and where possible work through the exceptions which currently exist, for example, the Small States exception of the WB. This work, however, is not new. The Commonwealth Secretariat's work, which started in 1980, has created a universal vulnerability index. In 2019, the CDB updated and revised its index by publishing the "Multidimensional Vulnerability Index for the Caribbean," which sought to quantify and deepen the understanding of the relative vulnerability of the CDB's Borrowing Member Countries, including many Caribbean SIDS, and to ultimately help build resilience in these economies. This work has been extended to develop a Recovery Duration Adjustor that will boost the credibility of the index and respond more directly to the unique characteristics of SIDS, particularly in the Caribbean (CDB 2022). In 2021, The UNDP released its Multidimensional Vulnerability Index (MVI) which accounts for both long-term structural vulnerabilities and the recent weaknesses uncovered by the COVID-19 pandemic. Using 11 indicators for 126 countries (including 34 SIDS), the index found that all but 5 SIDS were far more vulnerable than their income level would suggest.

Similarly, the Sustainable Development Solutions Network (SDSN) and the UN Resident Coordinators in SIDS prepared a draft MVI in 2021. Their pilot MVI is made up of 18 indicators and aims to track SIDS structural vulnerabilities by distinguishing across different SIDS categories. Based on this pilot framework and indicators, the preliminary results underline that SIDS are particularly vulnerable compared with other world regions. Simultaneously, the type of vulnerability faced by Atlantic/Indian SIDS, Caribbean SIDS, and Pacific SIDS vary and may require different types of financing mechanisms and development pathways to support resilience, emergency responses, and sustainable development.

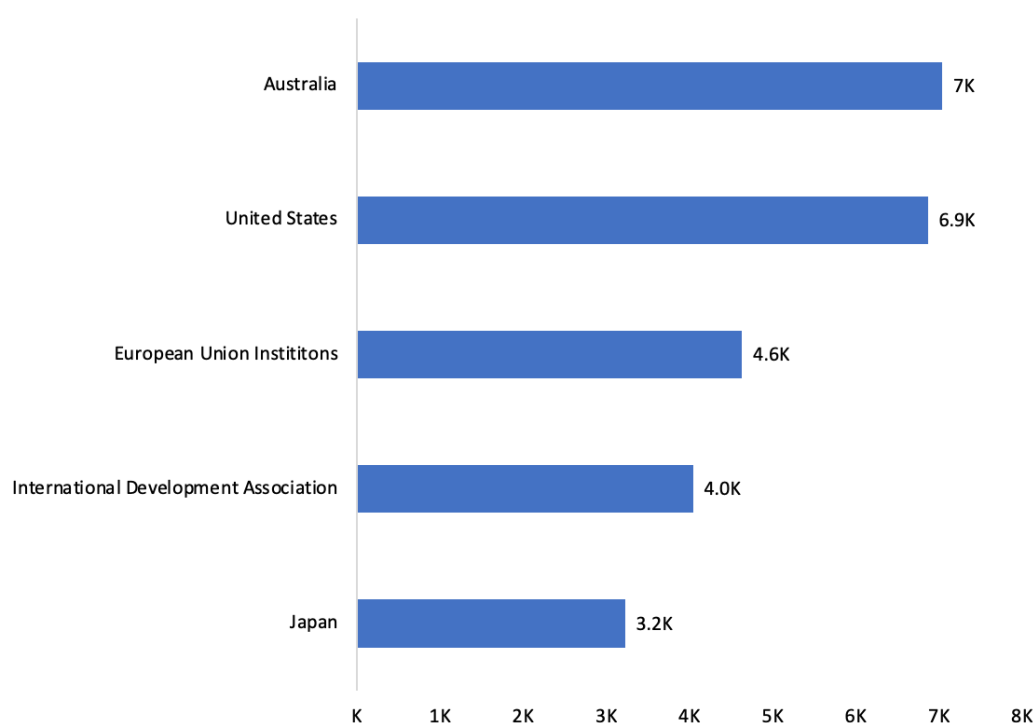
Nonetheless, the existing eligibility criteria mean that SIDS that are still classified as LDCs fear that graduation from LDC status could disrupt their access to concessional finance. COVID-19 has, however, influenced the graduation and country classification decisions of the OECD

DAC and major MDBs (UN 2022). The World Bank, for example, did not make proposals for the graduation of IDA-eligible countries in 2022. Similarly, the Asian Development Bank also reclassified Fiji due to the impact of COVID-19 to benefit from a blend of concessional and non-concessional finance (UN 2022). A decision was also made to delay the 2020 OECD triennial review of the DAC list of ODA-eligible countries, and as such, countries such as Antigua and Barbuda, Palau and Panama have been deferred graduation from the DAC List of ODA Recipients for one year. However, Antigua and Barbuda and Palau graduated on 1 January 2022 while Panama was reinstated for ODA eligibility as its per capita income fell back below the World Bank’s high-income threshold (UN 2022). When a country graduates from the DAC ODA list, the aid it receives is not reported in official ODA statistics. As discussed above, graduation from ODA does not exclude a country completely from concessional finance as seen in the case of Palau which still has access to a blend of concessional and regular loans from the ADB (Un 2022). The European Development Fund also continues to grant access to concessional finance but uses an economic vulnerability index in its country allocations formula. In general, the OECD DAC also has in place a process of reverse graduation (UN 2022).

Meanwhile, while LDC graduation is not expected to have a significant direct impact on concessional financing flows, it is expected that an increase in non-concessional borrowing could adversely impact debt sustainability for some states. Generally, terms of finance are expected to be more expensive, and more onerous where maturity periods could be shorter. Initial estimates indicate that the exports of 12 countries currently in the graduation process might decline by over 6 % (UN 2022, WTO 2020).

Between 2012 and 2019, the top three providers of concessional finance to SIDS were Australia, the United States, and European Union (EU) institutions. (Chart 10).

Chart 10: ODA to SIDS Top 5 Donors (USD mn)



Source: OECD (2021)

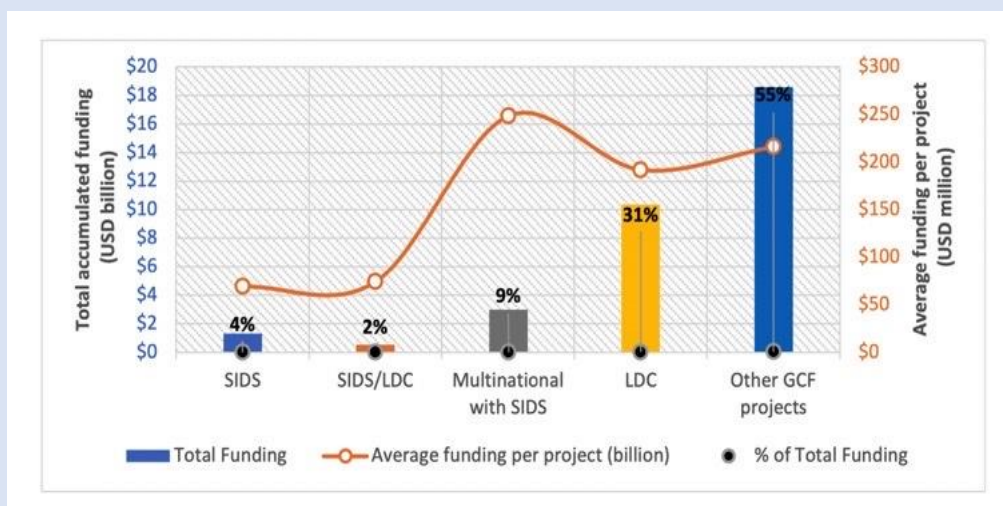
Over the same period, concessional finance to SIDS was significantly driven by allocations to a few countries and in response to emergencies and one-off interventions. The majority of concessional finance was concentrated on a few SIDS, with the top seven recipients receiving 56% of the total concessional finance (OECD, 2021; OECD 2018). Haiti obtained the highest amount of concessional finance, followed by Papa New Guinea and Cuba, receiving 18%, 11%, and 9% of the total concessional finance, respectively.

Box 1: GCF funding for SIDS

As of 2021, funding approved from the GCF remains below the anticipated levels, and that of other country groups. Accordingly, Climate Analytics 2021 makes the following conclusions with regards to SIDS access to GCF funding:

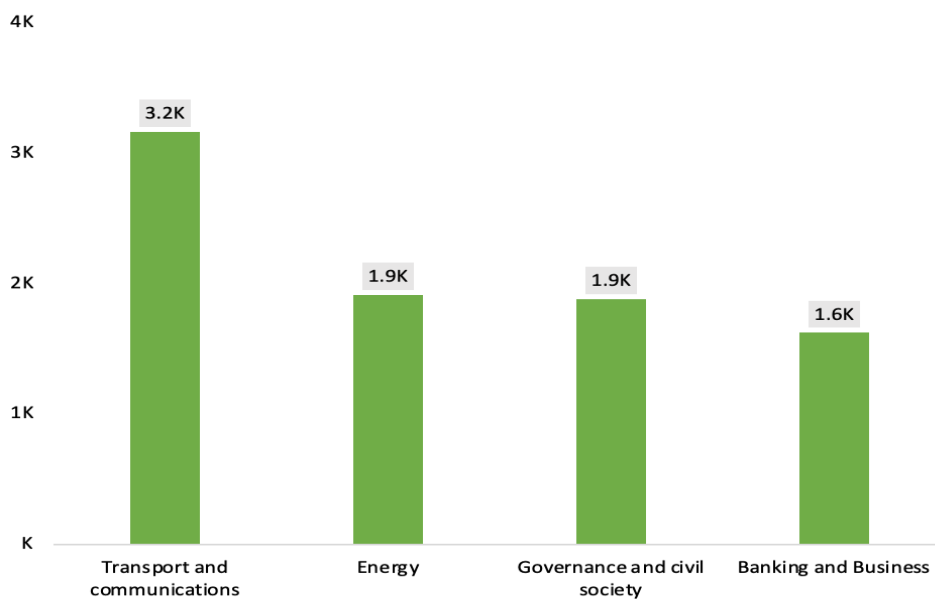
1. SIDS projects represent only 21% of the approved GCF projects (38 out of 178 approved projects).
2. When compared to other regions, SIDS have received the lowest level of funding. Just about 4% of approved GCF funding was directed at SIDS projects represent about 4% of total GCF funding.
3. Adaptation projects are the main SIDS' projects approved to date are, with 21 adaptation projects out of 38 projects in SIDS (this includes those multinational projects and projects in countries classified as both SIDS and LDCs). The other 9 projects are mitigation projects, and 8 are classified as cross-cutting.
4. SIDS in the Asia-Pacific region are the largest beneficiaries of approved GCF projects with a total of 18 approved projects.
5. Most SIDS projects are classified as small or medium projects (between US\$10-50mn) or (US\$ 50 – 250 mn).
6. The Simplified Approval Process (SAP) which was supposed to improve appraisal process by reducing time and effort during the appraisal process for SIDS, hence enhancing access for SIDS have to date only accessed 5 GCF projects.

Chart 11: Total and Average GCF Funding by Country grouping



Source: Climate Analytics 2021. SIDS Access to the Green Climate Fund: Understanding the GCF project portfolio for SIDS

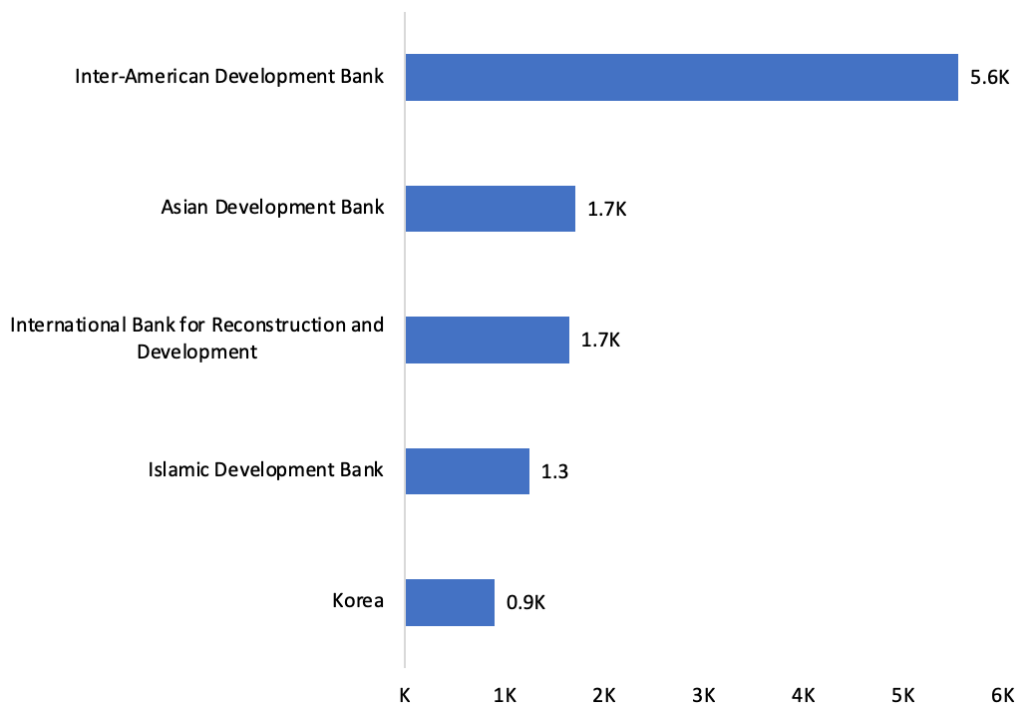
Chart 12: OOF to SIDS Top 4 sectors (USD mn)



Source: OECD (2021)

From 2012 to 2019, the top five donors (Chart 13) accounted for over 70% of non-concessional flows. The top donor was the Inter-American Development Bank, whose funds represented 36% of total non-concessional finance.

Chart 13: OOF to SIDS Top 5 Donors (USD mn)



Source: OECD (2021)

Non-concessional flows are highly concentrated in a few SIDS as they are primarily provided to more developed or larger markets. In 2012-2019, the Dominican Republic obtained the highest amount of non-concessional finance, followed by Jamaica and Papua New Guinea, receiving 35%, 13%, and 10%, respectively, of the total non-concessional finance.

CHAPTER 5: SIDS' EXPENDITURES ON COVID-19 SUPPORT AND RECOVERY

The COVID-19 pandemic response has differed across SIDS. However, most governments have had to increase expenditures on health, unemployment benefits, and short-term support to critical industries, including tourism and agriculture. This chapter will examine the policy responses across SIDS. The combined effects of existing vulnerabilities and the COVID-19 pandemic present urgent challenges for SIDS, which the global community has recognized. Already, some SIDS are challenged by high levels of poverty and inequality, low levels of investment in health, and high levels of non-communicable diseases. This has implications for the response and recovery, including the impact on human capital. With low vaccination rates in most countries, issues around a full recovery and return to normal, on balance, remain uncertain.

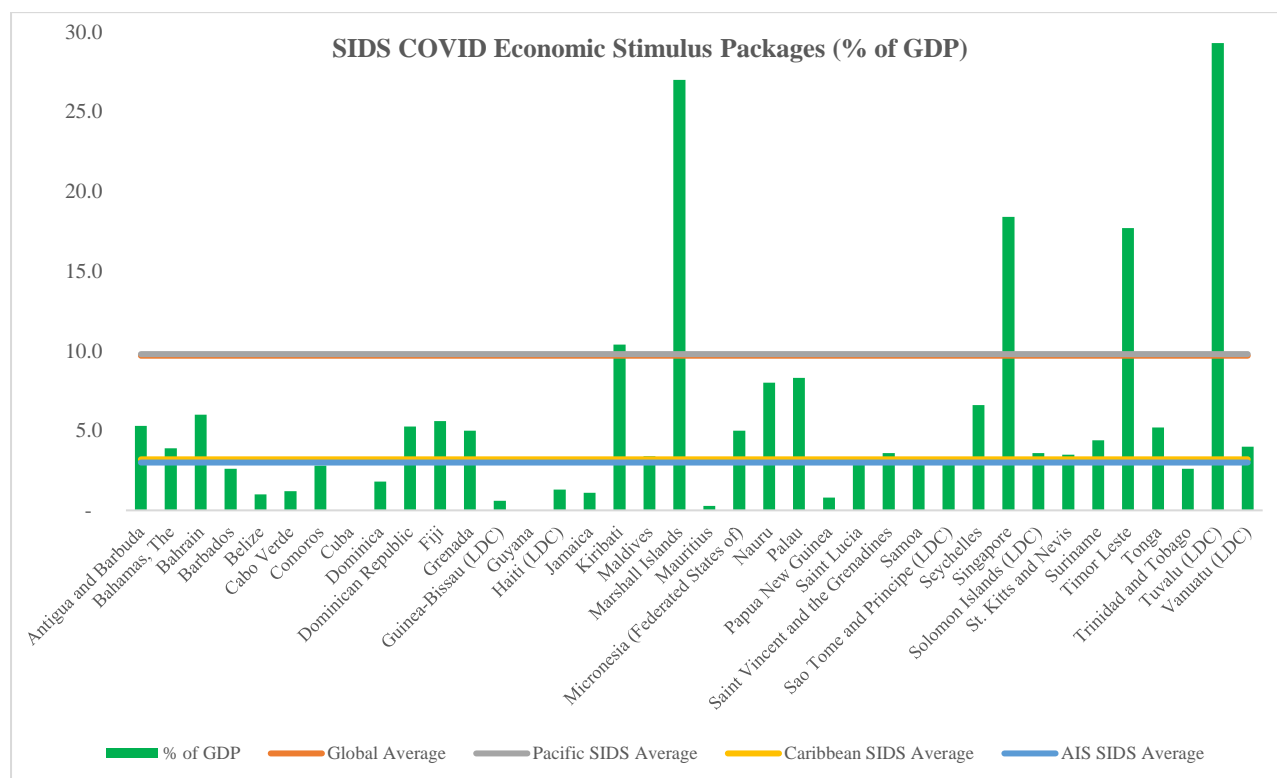
All SIDS implemented fiscal support measures during 2020, and some extended to 2021, to help mitigate the economic impacts of the COVID-19 pandemic. On average, 6.0% of GDP was expended by SIDS on Fiscal Stimulus packages, compared to an average of 9.0% of GDP globally. The spending varied by country groups, with the Pacific SIDS (9.0% of GDP) allocating significantly higher budgets to the COVID-19 response, compared to the Caribbean (3.2% of GDP) and AIS (4.7% of GDP, 3.0% excluding Singapore) regions. Most measures supported the health sector, social safety nets, and income support. In some cases, support was also provided to key sectors, including tourism and agriculture, with some focus on small businesses and Micro, Small, and Medium Enterprises (MSMEs).

In Grenada, for example, two COVID-19 Economic Stimulus Packages have been launched due to the prolonged impacts of the pandemic. Both packages offer social safety nets; however, the second package was designed to accommodate the informal sector and people who would not have previously qualified under the safety nets threshold that the Government of Grenada established. Across SIDS, the tourism sector was featured heavily, with measures aimed at supporting small business survival either through liquidity support or job retention via the payment of partial wages for employees kept on the payroll. The largest economic relief package as a share of GDP was announced by Tuvalu (29.3%) in 2020, which included allocations for medical equipment and vaccines, quarantine facilities, and support to the population and the private sector. Universal cash payments were one strategy for approximately two months before it was suspended due to lower levels of COVID-19 infections. Allocations were also made for repatriation flights. In Fiji, measures to revitalize the tourism sector included a travel stipend for the first 150,000 visitors in addition to tax cuts for medium-sized tourism operators.

Table 17: COVID-19 Economic Stimulus Packages (% of GDP)

AIS		Caribbean SIDS		Pacific SIDS	
Guinea-Bissau (LDC)	0.600	Haiti (LDC)	1.300	Papua New Guinea	0.800
Comoros	2.800	Guyana	n.a	Solomon Islands (LDC)	3.600
Sao Tome and Principe (LDC)	3.000	Belize	1.000	Timor Leste	17.700
Cabo Verde	1.200	Jamaica	1.100	Vanuatu (LDC)	4.000
Maldives	3.400	Saint Vincent and the Grenadines	3.600	Micronesia (Federated States of)	5.000
Seychelles	6.600	Suriname	4.400	Kiribati	10.400
Mauritius	0.280	Dominica	1.800	Marshall Islands	27.000
Bahrain	6.000	Saint Lucia	3.000	Samoa	3.000
Singapore	18.400	Dominican Republic	5.250	Tonga	5.200
		Antigua and Barbuda	5.300	Fiji	5.600
		St. Kitts and Nevis	3.500	Palau	8.300
		Grenada	5.000	Nauru	8.0
		Cuba	n.a	Tuvalu	29.3
		Trinidad and Tobago	2.600		
		Bahamas, The	3.900		
		Barbados	2.600		
Average	4.7		3.2		9.8

Chart 14: SIDS COVID Economic Stimulus Packages (% of GDP)



Source: IMF July 2021 Country Fiscal Measures Database: (The estimate includes fiscal support of above-the-line measures of additional spending and foregone revenue, as well as below the line measures and contingent liabilities from guarantees and quasi-fiscal operations)

Multilateral institutions have provided the bulk of the global response for SIDS resources. However, some countries have used sovereign wealth funds and buffers that existed before the pandemic. Since the start of the pandemic in 2020, approximately 19 ODA-eligible SIDS have accessed International Monetary Fund’s (IMF) support, either through the rapid financing instrument (US\$ 1.5 bn), the rapid credit facility (US\$ 558.0 mn), or the Catastrophe Containment and Relief Trust (US\$ 25.1 mn) (see table 18 below). The IMF improved access to the Catastrophe Containment and Relief Trust with policy amendments in March 2020 to include pandemics. The funding from this Trust Fund is in the form of grants for debt repayment to the IMF itself, thereby freeing public resources for the immediate response to the crisis. The largest beneficiary of this fund was Haiti (US\$18.1mn). Furthermore, In August 2021, the IMF approved the allocation of special drawing rights⁵² (SDRs) totaling US\$650 billion, with 42 percent, or US\$275 billion, of this allocation going to emerging markets and developing countries, including SIDS. Such allocation provided international liquidity for SIDS to assist in addressing the balance of payment needs and confronting the monetary and fiscal challenges of the pandemic.

⁵² SDRs are an international reserve asset to supplement the foreign exchange reserves of member countries. They represent a potential claim on freely usable currencies of IMF members for use in transactions between member states’ central banks and between them and IMF, but not directly for operations in private markets.

Table 18: List of Financing provided to SIDS

Country	Type of Emergency Funding	Amount Approved in US\$ M
Dominica	Rapid Credit Facility (RCF)	14.0
Seychelles	Rapid Financing Instrument (RFI)	31.2
	Extended Fund Facility (EFF)	105.6
Tonga	Rapid Credit Facility (RCF)	10.0
Saint Vincent and the Grenadines	Rapid Credit Facility (RCF)	16.0
	Rapid Credit Facility (RCF)	11.6
Grenada	Rapid Credit Facility (RCF)	22.4
Saint Lucia	Rapid Credit Facility (RCF)	29.2
Samoa	Rapid Credit Facility (RCF)	22.0
Sao Tome and Principe (LDC)	Rapid Credit Facility (RCF)	12.3
	Augmentation of Extended Credit Facility	2.1
	Catastrophe Containment and Relief Trust (CCRT)	0.8
Barbados	Augmentation of Extended Credit Facility	90.8
	Augmentation of Extended Credit Facility	69.0
Bahamas, The	Rapid Financing Instrument (RFI)	250.0
Maldives	Rapid Credit Facility (RCF)	28.9
Cabo Verde	Rapid Credit Facility (RCF)	32.0
Solomon Islands (LDC)	Rapid Credit Facility (RCF)	9.5
	Rapid Financing Instrument (RFI)	19.0
	Catastrophe Containment and Relief Trust (CCRT)	0.4
Comoros	Rapid Credit Facility (RCF)	4.1
	Rapid Financing Instrument (RFI)	8.1
Guinea-Bissau (LDC)	Rapid Credit Facility (RCF)	20.5
	Catastrophe Containment and Relief Trust (CCRT)	5.8
Jamaica	Rapid Financing Instrument (RFI)	520.0
Papua New Guinea	Rapid Credit Facility (RCF)	214.0
Dominican Republic	Rapid Financing Instrument (RFI)	650.0
Haiti (LDC)	Rapid Credit Facility (RCF)	111.6
	Catastrophe Containment and Relief Trust (CCRT)	18.08
TOTAL		2,310.9
	Rapid Credit Facility	557.99
	Catastrophe Containment	25.13
	Rapid Financing Instrument	1,459.31

Source: IMF

Since the pandemic's onset, the World Bank has continued to support SIDS, including access to vaccines and personal protective equipment (PPE). As of December 2020, the World Bank had provided approximately US\$ 870 mn to SIDS in policy support and the health response and vaccination efforts. Regional institutions also provided support. The Caribbean Development Bank also provided emergency loans to seven Caribbean SIDS in support of their emergency response and grants for vaccination and PPE acquisition. The Asian Development Bank allocated US\$ 570 mn to support COVID-19 responses in the Asian and Pacific SIDS. The Inter-American Development Bank (IADB) has thus far provided a US\$ 12 mn in loans to Belize in support of its COVID-19 Unemployment Relief Programme and a grant of US\$ 60 mn to Haiti. In addition, IADB provided loan resources at concessional rates of US\$ 50 mn for OECS countries through the Caribbean Development Bank.

In addition to the funding provided, SIDS have also benefited from the World Bank and the International Monetary Fund-initiated Debt Service Suspension Initiative (DSSI). The DSSI has provided resources to help SIDS further boost their response to the health and social needs arising from the pandemic. Since the launch of the DSSI, 17 SIDS have benefited from US\$ 615.7 mn from the grand total of US\$ 10.3 bn provided to over 40 eligible countries⁵³ thus far. The DSSI was extended from December 2020 to December 2021. With still elevated risks of debt distress in many developing countries, only three countries have requested debt treatments under the Common Framework (UN, 2022).

IMF's new allocation of Special Drawing Rights (SDRs) of \$650 bn is an important measure to enhance liquidity, but remains widely insufficient to address the financing challenges of developing countries. It is estimated that only US\$230 bn will be allocated to developing countries, a large shortfall from that needed with an estimated financing need of US\$2.5 trillion as of March 2020 (UNECLAC 2022).

⁵³ 73 Countries are eligible for the DSSI.

Table 19: List of 2021 SDR Allocations to SIDS

AIS		Caribbean SIDS		Pacific SIDS	
	SDR Allocation		SDR Allocation		SDR Allocation
Guinea-Bissau (LDC)	27.2	Haiti (LDC)	157.0	Papua New Guinea	252.3
Comoros	17.1	Guyana	174.2	Solomon Islands (LDC)	19.9
Sao Tome and Principe (LDC)	14.2	Belize	25.6	Timor Leste	24.5
Cabo Verde	22.7	Jamaica	367.0	Vanuatu (LDC)	22.8
Maldives	20.3	Saint Vincent and the Grenadines	11.2	Kiribati	10.7
Seychelles	21.9	Suriname	123.5	Samoa	15.5
Mauritius	136.3	Dominica	11.0	Fiji	94.3
Bahrain	378.6	Saint Lucia	20.5	Micronesia (Federated States of)	6.9
		Dominican Republic	457.6	Marshall Islands	4.7
		Antigua and Barbuda	19.2	Tonga	13.2
		Grenada	15.7	Palau	4.7
		St. Kitts and Nevis			
		Cuba			
		Trinidad and Tobago			
		Bahamas, The			
		Barbados			

Source: IMF, 2021

Table 20: List of SIDS accessing the DSSI

Country	DSSI Allocation	
	% of GDP	US\$ mn
Cabo Verde	1.7	34.3
Comoros	0.4	4.6
Dominica	1.3	7.5
Fiji	0.5	29.6
Grenada	0.9	11
Guinea-Bissau (LDC)	0.5	6.8
Guyana	0.5	28.4
Haiti (LDC)	0.9	127.5
Maldives	4.1	228.7
Papua New Guinea	0.3	72.9
Saint Lucia	0.3	6.6
Saint Vincent and the Grenadines	0.7	5.5
Samoa	2.1	18
Sao Tome and Principe (LDC)	1.3	5.5
Solomon Islands (LDC)	0.1	1.5
Tonga	2.8	14.3
Vanuatu (LDC)	1.4	13
		615.7

Source: World Bank

Despite the level of funding provided, most SIDS have not adequately responded fully to the continued needs of the pandemic. The cost of the pandemic continues to exceed the budgetary capacity of many SIDS. Even as another wave of COVID-19 spreads, vulnerable populations, especially those in the informal sector and the social sector, their needs continue to grow. Limited fiscal space and access to international finance continue to hinder the response of governments.

CHAPTER 6: INNOVATIVE AND DIGITAL FINANCE

Development of domestic capital markets

With a focus on a green, blue, low-carbon, and resilient approach to COVID-19 recovery, SIDS' public sectors alone cannot fund sufficient investments required to “build forward better,” strengthen their economies against the impact of climate change and finance the 2030 Agenda for Sustainable Development. There are substantial financing gaps in critical strategic sectors critical to achieving the SDGs. In light of declining aid inflows and the need to reduce dependence on foreign currency borrowing, there is a need to mobilize significantly more private sector finance for sustainable development projects that can stimulate economic activity and generate employment to support COVID-19 recoveries, while preparing SIDS for future shocks.

Capital markets could constitute an important channel to attract such private investments, particularly from institutional investors. As a means of mobilizing and deploying domestic savings to support key strategic sectors that are critical to achieving the SDGs, capital markets may also help accelerate the transition of SIDS to more sustainable economies. This can be particularly so if SIDS direct funds to activities in line with positive environmental and social impacts and ensure that investors are prepared to finance that change. Given SIDS's strong reliance on ocean and coastal resources for their livelihoods and economies, capital markets can also emphasize redirecting private funding towards ocean positive outcomes and preserving their ocean assets. The development of ocean-themed capital market products can be prioritized, such as blue bonds and impact investing funds for the ocean.

The capital markets can allow both the public and private sectors to take advantage of the growing pools of domestic institutional capital in SIDS and access long-term local currency funding, making SIDS less dependent on donor aid and loans from foreign governments to finance investments and expenditures. Deploying domestic or regional capital to fund infrastructure investments that enhance performance can also crowd in private sector investment and businesses and attract foreign debt and equity capital to meet financing needs for both the government and private sectors.

Capital markets can also play an essential role in enhancing the overall economic development of SIDS through efficient intermediation of savings into productive investments and fostering entrepreneurship growth. The capital market can contribute to entrepreneurship by facilitating the entrepreneurs to raise funds from surplus savers and consequently finance investments. Against this backdrop, in a Caribbean SIDS Regional Preparatory Meeting⁵⁴, the importance of expediting domestic capital formation and of using capital market strategies to drive the creation of and expansion of entrepreneurship and small and medium enterprises (SMEs) was emphasized. Moreover, capital markets can foster the required digital transformation of SIDS economies, as green and digital investments are often interrelated. For instance, digital technologies such as smart urban mobility, precision agriculture, and sustainable supply chains are critical to the green transition.

Nonetheless, many SIDS have not yet embraced capital market tools to drive the shift to sustainable infrastructure. This is due to inadequate market infrastructure, weak or inappropriate regulation and supervision, and the lack of reliable information on issuers. Their capital markets are currently underdeveloped in size, liquidity, and maturity. Thus, there is a need to foster capital market development in the islands.

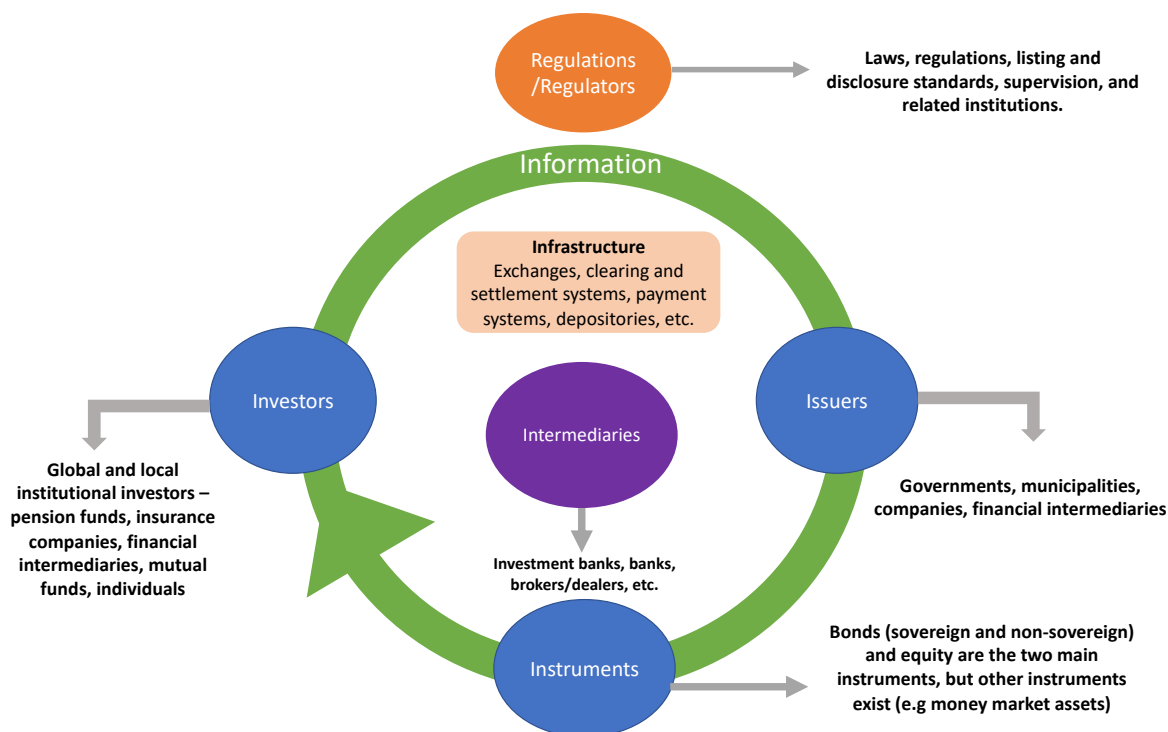
⁵⁴ https://www.cepal.org/sites/default/files/events/files/final_san_pedro_declaration_004.pdf

Critical constraints to developing capital markets in SIDS include unstable macroeconomic fundamentals, an inefficient market structure, a limited supply of securities and/or few issuers, few domestic institutional investors, and a small pool of capital markets professionals (intermediaries).

The COVID-19 pandemic has given rise to additional challenges to developing capital markets in SIDS. Challenges have intensified due to the deterioration in the macroeconomic environment, including the contraction of the economies and larger fiscal deficits. In the short to medium term, investor appetite is lower due to uncertainty, as well as the nature and scale of government interventions to support the economy, which, while necessary, may have limited the viability of different capital market solutions. Capital market solutions are more critical than ever, given the much more limited space that governments, and potentially also banks, will have going forward to support new financing.

The deepening of SIDS' capital markets depends on a range of enabling conditions that the islands must first address and requires an entire ecosystem to be developed (Figure 4). There is a need to enhance the legal and policy framework for capital markets and develop capital markets regulation that integrates sustainable development factors in the mandates of the supervisory agencies. There is also the need to strengthen the infrastructure to support securities and transactions and expand the public's understanding of capital markets and their role as shareholders of privatized firms. Implementing strategies and plans for climate finance mobilization requires political will and a robust approach built on government ownership and leadership.

Figure 5: Capital market Ecosystem



Source: Adapted from World Bank (2020).

Role of the International Community

Granted that countries work on improving their preconditions and significant commitment is in place, multilateral development banks and other development partners can play a role in capital market development. Singapore, a high-income SIDS, could provide a valuable benchmark for other SIDS to follow. Seychelles has also pioneered innovative finance mechanisms such as Blue Bonds, which other SIDS could also seek to emulate.

These islands with underdeveloped capital markets should receive policy advice and technical support to implement adequate market infrastructures and develop action plans tailored to their local circumstances. Given the importance of the ocean and coastal resources to SIDS, The international community can help SIDS with more tailored support to develop and transform the islands' capital markets to value and invest in natural capital, especially the ocean. Emphasis can be placed on financing the development of existing key ocean economy sectors, including tourism and fisheries, and unlocking new, sustainable economic opportunities that foster diversification and resilience (OECD, 2021).

Official finance can also be used more catalytically to de-risk investments or structure returns to mobilise finance from the private sector through new and emerging blended finance arrangements. Thus, development partners can support the design and implementation of various innovative financial instruments, such as green bonds and debt-for-climate or debt-for-nature swaps. These can reflect creative ways in which capital markets can be harnessed as reliable sources of climate finance.

One such existing programme for developing countries is the Joint Capital Markets Program (J-CAP). In 2017, the World Bank and IFC launched the J-CAP to help developing countries realize the benefits of strong local capital markets. The initiative mobilizes resources across the World Bank Group to deliver country-tailored advice and investments to create a systemic impact. The World Bank implements the program in six priority countries and one sub-region: Bangladesh, Indonesia, Kenya, Morocco, Peru, Vietnam, and the West African Economic & Monetary Union. The World Bank or other multilateral development banks can consider establishing similar programs to aid in developing capital markets, specifically in SIDS.

Innovative financing mechanisms

The significant financing needs to be implied by the 2030 Agenda call for effective and innovative approaches and instruments to mobilise resources from a broader set of sources. Opportunities to develop more robust domestic private sectors and enhance international trade may differ significantly across SIDS, requiring continued efforts to strengthen the private sector's contribution to sustainable development in these varied contexts. Some innovative financing instruments have the potential for SIDS to develop their ocean and coastal resources and natural assets. As new instruments are developed, the development community's role remains critical in ensuring that ocean sustainability criteria and requirements are mainstreamed in helping to integrate ocean sustainability requirements into traditional financial services and investments, as well as new instruments. This includes financing via financial markets (e.g. stocks and bonds) as well as credit markets (e.g. loans or bonds). Ocean sustainability requirements must be incorporated in all ODA lending and in all development finance institution (DFIs) lending (not all of which is concessional in ODA terms) (OECD 2021).

Creating capital markets and financial products that value and invest in natural capital, especially the ocean, are of critical importance for SIDS. For example, the concept of Nature-

Nature-Based Solutions (NbS), while relatively new, remains undefined. It is a concept that encompasses an ecosystem and the related approaches and actions that benefit human well-being and nature. While relatively new and low investment from both the development community and the private sector in NbS, there is a need to advocate for more nature-based integrated solutions that will maximize the impacts of investments and ensure that the benefits support social and environmental goals. Investing in NbS, which strategically protects and restores nature in ways that achieve development outcomes, is important for SIDS. The benefits include building resilience, as well as economic benefits. NbS have gained increased prominence and became a priority for climate platforms such as the UNFCCC and Global Commission on Adaptation, as well as biodiversity platforms such as the Convention on Biological Diversity. For SIDS in the Caribbean, for example, where there are large biodiversity assets, including mangroves, forests, and coral reefs, these can prove critical for SIDS.

Several nature-based solutions include green financial products such as green bonds, debt for nature swaps, ecological fiscal transfers, payments for ecosystem services, disaster risk insurance, parametric insurance, and carbon markets. All major climate funds recognize NbS, and the role that they can play in addressing climate, environmental and societal challenges. For example, for the Green Climate Fund, approximately 30% of its portfolio covered NbS projects that supported mitigation and adaptation (\$2.9bn)⁵⁵. The Green Environment Facility (GEF) also has a significant NbS portfolio, but still, many gaps need to be filled, especially as it relates to funding for SIDS. Some of the barriers to NbS which have been identified include a lack of clear understanding of the concept due in part to a lack of a globally identified and accepted definition and scope, limited mainstreaming and embedding into legislation and policies, as well as defining the common measurement and valuation of benefits and effectiveness. These challenges ultimately affect the ability to design a pipeline of projects and investments due to an already complex climate finance environment and the lack of clarity on NbS.

Some examples of SIDS who have adapted Nature Based Solutions, funded through the Green Climate Fund and the GEF.

1. Solomon Islands-Safeguarding Solomon Islands endemic and globally threatened biodiversity and ecosystem services (SAFE project for US27.7mn);
2. St. Vincent and the Grenadines-Coastal and Marine Ecosystems Management Strengthening Project (US11.0mn).

⁵⁵ Commonwealth Secretariat 2021. "Accelerating Financing for Nature-based Solutions to Support Action Across the Rio Conventions." Discussion Paper 28. London.

Table 21: Potential green growth financing mechanisms and frameworks

Innovative green growth financing mechanism/framework	Description of mechanism	SIDS or developing country Case Study
Debt-for climate and debt-for nature swaps	Debt-for-climate and debt-for-nature swaps are programmes under which a creditor agrees for the debt to be reduced, either by conversion to local currency and/or paid at a lower interest rate or some form of debt write-off, and the money saved is used to invest in climate resilience, greenhouse gas emissions mitigation or biodiversity protection initiatives, among others. This illustrates one way that SIDS can be compensated for preserving natural resources that are critical to their own survival in the face of climate change.	<p><u>Debt for Nature Swap in Seychelles</u> In a bid to build climate resilience and boost its blue economy, Seychelles signed a deal in 2015 where almost \$22m (£16.8m) of its national debt was written off, in exchange for the country doing more to protect its oceans. The “debt for nature” swap involved the US conservation group The Nature Conservancy (TNC) buying the debt, in exchange for a promise to create 13 new marine protected areas (MPAs).</p> <p><u>Debt for Nature Swap in Belize</u> In November 2021, Belize became the first country in the Americas to complete a debt conversion that will fund ocean and marine life conservation. By restructuring all of its approximately \$550 million of external commercial debt (an amount that represents 30 percent of the country’s GDP) Belize will save \$250 million and dedicate a significant portion to conservation.</p>
National climate change funds	National climate change funds are nationally-driven and nationally-owned funds that assist countries in collecting climate finance from a range of sources and blending them together. There is potential for SIDS to develop their own National climate change funds to meet its current and future financing needs for climate action.	<p><u>Rwanda - National green growth fund</u> Rwanda established a national green growth fund that invests in both public and private proposals for environment and climate change. The fund benefits from both the external aid of international climate change and domestic finances. The fund is accessed by different stakeholders in Rwanda and these include government institutions, local government, civil society organisations, academic institutions, and the private sector. To that end, the fund has successfully created more than 137,500 green jobs and</p>

		planted 39,500 hectares of forest. Investments have reduced the equivalent of 18,500 tonnes of carbon dioxide emissions and is supported 104,000 people to cope with the effects of climate change.
Country financing roadmap	A country financing roadmap aims to identify and develop strategies to bridge the financing gap for immediate and longer-term national development priorities in line with the SDGs through joint action plans to attract greater investment.	<u>Saint Lucia country financing roadmap</u> Saint Lucia is partnering with WEF on a country financing roadmap aimed at mobilizing private capital in support of the Sustainable Development Goals. The country is piloting a model that uses private financing to pay for reskilling workers, which will be repaid by a percentage of future tax revenues resulting from an increased workforce. It is also working with OECD and WEF to build a Blue Recovery Hub, which can be used to share lessons with other SIDS seeking to leverage innovative finance to support their blue economy transitions. The initiative will serve as a model for Small Islands Developing States (SIDS) becoming a proof of concept on how to finance the SDGs and align public and private stakeholders on the right mix of capital needed to achieve the 2030 Agenda.
Green bonds	<i>Green bonds</i> are fixed-income instruments designed specifically to support specific climate-related or environmental projects. Such bonds are meant to promote investment in climate action (SDG 13), affordable and clean energy (SDG 7), and sustainable cities and communities (SDG 11). Green bonds represent an opportunity to attract and leverage new private finance and catalyse local markets to support public climate resilience initiatives.	<u>The Fiji Sovereign Green Bond</u> The Fijian Government issued the FJ \$100 mn Fiji Sovereign Green Bond ('FSGB') in November 2017 to support climate change mitigation and adaption. Projects financed with proceeds from the green bond included investments in crop resilience, flood management in sugarcane fields, reforestation, and rebuilding schools to better withstand violent weather. They all followed the internationally developed green bond principles.

	Thus, issuing such bonds can enable SIDS to support their economic recovery aligned with building net-zero emission and climate resilient economies.	
KPI bonds like Sustainability-Linked Bonds (SLBs)	<p>SLBs are bonds whereby the proceeds from the issuance are not ring-fenced to green or sustainable purposes (unlike "use of proceeds" green bonds or sustainable bonds) and may be used for general corporate purposes or other purposes.</p> <p>The bonds' financial or structural characteristics (such as the coupon rate) are adjusted depending on the achievement of pre-defined sustainability targets.</p>	<p><u>Chile Sustainability-linked Bond</u> In December 2020, Chile published its Sustainable Bond Framework that allowed the Republic to issue social and sustainable bonds. In March 2022, Chile became the first sovereign to print a SLB, a transaction described by one asset manager as "an important milestone for the sovereign market". It priced a \$2bn (€1.8bn) 4.346% 20-year deal at 200 basis points over US Treasuries. Chile's SLB framework comprises two KPIs: absolute greenhouse gas emissions and "share of non-conventional renewable energy generation in the national electric system".</p>
Ecological Fiscal Transfers (EFTs)	These tools distribute public revenues within a country, between government agencies based on ecological indicators, usually for the protection of specific areas. That is governments are compensated for the cost of conserving ecosystems. This is slightly different from the Reducing Emissions from Deforestation and Forest Degradation (REDD+) where the payment comes from an external party.	<p><u>Uganda emerging EFT</u> Uganda plans to pilot an EFT focused on forest cover as a reward system for the sustainable management of natural resources. The aim is to raise funds for biodiversity in a country where protected area-based tourism is an important economic driver. Natural resource fees collected by local governments would be transferred to the national government, then returned to local governments based on an index of ecological indicators that could include areas of protection, the reintroduction of species, or the removal of invasive species.</p>
Payment for Ecosystem Services (PES)	This is applied mainly in water and forestry sectors where users pay for using or benefiting from the ecosystem service. The payment is usually via a direct contract or by taxes.	<p><u>Vietnam's Payment for Forest Ecosystem Services (PFES)</u> Vietnam became the first country in Asia to initiate a national PES policy. Vietnam's Payment for Forest Ecosystem Services (PFES) scheme has</p>

		<p>the goal of protecting remaining natural forests by providing financial support to people involved in forest protection. The general public pay additional fees to their electricity and water bills for PFES. These payments are collected by water and hydropower companies and transferred to the trust fund</p>
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The role of Digital Finance

Digitalization can catalyse a significant realignment of both public and private finance with the SDGs set out by the 2030 Agenda. The key technologies underpinning digital finance with the most effective potential economic impact are big data, artificial intelligence, cloud computing, online and mobile platforms, blockchain, and the IoT (see appendix 1 for definitions).

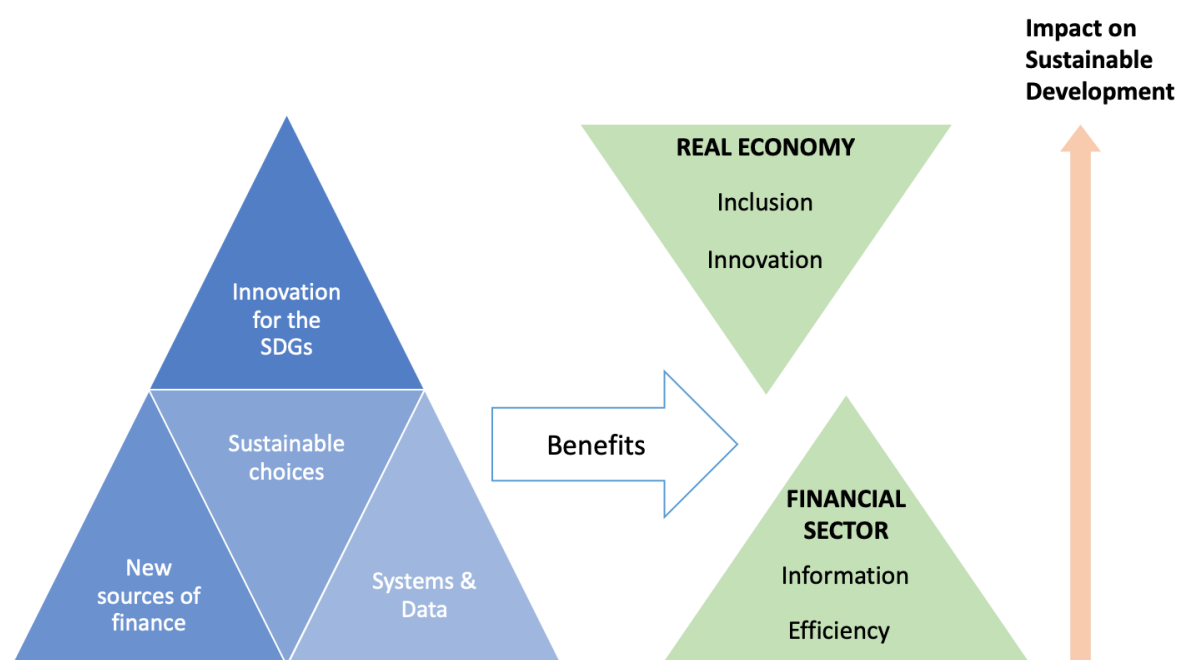
Digital finance technologies can assist in financing the SDGs in multiple ways. Such innovations allow for the incorporation of SDG-related risks in private lending and investment decisions and provide retail investors with better opportunities to apply such SDG considerations, for instance, through specialized AI-based robo-advisors (See appendix 1) that offer reduced commissions and lower capital thresholds.

Digital financial innovations can also help low-income populations access capital-intensive infrastructure services through new financing mechanisms, such as product-as-a-service and pay-as-you-go models (e.g., for electricity, water, or other utilities). For example, in Kenya and Nigeria, M-Kopa Solar and Lumos, respectively, are using fintech and mobile technologies for decentralized renewable energy investments (UN, 2021).

Thus, digitalisation can ultimately help overcome the challenges of financing the SDGs through the impact of three interrelated features (DTFT, 2020):

1. More and better data that can contribute to better and more informed decision-making.
2. Reduced transaction and intermediation costs that enable broader access to financial services.
3. Innovative digital business models for financing sustainability.

Figure 6: Harnessing digital finance to enhance the mobilization of sustainable finance



Source: Adapted from Sustainable Digital Finance Alliance (2018)

Table 22: Ways in which digital finance can encourage climate change mitigation and adaptation investments

How digital finance can support green investments	Description
Digital finance can make it easier to raise investment funds for green projects and performance	Green bond standards are increasingly well established. High-quality data and automatic 'smart contracts' can dramatically reduce the costs of issuing green securities.
Renewable energy financing platforms can be established	Digital platforms connect users and producers of energy and allow users to provide crowd-funding for green energy investments and draw and contribute energy to the system.
Digital finance technologies can enable climate risks to be factored into investment decisions	Big data and standardized analytical frameworks allow climate risks to be factored into investment decisions. For example, procurement offices in the Netherlands use a digital platform DuboCalc that accurately assesses the environmental costs of different projects. The platform also helps bidders to optimize their designs for sustainability.
Scaling carbon markets	Blockchain and big data can be used to support simpler, cheaper measurement, reporting, verification, and trading of carbon credits.

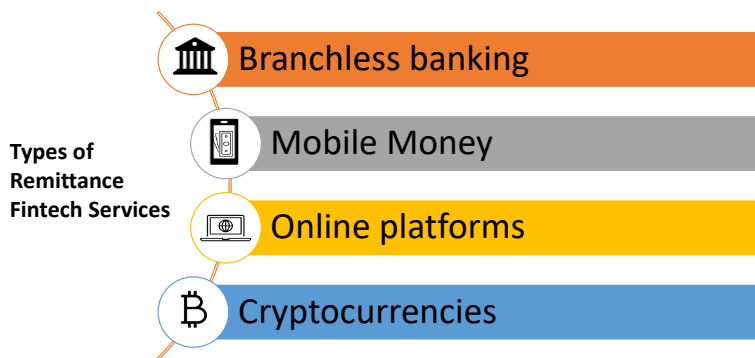
	One example is AirCarbon Exchange, the world's first blockchain-based distribution and trading network for carbon credits for the airline industry.
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Source: DTFT, 2020

Digital finance can also reduce remittance costs through fintech adoption in remittance services. According to the World Bank, the costs of sending remittances to Pacific SIDS are among the highest in the world, systematically higher than global and other regional averages. The average cost of remitting US\$200 to the Pacific SIDS from 2011 to 2017 was 11.6% of the transaction value, which is well above the global average of 8.2%.

Fin-teching remittances refers to the adoption of alternative digital payment methods in transferring money domestically or overseas, and digital remittances refer to international money transfer services accessed and/or delivered through digital channels (internet, mobile phone).

Figure 7: Types of remittance fintech services

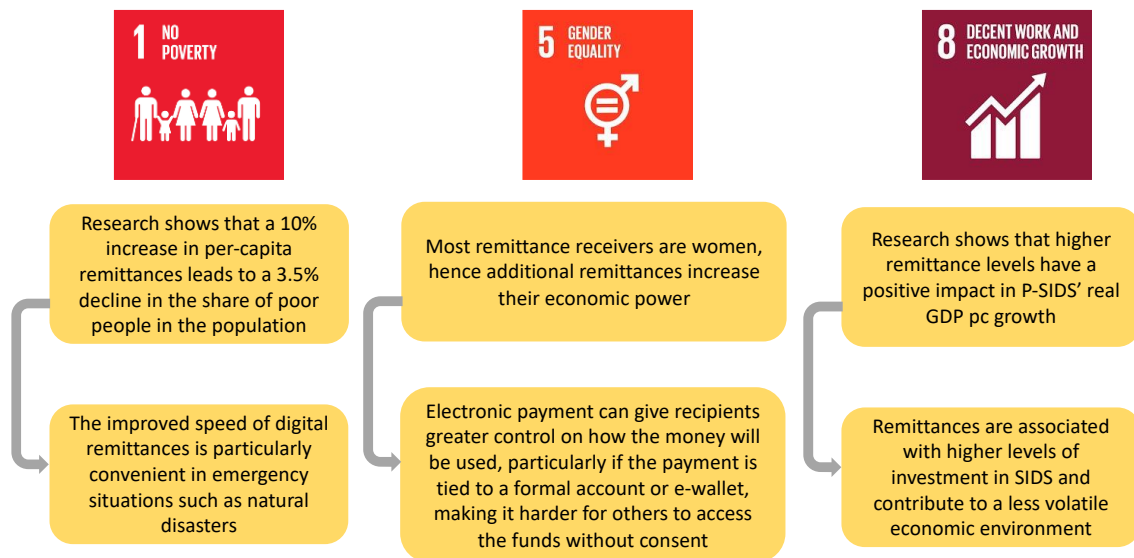


Source: UNESCAP, 2018

Such digital services represent critical tools for facilitating international remittances while reducing remittance prices and maximizing the impact of remittances on development. Lower remittance costs have the potential to expand this source of revenue to migrants' families, thereby contributing to lowering poverty and inequality and raising their access to financial services. Digital remittances can also reach those remote, low-income households in a timely and secure manner and reduce the number of informal transactions, guaranteeing a more secure and transparent transfer of funds.

An increased amount of remittances can also contribute to the achievement of the SDGS (See figure 8 below).

Figure 8: How increased remittances can contribute to the achievement of the SDGs



Source: UNESCAP, 2018

The COVID-19 pandemic has led to a rise in digitally-enabled remittances. For example, the amount of money sent to Fiji via the M-PAiSA Mobile Money app, developed by Vodafone with the support of the Pacific Financial Inclusion Programme, quadrupled between February and August 2020. Nonetheless, existing barriers, such as high fees and expensive internet, ought to be addressed to realize the full potential of technological solutions in this regard.

CHAPTER 7: CONCLUSION AND RECOMMENDATIONS

The funding gap for SIDS to meet the SDGs and the Samoa Pathway commitments must be addressed with urgency. Progress towards these global commitments by 2030 will require comprehensive financing strategies that will enable countries to emerge from the COVID-19 pandemic. SIDS access finance from various sources, including official development assistance, climate finance, concessional and non-concessional resources, and remittances. However, SIDS do not have access to sufficient resources for their development needs, including meeting the objectives of the SDG and SAMOA pathway. The inherent vulnerability of SIDS, is because of their small size, undiversified economies, and extreme vulnerability to climate change and other natural phenomena.

Given the importance of ocean resources for the sustainability of SIDS and the vast untapped potential of the Blue Economy, any recovery from COVID-19 must include a Blue Recovery plan for SIDS. This plan would require support from the international community regarding adequate technical assistance and seed financing for the Blue economy.

The debt vulnerability of SIDS must also be addressed. With many SIDS carrying debt accumulated from recovery from natural disasters and now a health pandemic, considerations must be given to debt relief and restructuring to help SIDS improve debt dynamics and increase capacity for accessing finance. Notwithstanding, it is recommended that funding must continue to be concessional and sustainable for SIDS, especially for those already in medium to high debt stress.

The development financing framework for SIDS must explicitly account for the greater structural and physical vulnerability as well as higher costs of living and service delivery in SIDS. Public spending on a per-capita basis would be higher than in other countries, with a high cost of imported inputs and a low level of human capacity. Similarly, the recovery cost after external shocks usually is higher, as seen in the current pandemic, with longer durations before conditions return to a pre-shock level. A vulnerability index has been proposed due to the challenges non-LDC SIDS face in accessing concessional finance due to their income status. Such SIDS are significantly more vulnerable than income data alone might suggest given their structural challenges due to their remoteness, economic concentration, and dependence on external flows such as remittances, foreign direct investment, and tourism revenues. The COVID-19 pandemic has greatly exacerbated these vulnerabilities by restricting travel, collapsing investment and tourism, and weakening the economies from which remittances are sent. Thus, there is a need to reconsider eligibility for concessional financing to SIDS on vulnerability rather than just income criteria.

These factors limit the scope for increasing public revenues. As such, concessional finance remains important for SIDS, especially given the considerations of the pandemic and the duration of the shock.

Recommendations:

The work on the MVI should be accelerated in a coordinated manner. The call for an MVI and the development of indices that capture the vulnerabilities of states, to better guide development financing, has been ongoing for about three decades. The call for exploration of criteria based on vulnerability was made by small island developing States (SIDS) in 1994, in the Barbados Programme of Action, and continues to be made even as SIDS face the burden of climate change. In addition, this call was endorsed and has been repeatedly made in subsequent United Nations General Assembly (UNGA) resolutions. But, the work remains ongoing, and the process slowly gaining traction. It is recommended that the criteria consider the specific economic and environmental vulnerability of SIDS, so that international financial institutions, regional development banks, and bilateral donors could use eligibility categories based on vulnerability. Such an index will enable non-LDC SIDS to access the desperately required concessional finance. According to the UNDP's findings in its MVI, Non-LDC SIDS, on average, would save close to 1.5% of GDP annually if their long-term external public and publicly guaranteed (PPG) debt was funded at the same average interest rate of LDC-SIDS.

- The UN's acknowledgment and the adoption of the SAMOA Pathway in 2014 of the special case for sustainable development for SIDS is even more critical now, with the COVID-19 pandemic. The current climate calls for higher levels of support and improved coordination of climate and development cooperation, in addition to greater equality in the treatment of SIDS. To address the needs of SIDS at this critical juncture, reforms will be needed across the global community with changes to the modus operandi for development assistance, debt, and climate finance, including the standard definitions and criteria for eligibility for financing. The discussions around a vulnerability index has particularly gained greater attention over the past few years, as this is one strategy towards realizing the common goals of honoring commitments under the Paris Agreement and SAMOA Pathway and improving aid effectiveness. However, better coordination among the provider of concessional resources is urgently required.

- A combination of financing solutions includes developing more robust investment platforms and financing partnerships and integrating the private sector. National budgets and domestic resource mobilization will be highly inadequate to meet the financing needs for SIDS. Even the strategies to reduce debt and grow these economies are not likely to materialize due to the vast number of structural challenges and vulnerabilities faced by SIDS. From the international community, options for debt relief, debt for sustainable development swaps, and systemic changes to the global debt architecture are possibilities if the developed countries are amenable to these strategies. Other solutions around market-based financing include the issuance of sustainability or climate bonds, but these require the development of robust architecture, especially around regulation, to facilitate these transactions. High levels of risk in market-based financing must also be considered. Therefore a credit risk agency or international organization that could remove some market risk by providing SIDS credit guarantees could be helpful. Therefore a credit guarantee facility for SIDS's to deleverage SIDS market issuances would be important, particularly for those SIDS that are already highly leveraged. These credit guarantees need to be priced at concessional rates as SIDS cannot absorb more high debt levels without implications for debt sustainability and other impacts on growth.
- SIDS also need to continue to invest and build resilience. One suggestion is the development of sovereign wealth funds where one does not currently exist. Resilience funds will provide SIDS with a mechanism to better respond to shocks and invest in long-term development priorities. Building resilience to climate change and other shocks will better position SIDS to deal with debt and climate crises simultaneously. It also allows SIDS to use different sources of external finance to invest in resilience, diversify their economies and develop skills and capacities. Many funds are tied to specific activities, such as the Green Climate Fund. Given that SIDS can access these funds, they will be better able to build resilience and finance the adaptation strategies that will enable a more inclusive response to climate change impacts and other shocks in the future.
- The development of SIDS' capital markets should also be considered a priority for SIDS and the international community. New capital market technologies must be prioritized, including new digital platforms such as blockchain and digital currencies that would allow for smart contracts and the integration of local capital markets with regional and international capital markets. Technical assistance from the international community to assist SIDS in developing domestic capital markets, similar to the World Bank's group J-CAP should be a critical component of the financing framework for SIDS. Since SIDS require unique financing instruments because of their unique vulnerabilities and development financing needs, the support of domestic capital mobilisation through the development of capital markets should also encourage the interconnectivity of capital markets across all the three SIDS geographic groupings (Caribbean, Pacific, and AIS). This will allow all SIDS to benefit from the development of new capital market instruments.
- The international community should also continue to provide financial and technical support to SIDS to enhance efficiency in revenue generation and public spending. These include enhancements to tax administration and prioritizing public expenditures. Transparency is also essential, and as such, reporting standards and capacity building should be prioritized for SIDS to ensure that funds channelled to SIDS are accounted for and spent on the areas they were meant to.

- Financing Blue economic recoveries in SIDS must be an integral pillar of financing for SIDS. Refining the definitions and how to measure the benefits of NbS would be a critical component of this. The UN and its agencies must play a crucial role in providing the technical assistance to refine the framework for the Blue recovery and NbS and to support the development of financing the Blue Recovery.

This paper recommends the following next steps for advancing the finance agenda for SIDS:

1. Programming a 4th SIDS conference with a focus on recovery and rebuilding post-COVID-19. There should be a particular emphasis on agreeing to the vulnerability criteria, which would determine the access to concessional resources for all SIDS.
2. Develop an integrated Financing Framework for SIDS, that incorporates the current constraints posed by COVID-19 and greater climate change vulnerabilities, and Blue recoveries.
3. Develop SIDS' domestic capital markets linked regionally to all SIDS regions and internationally.
4. UN-OHRLLS should establish a SIDS financing Implementation or Delivery unit that seeks to implement the global financing program to access adequate finance for SIDS. This unit could have an Advisory Board made up of High-level Representatives from SIDS governments and within the UN-OHRLLS. Competent finance and development professionals should then be seconded or employed for a set period to establish the unit and begin the implementation of the agreed work programme. The structure and process of the unit could be described indicatively below to allow for effective implementation.

Figure 9: UN-OHRLLS SIDS Finance Implementation Unit

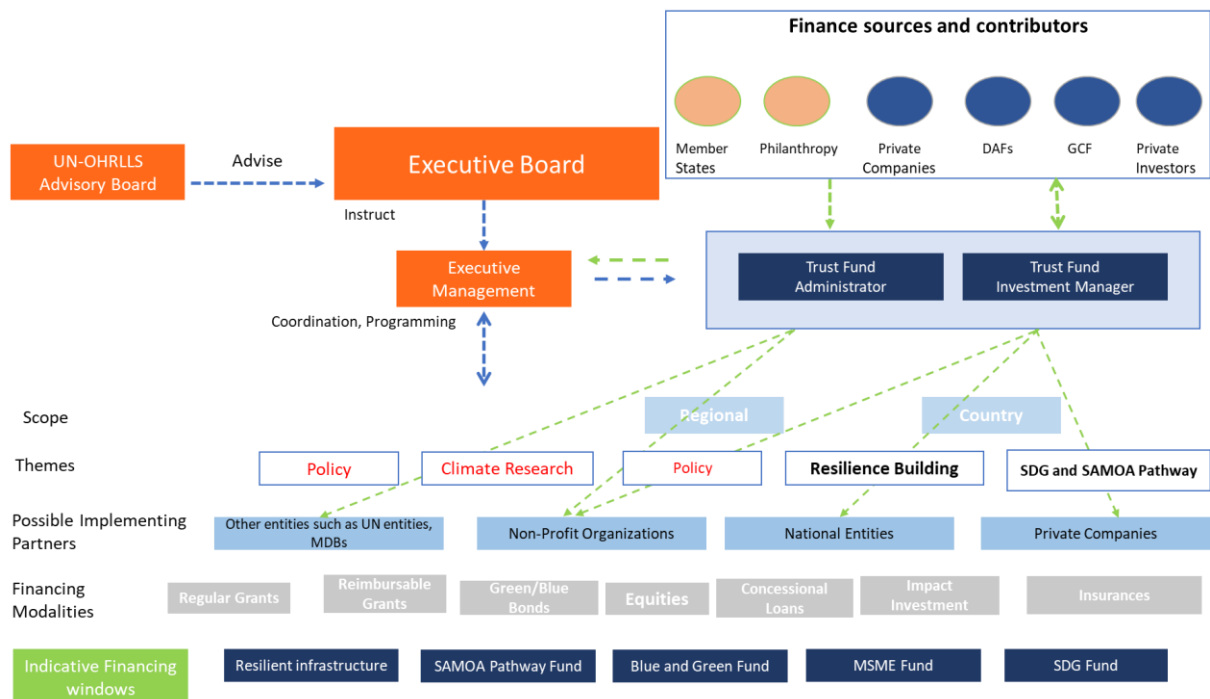


Figure 10: SIDS Finance Implementation Unit process



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APPENDIX 1: COVID-19 SUPPORT BY INTERNATIONAL PARTNERS DISBURSEMENTS TO SIDS

Caribbean SIDS	Amount disbursed		Pacific SIDS	Amount disbursed		AIMS SIDS	Amount disbursed	
	Mn	Per capita		Mn	Per capita		Mn	Per capita
Antigua and Barbuda	0.512	5.28	Fiji	215	241.47	Bahrain	-	-
Bahamas	0.654	1.68	Kiribati	6	52.20	Cabo Verde	113	205.93
Barbados	125	436.37	Marshall Islands	14	229.75	Comoros	22	25.60
Belize	14	79.11	Micronesia	30	261.02	Guinea-Bissau	12	6.00
Dominica	29	399.18	Nauru	0.374	32.22	Maldives	47	88.72
Dominican Republic	93	65.63	Palau	35	1944.44	Mauritius	587	462.46
Grenada	0.254	2.27	Papua New Guinea	480	54.73	Sao Tome and Principe	41	190.16
Guyana	66	84.92	Samoa	30	151.88	Seychelles	26	266.00
Haiti	499	44.30	Solomon Islands	36	54.23	Singapore	-	-
Jamaica	61	20.85	Timor-Leste	202	43.35			

St. Kitts and Nevis	4	82.90	Tonga	28	264.55			
St. Lucia	0.262	1.43	Tuvalu	9	720.18			
St. Vincent and the Grenadines	0.254	2.29	Vanuatu	55	181.83			
Suriname	38	66.01						
Trinidad & Tobago	102	73.46						
Total	1032.94			1140.37			848	

Source: UN, 2021

APPENDIX 2: DEFINITIONS OF DIGITAL TECHNOLOGIES AND APPLICATIONS UNDERLYING DIGITAL FINANCE

Digital technology	Definition
Big data	Big data aggregates large amounts of increasingly complex data from many different internal and external sources, unlocking opportunities for real time business insights.
Machine learning and artificial intelligence ('MLAI')	MLAI uses advanced computer science and algorithms to analyse vast datasets, derive patterns to predict behaviour and prices, automate decisions or provide recommendations, dramatically increasing decision-making capabilities.
Cloud computing	Cloud computing is computing based on the Internet, which enables IT services to be accessed anytime from anywhere and delivered as a service. It makes the process of leveraging massive amounts of data and providing flexible, scalable processing platforms cost-efficient, fast and robust.
Blockchain technology	Blockchain is a shared database of trusted transactions distributed across large peer-to-peer networks. The encrypted, distributed nature of data on the blockchain and system of consensus makes it inherently secure, immutable, verifiable and transparent to store transactions and records.
Internet of Things (IoT)	The IoT, through low-cost connected sensors and AI, is resulting in machine learning that automates discoveries and enables 'intelligent' computers capable of non-routine tasks.
AI-based robo-advisor	A robo-advisor is an artificial intelligence (AI) driven virtual financial advisor. Robo-advisors are a type of expert system optimized for financial services, specifically for investing and portfolio management advice.

Source: Sustainable Digital Finance Alliance, 2018



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