



Foreign, Commonwealth
& Development Office



Wilton Park



Report

Small Island Developing States: Improving Finance for Resilience by 2024

Wednesday 19 – Friday 21 April 2023 | WP3182

In association with:



UN-OHRLS



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This event was hosted by the United Kingdom, in partnership with the 2024 SIDS Summit hosts, Antigua & Barbuda, and the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS).

Executive Summary

2024 will see the UN 4th International Conference on Small Island Developing States (SIDS), a once-in-a-decade opportunity for transformational change to support acutely vulnerable states. On the frontline of climate change, SIDS represent 25% of developing states, steward one third of the global ocean, and protect unique but fragile biodiversity.

SIDS face unique economic problems due to their narrow economies and high trade dependence. This includes lack of access to finance, and susceptibility to economic and natural disaster shocks. These problems constrain the ability of SIDS to adapt to climate change. The problems of SIDS are exacerbated by small state systems, that mean that when finance is available it is often too difficult to access due to onerous bureaucratic systems. In advance of the 2024 UN SIDS Conference (SIDS4), this event considered how finance, particularly for climate adaptation, can be improved.

This event was hosted by the United Kingdom Foreign, Commonwealth and Development Office (FCDO), in partnership with SIDS4 hosts, Antigua & Barbuda, and the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS). Attendees included key stakeholders from multilateral development banks, development partners and Pacific, Atlantic, Indian Ocean and South China Sea (AIS), and Caribbean SIDS, including both high-level representatives and issue specialists.

The event focused on the need for improved access to finance for the most vulnerable states as part of the journey towards SIDS4. It aimed to support participants to find avenues for change that will support effective agreements and transformative action ahead of the 2024 Conference, which may be the last chance for action.

The discussions covered:

- Ensuring that the 2024 process helps to deliver on the Glasgow Climate Pact for SIDS.
- Addressing multilateral systems to promote more effective support for small, low-capacity states.
- Improving access to climate finance for SIDS, in particular adaptation finance, through the 2024 Conference process.
- Considering the role all providers of development finance have in supporting SIDS.

See also [reflections on the event from Fijian student Adisovanatabua U. K Navoti](#), an event participant. 'No island is an island'.

Outcomes and Actions

2024 4th UN SIDS Conference Strategy: Partners showed commitment to ensure SIDS4 drives transformational change. The global SIDS Alliance (AOSIS) is developing an action-focused Roadmap, around which key likeminded partners who attended Wilton Park will coordinate messaging and amplify SIDS voices. The group agreed on the need for change in the international community's approach on development away from purely income growth to sustainable, resilient prosperity. The SIDS4 outcome document should be focused and prioritised to enable shared action and make it easier to hold the international community to account. Key areas for focus could be: (1) Addressing vulnerabilities; (2) Reforming access to finance; and (3) Improving development effectiveness. These will be further developed through the UN SIDS Regional Consultation meetings.

Summit real-world outcomes: Consultations will continue on impactful policy initiatives to launch ahead of the Conference. These include the Development Assistance Committee (DAC)-AOSIS Taskforce and a potential centre of expertise on SIDS data. Efforts may also engage the private sector, crowding in private finance, and supporting renewable energy projects in SIDS to support energy security and economic resilience.

Climate Finance tailored approaches: Partners will work to tackle onerous bureaucracies in Climate Finance, particularly through the Green Climate Fund (GCF) replenishment this year and ensuring SIDS voices are heard by the Board. Board Member countries are encouraged to help ensure all SIDS voices are heard by the GCF ahead of the GCF replenishment. Climate finance such as the funding mechanism for Loss and Damage should implement the learnings of other climate finance, including the GCF. Transitional Committee members including the UK will raise this. Partners are committed to making progress on this by COP28.

Access to finance and vulnerability: Partners are working to implement the Glasgow Climate Pact commitment to account for vulnerability in financial decisions. Attendees looked forward to the event on Multidimensional Vulnerability Indexes (MVIs) on 3 May, hosted by ODI's Resilient and Sustainable Islands thinktank. The Wilton Park SIDS Conference enabled detailed conversations on different approaches to implementation, including engagement with the UN MVI. Partners will continue to collaborate through the DAC-AOSIS Taskforce and the 'Friends of SIDS' coalition, including to discuss reforms to the Official Development Assistance (ODA) graduation process. Partners will seek to improve International Finance Institutions' (IFIs) operational approach to provision of finance for SIDS, including seeking an event on tailoring Development Banks' approaches to SIDS at the World Bank Annual Meetings. Integrated finance strategies can help to identify ideal modalities and sources of finance, including from the private sector and philanthropy.

Debt: Utilising momentum on improving debt for vulnerable countries (such as through the Bridgetown Initiative), a consortium of attendees and others will develop a programme of work to make progress on sustainable debt for SIDS. This could include sharing best practice for uptake of innovative finance approaches to debt, such as climate resilient debt instruments and debt for nature and climate swaps.

Quality of finance: National systems should be strengthened and the quality of support provided by donors on SIDS priorities improved. Attendees suggested pilots implementing the Principles for Improved Aid Impact to demonstrate improved development effectiveness in SIDS. Other outcomes may include a SIDS graduation club to enable sharing of best practice and improved support through transition. Attendees also recognised the need for improved capacity building for SIDS and the UK, and the Organisation for Economic Co-operation and Development (OECD) are planning a further conference on capacity building later in 2024.

Call to Action on Advocacy: Accelerating action towards the 2024 4th UN SIDS Conference

- 2024 represents a major year in international fora for SIDS, with events on key issues including international finance reform and climate action leading up to the 4th UN SIDS Conference (SIDS4) in Antigua & Barbuda in May 2024.** SIDS' unique climate and economic vulnerability undermine their efforts to develop and adapt to the impacts of climate change. Improving finance for resilience is vital for sustainable futures. SIDS experience compounding shocks, with natural disasters carrying an average annual cost to SIDS of 2% of Gross Domestic Product (GDP) according to UNCTAD. SIDS are also Big Ocean States, stewarding unique biodiversity.
- Speakers, including E.P. Chet Greene, Antigua & Barbuda Minister for Foreign Affairs, Baroness Scotland, the Commonwealth Secretary General, and Rabab Fatima, the Under-Secretary General of UN-OHRLS, laid out a high-ambition vision for SIDS in 2024.** Discussions were characterised by enthusiasm and a constructive tone for action. A revolutionary change in approach in the international community is needed on development, moving away from purely income growth to a focus on sustainable, resilient prosperity. SIDS4 will anchor on future ambitions, by encouraging a broadening fiscal space, addressing vulnerability, and sustainable economic use of the Ocean. The UN High-Level Panel's new MVI has the potential to broaden the international community's understanding of vulnerability.
- The limitations of using Gross National Income (GNI) per capita alone as a measure of development and the need for transition support for SIDS as they graduate from ODA eligibility are clear.** The onerous bureaucracies of many climate funds and international financial institutions similarly do not factor in the unique contexts and capacity constraints of SIDS. Unsustainable debt levels were highlighted as a significant issue for SIDS, with discussion calling for innovative approaches to managing debt. SIDS often lack data, largely due to capacity constraints. This impedes their ability to accurately implement development plans and feeds into the barriers they face in accessing finance. Capacity building is also central to SIDS long-term resilience. Discussions also covered Multilateral Development Bank (MDB) reform, disaster risk finance, and loss and damage.
- SIDS4 has the potential to drive transformational change and consultations will continue on impactful policy initiatives to launch ahead of the conference.** The Conference should be both a celebration of progress and setting the agenda going forward. This will potentially include a Centre of Excellence on SIDS data, and a new donor-SIDS partnership via the DAC-AOSIS Taskforce. There is also a role for the private sector, including crowding in private finance and funding renewable energy projects in SIDS to support energy security and economic resilience. SIDS4 will prioritise the role of youth, women and civil society in setting outcomes for future progress. The Conference will agree the successor to the SAMOA Pathway. Participants highlighted the need for this to focus on targeted, and actionable outcomes. Concrete and action-oriented outcomes will be vital for the international community to deliver for SIDS over the coming decade.
- The role of communication and advocacy in driving change was central to discussions.** The global SIDS Alliance (AOSIS) is developing an action-focused Roadmap, around which key likeminded partners from Wilton Park can coordinate messaging and amplify SIDS voices. SIDS will need to ensure they are not just heard, but also listened to by the international community with their priorities influencing outcomes. There was a suggestion that the Resilient and Sustainable Islands Initiative (RESI) is considering a briefing paper mapping different agendas/advocacy strategies to the timeline for SIDS4. A clear engagement and communications plan should be developed and this will have the greatest impact where it deploys impactful voices to share a small number of key messages. Key

events over the next year for SIDS include the regional and interregional SIDS4 preparatory meetings, the SDG Summit, the Small States Forum at the World Bank Annual Meetings, and COP28. Innovative partnerships beyond traditional partners (for example, exploring a 'Davos for SIDS') will also have a role.

Access to wider development finance

6. **Multilateral and international systems must acknowledge and account for SIDS unique vulnerability.** Partners are working to implement the Glasgow Climate Pact principle for vulnerability to be considered in financial decisions. Attendees emphasised the need for measuring vulnerability and resilience in IFI allocations and policy making. Attendees engaged with the UN's new MVI and looked forward to the event on MVIs on 3 May, hosted by ODI's Resilient and Sustainable Islands think tank (funded by FCDO). National income per capita does not capture or incentivise sustainable development for countries, and particularly small states.
7. **Measures of resilience reflect a pathway to sustainable development and encourage a systems approach.** While environmental resilience is critical for SIDS in the face of climate change, if we focus only on environmental resilience, we perpetuate the issue of approaching development through slices. The UN MVI has three dimensions: economic, environmental, social, reflecting the UN Sustainable Development Goals.
8. **Transition finance is a critical issue for SIDS.** At the point of graduation, SIDS are on average dependent on ODA for over a quarter of their external flows while other countries at that GNI per capita have just 1% dependence, according to the OECD. There is wide appreciation that the GNI per capita single-criterion fails to capture the development position of small states. Recently there have been issues with SIDS' graduation. Attendees commented on the real costs. Palau sited that they needed to raise debt at high rates to make up for concessional finance as they could not raise non-concessional finance due to small scale while concessional finance fell dramatically due to predicted graduation. Australia had to change operations before reversing, which precipitated costs from refreshing contracts and losing capacity.
9. **SIDS would benefit from reforms to the ODA graduation system.** These include increasing the period for warning to countries due to graduate and ensuring a space for discussions with countries about to graduate. The process is currently that countries are due to graduate if over the GNI per capita graduation threshold for three consecutive years, at the time of the triennial review. The DAC could consider flexibility around DAC ODA rules. Attendees agreed to encourage the DAC to discuss options, including through the DAC-SIDS Taskforce, both to work with countries graduating to smoothen the transition and to develop principles for graduating. See the section on 'Partnerships, implementation and improving quality of aid' for more actions on transition finance and improving aid.
10. **Access to non-concessional finance is an important factor for determining eligibility for concessional finance.** At the World Bank, access to non-ODA and commercial finance is measured to determine eligibility for concessional finance windows. This enables an understanding of countries' alternatives to concessional finance, and attention toward improving opportunities for non-concessional finance as part of countries' development. To avoid cliff edges of external flows at ODA graduation, the graduation process could include consideration of access to non-ODA/commercial finance, along with efforts to ensure ODA activities are sustainable. At the same time, there needs to be policy coherence on delivering diversification of external flows. For instance, there may be a need for coherence between the OECD transition finance process and the OECD International Tax policy to discourage tax havens.
11. **Multilateral and international systems need to tailor their operational processes to SIDS' small capacity SIDS.** This could include increased capacity support for

accessing finance and programme implementation. Stakeholders find that IFIs do not have sufficient geographical expertise in SIDS to effectively engage, particularly the Pacific which is physically far from the World Bank and International Monetary Fund (IMF) HQs and most donors. IFI Board members will consider seeking improvements in IFIs.

12. **High debt burdens are a major risk for SIDS and this impedes their ability to attract finance.** Over half of developing country SIDS are at high risk, or already in, debt distress, higher than countries at the same income levels. Utilising momentum from debt discussions, a consortium are developing a programme of work to make progress on SIDS debt by SIDS4. This may include considering best practice for innovative finance approaches including climate resilient debt instruments, blue bonds, and debt (restructuring) for nature and climate swaps. Partners will encourage creditors to adopt climate resilient debt instruments including Climate Resilient Debt Clauses. Disaster Risk Finance continues to be important for SIDS' economic and climate resilience.
13. **SIDS face particular barriers to diversifying finance sources and private sector mobilisation due to remoteness and smaller scale.** Integrated finance strategies can help to identify sources of finance. SIDS stakeholders need to work with MDBs on enhancing private sector mobilisation. Including the private sector in the conversation will be important to scale up sustainable finance and deliver on ambitions for SIDS4. Philanthropy should also be engaged. To help develop partnerships beyond traditional partners, a 'Davos for SIDS' could be held. Financing strategies for implementing SDGs in SIDS should be integrated with a systems approach. These can be informed through the UN Integrated National Financing Frameworks (INFFs), which are developed for 10 SIDS. Reducing remittance costs is also important for many SIDS who are highly dependent on remittances.

Access to climate finance for SIDS

14. **Climate finance is critical to SIDS ability to address the challenges of climate change and disasters, yet they struggle to access climate finance due to eligibility requirements and onerous bureaucracies.** SIDS have some of the highest levels of vulnerability to climate change and disasters, with some of the highest damages from disasters - average annual damage is 2% of GDP according to [UNCTAD](#). They have also been critical in the fight for climate finance.
15. **Attendees shared frustration with the onerous requirements to access funding from the Green Climate Fund.** SIDS stakeholders described GCF systems as slow, complex and resource intensive. GCF applications are expected to cost roughly \$200k and take on average four years.
16. **GCF processes insufficiently account for SIDS' small capacity.** This means that even when SIDS are allocated finance, they often cannot access it. One example was given of a multi-year delay in receiving funds. The onerous bureaucracies require consultants, significant data creation and use of limited government capacity. This often discourages SIDS from applying or requires disproportionate resources. The length of applications can make commitment to GCF projects at odds with political cycles. The minimum funding amounts can be too large for SIDS. One participant indicated as much as 90% of GCF grant requests in one Pacific country have not been successful. Projects in SIDS currently make up 12% (\$1.3bn) of the GCF's portfolio. 48 projects in SIDS have been approved to date, 37 of which are under implementation.
17. **Partners discussed potential ways forward, particularly targeting the GCF Replenishment.** These include:
 - a) Reducing the application requirements for GCF projects, A SIDS window in GCF similar to that in the Global Environment Facility (GEF).

- b) Ensuring SIDS representation on boards and collective advocacy to make the case for change.
 - c) Systematically ensuring SIDS voices are heard by the Board.
 - d) The same, singular application process across climate finance organisations as currently different organisations such as GCF, GEF and International Renewable Energy Agency (IRENA) have different applications.
18. **It is critical that the Loss and Damage Fund works for SIDS.** Climate finance such as the funding mechanism for Loss and Damage should implement the learnings of other climate finance, including the GCF. The Loss and Damage Fund should deliver for those that are particularly vulnerable to the adverse effects of climate change. Any new fund and funding arrangements should be complementary to those that already exist and work in harmony with existing finance mechanisms. It should also have a broad contributor base with a wider range of sources, including through identifying innovative sources of finance.
19. **Attendees briefly discussed potential to tackle issues of scale for finance through potential pooling including of procurement.** While climate finance is particularly critical for SIDS, who are on the forefront of the Climate Crisis, some participants noted there is a danger of over-focus on climate finance versus wider development finance. Wider finance is a larger amount of money and the World Bank's most concessional window (International Development Association (IDA)) provided [over half of ODA to Small States](#) in 2018-2020.
20. **Renewable energy in SIDS supports economic resilience and can help create fiscal space.** Partners will continue work on this including through engagement with the Lighthouse Initiative and facilitating private sector investment.

Partnerships, implementation and improving quality of aid

21. **Structured partnerships are central for SIDS sustainable development.** The SAMOA Pathway acknowledged this with its partnerships model. Discussion focused on the need to build on the SAMOA pathway to enable partnerships to improve development effectiveness in SIDS. Effort is required to ensure aid aligns with SIDS priorities, and capacity limitations and barriers to implementation are overcome. Quality of aid in SIDS is often poor, with support often uncoordinated and projectized, mainly due to capacity and the small scale of interventions in SIDS.
22. **Attendees pointed to the need to improve coherence and technical support to improve impact of aid.** [The Principles for Improving Aid Impact in SIDS](#), launched in December 2022 by the UK, Canada and AOSIS, with the support of UN agencies and the OECD, provide guidance to development partners and SIDS on tackling these issues. Partners need to work together to implement these Principles. The OECD is developing a Transition Finance Toolkit, which has found that SIDS are often ill-prepared for graduation from ODA eligibility and greater support from donors is required, for example, on capacity building and domestic resource mobilisation. Donors should coordinate their approach with SIDS, recognising capacity limitations. Public financial management and accountability systems similarly should be prioritised. For SIDS, quality of support is likely to generate the fastest improvements in efforts to support resilience on the ground.
23. **Further coordination of advocacy efforts is likely to improve outcomes.** Regional bodies such as the Pacific Island Forum (PIF), African Union (AU), and Caribbean Community (CARICOM) offer platforms for coordination. Similarly, a graduation club for SIDS was suggested to share best practices and share technical assistance for transition finance.

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