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**AOSIS Submission**

**Call for Inputs for an Elements Paper on Financing for Development**

AOSIS is pleased to share the perspectives of small island developing States on the issues of financing for development. We have attempted to provide short introductory messages and targeted interventions that could form part of the forthcoming Elements Paper that will guide the negotiations for the outcome of the Fourth International Conference on Financing for Development.

**Introduction**

The world is in a place of conflating crises – cost of living, climate change, and conflicts, which do not portend well for vulnerable countries.

SIDS growth and development is restricted by external conditions and disproportionately affected by exogenous shocks. SIDS face the unrelenting and compounding impacts of climate change, biodiversity loss, pollution, disasters and natural hazards, health and other social related challenges and economic shocks, as well as the progressive deterioration in their ability to withstand external shocks and enhance their resilience. Successive global crises have exacerbated and negatively compounded the sustainable development of SIDS.

Furthermore, many SIDS lack the fiscal space to meet all the challenges before them, with half at risk of sovereign debt distress, and all experiencing severe challenges in accessing development finance and climate finance, respectively.

The fourth International Conference on SIDS and its resulting Antigua and Barbuda Agenda for SIDS (ABAS) calls for specific measures to assist SIDS to diversify their economies and strengthen state and productive capacities. At the same time the international financial architecture should go further to fully address SIDS’ unique development circumstances and improve their access to concessional finance, which could ease their fiscal constraints and reduce debt servicing, especially for highly indebted SIDS, allowing them to invest in adaptation and resilience, and hence preventing the reversal of hard-earned development gains.

Therefore, the special case of SIDS must continue to be recognized by the international community and must be further operationalized to tackle existing, new and emerging challenges.

1. **A global framework for financing sustainable development (including cross-cutting issues)**

In the view of AOSIS, the Fourth Financing for Development Conference and its outcome should deliver the necessary responses for developing countries, including SIDS, where economic growth and well-being is sustained and economies are robust, diversified, adaptable and able to withstand shocks, ensure social equity, and promote environmental sustainability.

FFD4 must also ensure that SIDS are able to easily access affordable financing at speed and at scale to meet the challenges of today and the obligations of tomorrow. This consideration can be divided into three broad areas: building resilient economies, addressing the challenges of burgeoning and burdening debt, and providing space for SIDS in the reform agenda.

1. **Action areas**
2. Domestic public resources

Successive UN outcomes on SIDS recognize that SIDS do not have the fiscal space nor liquidity necessary to meet their development objectives as well as respond to disasters, adapt to as well as address loss and damage associated with climate change and cope with successive global economic shocks. Because of their size – small populations and economies, and therefore, small administrations – it is challenging to diversify their economies, mobilise domestic resources through tax revenues and generate growth.

Given their special situation and challenges, SIDS need support to enhance administrative capacity, undertake 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. Public financial management must also be improved, including through good budgeting and effective resource allocation towards priority areas.

Proposal:

* Strengthening the synergies between public policy planning and financing through integrated national financing frameworks to increase the expenditure efficiency of public resources, as a complement to resource mobilization from all sources (ABAS, 25, b, iii)
* Developing and expanding productive capacity of SIDS by undertaking national productive capacities gap assessments and implementing holistic productive capacities development programmes (ABAS, 21, a, i and ii)

1. Domestic and international private business and finance

As noted by the OECD[[1]](#footnote-1), “SIDS suffer from low economic diversification, often characterised by high dependence on tourism and remittances, volatility due to fluctuations in private income flows and prices of raw materials, and debt stress situations”.

Proposals:

* Strengthening local, national, and regional institutions as well as the regulatory and domestic policy environment and trade facilitation bodies (ABAS, 21b iii)
* Enabling business environments for private sector investment, entrepreneurship, especially micro, small and medium-sized enterprises, cooperatives and enterprise development (ABAS, 21b iv)

1. International sustainable development cooperation

Cooperation:

In a context of limited development finance availability, there exists a need to prioritise areas of focus for development co-operation in SIDS and to articulate how the existing principles of effective development co-operation (EDC) can be applied to the SIDS context to maximise the impact of co-operation support.

Proposal:

* Improving donors’ aid effectiveness, development cooperation and donor coordination in line with SIDS national and regional priorities and needs, including through the SIDS Principles for Development Effectiveness[[2]](#footnote-2) (ABAS, 32A, b, i), and ensuring that efforts to improve aid effectiveness and development cooperation does not create additional reporting burdens on small governments with limited capacities.

Climate Change: (ABAS, 32B)

The strong relationship between climate and debt in SIDS is particularly troubling. SIDS have spent 18 times more in debt repayments than they receive in climate finance.

The annual cost of adapting to climate change will require an estimated $22 billion - $26 billion per year, or roughly 4% - 5% of SIDS combined GDP. This is in stark contrast to that of the rest of the world (0.3% of GDP) and other small states (0.2% of GDP). Yet, SIDS have only accessed 10% of total GCF funds allocated, less than the totals for African countries and for Least Developed Countries. Both debt sustainability and climate finance access issues require dedicated SIDS-specific responses.

Proposals:

Urging the implementation of existing commitments, in full, especially on,

* Recognizing that the United Nations Framework Convention on Climate Change and the Conference of the Parties thereto is the primary international, intergovernmental forum for negotiating the global response to climate change. (based on paragraph 59. AAAA)
* Accelerating actions for the effective implementation of the UNFCCC and the Paris Agreement, guided by science and agreed principles
* Taking urgent actions to hold the increase in the global average temperature to well below 2 degrees Celsius above pre-industrial levels, and redoubling efforts to limit the temperature increase to 1.5 degrees Celsius above pre-industrial levels, accelerating action in this critical decade on the basis of the best available science, reflecting equity and the principle of common but differentiated responsibilities and respective capabilities in the light of different national circumstances and in the context of sustainable development and efforts to eradicate poverty
* Supporting action on adaptation through, inter alia, the operationalisation and implementation of the UAE Framework for Global Climate Resilience, to guide the achievement of the Global Goal on Adaptation and the review of overall progress in achieving it with a view to reducing the adverse impacts, risks and vulnerabilities associated with climate change, as well as enhancing adaptation action and support
* Providing climate finance by developed countries to SIDS in line with the obligations and commitments under the UNFCCC and its Paris Agreement
* Harmonizing and simplifying the application requirements, access and approval procedures for climate finance through all bilateral, regional and multilateral channels, and continuing to advocate for dedicated financing and programs for SIDS, including advocating for minimum allocation funding criteria for SIDS, as appropriate, to address, inter alia, the current high barriers and transaction costs, especially for financing small sized projects in SIDS
* Urgently operationalizing and further capitalizing the new fund for responding to loss and damage, ensuring that SIDS priorities and needs are also considered in the context of access and resource allocation and the development of programmatic, nationally-led approaches, with due regard for the governing instrument of the fund and special consideration for SIDS

Ocean-based economies:

SIDS are on average, the most reliant countries on ocean economy[[3]](#footnote-3) 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). 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.

Proposal:

* Establishing public-private sector partnerships and appropriate capital market instruments and provide technical assistance to stock exchanges and security market regulators to enhance bankability and feasibility of projects for ocean-based economies

Biodiversity:

SIDS are both a biodiversity[[4]](#footnote-4) hotspot and are disproportionately affected by biodiversity loss. Fostering sustainable approaches to safeguard SIDS’ biodiversity, address the underpinning causes of loss, and valuing the contribution of natural ecosystems to SIDS economies are essential.

Proposals:

* Ensuring adequate financial and technical support for small island developing States and timely operationalization and capitalization of the Global Biodiversity Framework Fund; (ABAS, P32C,a,ii)
* Developing, enhancing, and applying environmental statistics frameworks in their national statistical systems, such as Natural Capital Accounting Framework including ecosystems services valuation, to assess the contribution, of natural ecosystems to economies, and inform policy decisions and development (ABAS, P30, c, i)
* Supporting SIDS to identify financing and capacity gaps in meeting biodiversity objectives and develop partnerships, particularly with the private sector, to develop innovative strategies to bridge these gaps (ABAS, P30, c, ii)

Energy:

SIDS are inherently small open economies, and many are heavily dependent on imported oil products for their energy needs, including electricity, transportation, and cooking. They also face some of the highest electricity costs in the world, coupled with significant supply chain hurdles.

Proposals:

* Addressing the underlying barriers in accessing and mobilizing finance to deploy renewable energy, including enabling environments and policy, legal and regulatory frameworks (ABAS, P26, a, ii)
* Developing bespoke SIDS-specific technologies and applications for renewable energy deployment, and integration into the power system, and promoting efforts to reduce the cost of capital for renewables (ABAS, P26, a, iii)
* Supporting SIDS[[5]](#footnote-5) to develop enabling environments and policy, legal and regulatory frameworks to attract renewable energy finance, while at the same time assisting SIDS in their advocacy with a view to improving access to the climate funds
* Exploring multi-country projects or approaches to overcome challenges due to small scale of projects in SIDS

Disaster risk reduction:

The average annual loss and damage from extreme weather events in SIDS is equal to 2.3% of the entire GDP and 14% of revenue[[6]](#footnote-6), which is about 4 times higher than low and lower middle income non-SIDS. Over the past 50 years, SIDS lost $153 billion due to weather, climate and water related hazards. Moreover, in small countries, disasters can present systemic risks, affecting most parts of an island or territory at the same time.

Proposals:

* Strengthening disaster preparedness, including multi-hazard early warning systems and capacity to take early action in SIDS, through initiatives such as the Early Warnings for All (EW4ALL) and the Climate Risk Early Warning Systems (CREWS), timely evacuation planning, planning for relocation of communities, and developing post-disaster needs assessments (ABAS, P30, d, iii)
* Implementing creative arrangements and risk reduction mechanisms that allow SIDS to access low and concessional financing rates, including government guarantees and insurance schemes to support DRR (ABAS, P30, d, iv)
* Recognize the need for the global community, including international financial institutions, development banks and the private sector, to enhance efforts to scale up disaster risk reduction financing instruments to meet the scale of financing needed by developing countries (A/RES/78/152, P9)

MDBs:

The international community has now acknowledged vulnerability as a serious obstacle to development due to high exposure to exogenous shocks and stressors which are increasing in intensity and frequency. It is evident that per capita national income, often measured by Gross National Income per capita (GNI pc), is a weak measure of development, material welfare, or well-being. This is particularly true for countries facing high risks of external shocks and stressors, especially if they also lack the capacity to invest in resilience.

A widely accepted Multidimensional Vulnerability Index (MVI)[[7]](#footnote-7) has the potential to better guide country development and donor assistance policies, aid in the diagnosis of development challenges and in the identification of nations in need of heightened international assistance before a crisis hits.

The recently adopted General Assembly resolution on the MVI, welcomes the work of the High-level Panel on the MVI, notes its Final Report, and importantly, decides to advance the MVI.

Proposals:

* Noting the commitments by the international financial institutions, international organizations and multilateral development banks to consider structural vulnerability in their programmes and as outlined in the evolutions roadmap, encourages the use of the Multidimensional Vulnerability Index, as appropriate, as a complement to their existing allocation and eligibility policies and practices (based on MVI res, P7 / PoF, P77, f)

1. International trade as an engine for development

Overall, SIDS play a marginal role in the global economy. Their share of global GDP stands at 0.4%. Nevertheless, the trade-to-GDP ratios of SIDS is comparatively high, with the average exceeding 100%. The magnitude of this ratio reflects the fact that SIDS are small open economies that rely heavily on trade. It also reflects their vulnerability to external factors including economic shocks and the volatility of growth and prices.

Proposals:

* Designing trade and investment strategies for SIDS to consolidate market opportunities in existing sectors and markets and identify opportunities for economic diversification to reduce vulnerability (ABAS, P21, b, i)
* Enabling preferential market access, in goods and services for SIDS by considering trade rules, as appropriate, that consider the special circumstances of SIDS, and encouraging the full utilization of preferential market access by improving the application of trade rules and their transparency for SIDS, in compliance with World Trade Organization commitments (ABAS, P21, b, ii)
* Supporting the establishment of the biennial Island Investment Forum as part of the Small Island Developing States Centre of Excellence as a dedicated platform for promoting sustainable economic development in small island developing States by promoting investment opportunities, knowledge exchange and collaborative initiatives, addressing the unique challenges faced by small island developing States and contributing to their long-term resilience and prosperity (ABAS, P21, b, iv)
* Refraining from promulgating and applying any unilateral economic, financial or trade measures not in accordance with international law and the Charter of the United Nations that impede the full achievement of economic and social development, in particular in developing countries. (FFD OD 2024 and p.30 of the 2030 Agenda)

1. Debt and debt sustainability

SIDS are facing the challenges of burgeoning and burdening debt. Escalating levels of debt are compromising the financial stability of SIDS countries. More than 40% of SIDS are nearing or already in debt distress, and an alarming 70% surpass the debt-to-GDP sustainability threshold of 40%. This situation is diverting money from essential infrastructure and resilience building efforts into debt servicing.

Proposals:

* Establish a mechanism where partial debt forgiveness for SIDS is tied to verifiable progress in climate mitigation, adaptation, and biodiversity protection. Debt-for-climate swaps and restructured agreements would incentivize countries to meet ambitious climate goals, such as expanding renewable energy, achieving carbon neutrality, and protecting ecosystems, while reducing their debt burden.
* Establishing a dedicated SIDS Debt Sustainability Support Service[[8]](#footnote-8) to enable sound debt management and devise effective solutions for SIDS in relation to debt vulnerability in the immediate term and debt sustainability in the long term, building on and avoiding duplication with relevant dedicated initiatives (ABAS, P32A, c, i)
* Deploying a programme of debt financing, reprofiling and debt relief for SIDS, including cancellation, restructuring and swaps, as well as utilizing blue and green bonds and swaps, where appropriate and needed (AOSIS statements)
* Promoting, where appropriate, the use of state-contingent clauses in lending, including climate-resilient debt clauses when lending to developing countries vulnerable to hazards, including those linked to climate change. (PoF, P78e)

f. Addressing systemic issues

SIDS have joined repeated calls for a credible reform of the international finance architecture, including on issues of representation. The current composition of decision-makers in the IFIs no longer reflect the diversity and complexity of the world. SIDS have therefore pressed for better representation for developing countries, as well as a seat at the table for SIDS.

Proposal:

* Ensuring SIDS representation and participation, as well as other developing countries, in decision-making in global economic and international financial institutions by updating the IMF quota formula to reflect the changing global landscape and reforming voting rights and decision-making rules to make them more democratic in order to deliver more effective, credible, accountable and legitimate, institutions, giving due consideration to SIDS priorities and needs and perspectives in the process (ABAS, P32A, a, iii)
* De-linking access to resources from quotas and conditionalities and determine their allocation based on need and vulnerabilities. (UNCTAD trade and development report 2023, p.108)
* Scaling up concessional finance and grants from multilateral and regional development banks through greater capitalisation and re-channeling of unused Special Drawing Rights to Multilateral Development Banks.
* To ensure effective and improved utilization of resources and opportunities, investing in policies and programmes in productive capacities, education and skills (based on ABAS para 25(iii)(c))

g. Science, technology, innovation and capacity building

SIDS face low levels of investment in research and development, inadequate access to financing, underdeveloped STI infrastructure, lack of high-quality disaggregated data and limited budgetary resources for education.

Proposals:

* Assisting SIDS in developing national roadmaps for digitalization, science, technology and innovation (STI) and to support SIDS to build up national capacities for developing and utilizing the state-of-the-art technologies, including renewable energy technologies, marine technologies for the ocean-based economy and other areas significant to sustainable development, including digital technologies (ABAS, P32H, a, iii)
* Supporting the SIDS Center of Excellence through its innovation and technology mechanism to provide learning opportunities, exchange experiences and support innovation, to enhance capacity building and narrow the digital divides (ABAS, P32H, a, v) including through transfer of technology and know-how
* Developing digital solutions[[9]](#footnote-9) to expand commerce to support efforts to overcome the adverse impacts of remoteness and other structural constraints in SIDS (ABAS, P32H, a, vii)

1. **Emerging issues**

“The climate crisis is exacerbating the debt challenges in SIDS[[10]](#footnote-10).” Without targeted approaches it is a situation that is expected to worsen. SIDS leaders have long argued that high debt levels and the cost of servicing that debt, alongside the challenges of meeting development imperatives and limited access to affordable, long-term finance “restricts the ability of SIDS to invest in resilience, climate action and the Sustainable Development Goals”.

Research by UN Trade and Development[[11]](#footnote-11) shows that “the share of concessional loans in climate-related ODA to SIDS has more than doubled since the COVID-19 pandemic, reaching about 40% of total climate-related aid. Although these loans are provided under concessional terms, they inevitably exacerbate the $85 billion debt burden faced by SIDS – equivalent to 72% of their combined GDP”. They go on to note that increased and appropriately structured support is necessary for SIDS to withstand the existential threat posed by climate change.

Speaking at the Fourth International Conference on SIDS, the UN Secretary-General proposed a three-point plan[[12]](#footnote-12), delivering a SDG stimulus for SIDS. He suggests,

1. Relieve the debt burden by providing access to effective relief mechanisms, including pauses in payments during times of economic volatility.
2. Transform lending practices by changing the rules on concessional finance to lower borrowing costs. He said the UN’s Multidimensional Vulnerability Index could play an important role in this.
3. 3. Greater inclusivity across international financial institutions, with SIDS holding a seat “at every table”.

Further, sovereign credit ratings assess a country's creditworthiness, helping investors determine the risk of lending. Higher ratings mean lower borrowing costs, enabling cheaper access to capital for public projects and development. The credit rating industry is dominated by three credit rating agencies, with most of their ratings focused on advanced economies and emerging markets. SIDS are underrepresented, with only 13 having a sovereign credit rating. For SIDS, obtaining and maintaining a credit rating is challenging due to high costs and administrative burdens. There is also an inherent income bias, favoring wealthier countries that can secure better ratings through robust investor relations. In contrast, SIDS struggle to communicate their credit stories effectively, limiting access to affordable capital. Without a credit rating, SIDS face higher borrowing costs, hindering investment in resilience and perpetuating underdevelopment. Additionally in times of distress, those SIDS with credit ratings are hesitant to access debt relief measures when available, for fear of credit rating downgrades. Reforming credit rating methodologies is crucial to creating a fairer financial landscape for SIDS. We therefore propose that reforming credit rating agencies is critical for improving transparency, fairness and methodology. Considerations should be given to establishing a new credit rating mechanism that takes into account the inherent vulnerabilities of SIDS and the various factors that render SIDS susceptible to external shocks and climate risk.

**IV. Data[[13]](#footnote-13), monitoring and follow-up**

SIDS face multifaceted challenges hindering their ability to promote sound and evidence-based

policymaking, including insufficient institutional coordination to limited adoption ofdigital technologies, lack of quality data, and infrastructure vulnerabilities. Addressing these

challenges is essential to accelerating progress on the Sustainable Development Goals (SDGs) and

tackling SIDS’ unique social, economic, and environmental vulnerabilities.

Proposals:

* Emphasizing that capacity building for a stronger data governance and management will allow SIDS to support better data collection, protection, transparency, and data sharing (ABAS, P19)
* Supporting the SIDS Center of Excellence, which will include, inter alia, a SIDS Data Hub[[14]](#footnote-14), a technology and innovation mechanism (ABAS, P20)

1. **Overarching reflections**

For SIDS to achieve sustainable development and resilient prosperity, FFD4 must assist SIDS to diversify economies and strengthen state and productive capacities. At the same time the international financial architecture should go further to fully address SIDS’ unique development circumstances and make accessing concessional finance easier for them, which could mitigate SIDS’ fiscal constraints and reduce the risk of indebtedness, especially for highly indebted SIDS, and prevent the reversal of hard-earned development gains. Therefore, the special case of SIDS must continue to be recognized by the international community and must consider these new and emerging challenges.

The great financing divide between developed and developing countries must be bridged. The international community needs to ensure that irrespective of economic standing, access to long-term financing at low interest rates for economic recovery from multiple and layered crises is available to all, especially the most vulnerable.

1. <https://www.oecd.org/en/topics/sub-issues/small-islands-developing-states.html> [↑](#footnote-ref-1)
2. <https://www.international.gc.ca/world-monde/issues_development-enjeux_developpement/priorities-priorites/SIDS-PEID.aspx?lang=eng> [↑](#footnote-ref-2)
3. <https://www.un.org/ohrlls/news/finance-development-small-island-developing-states-report-advance-unedited> [↑](#footnote-ref-3)
4. <https://www.sei.org/perspectives/five-reasons-why-small-island-developing-states-are-bigger-than-we-think/> [↑](#footnote-ref-4)
5. Forthcoming report on a legal analysis on the ABAS vision for energy transition [↑](#footnote-ref-5)
6. https://odi.org/en/publications/calculating-loss-and-damage-from-extreme-weather-in-sids/ [↑](#footnote-ref-6)
7. [https://sdgs.un.org/topics/small-island-developing-states/mvi?\_gl=1\*1srmttm\*\_ga\*MTA1MTUyODg2Ni4xNzI1NDU0Nzgx\*\_ga\_TK9BQL5X7Z\*MTcyODE0MzQ2NC42LjAuMTcyODE0MzQ3MC4wLjAuMA..#mvi\_report](https://sdgs.un.org/topics/small-island-developing-states/mvi?_gl=1*1srmttm*_ga*MTA1MTUyODg2Ni4xNzI1NDU0Nzgx*_ga_TK9BQL5X7Z*MTcyODE0MzQ2NC42LjAuMTcyODE0MzQ3MC4wLjAuMA..#mvi_report) [↑](#footnote-ref-7)
8. <https://www.iied.org/new-economic-support-service-for-small-island-developing-states-clarion-call-for-action-debt> [↑](#footnote-ref-8)
9. <https://www.undp.org/publications/small-island-digital-states-how-digital-can-catalyse-sids-development> [↑](#footnote-ref-9)
10. <https://odi.org/en/publications/breaking-the-cycle-of-debt-in-small-island-developing-states/> [↑](#footnote-ref-10)
11. <https://unctad.org/news/aid-small-islands-falls-even-temperatures-rise> [↑](#footnote-ref-11)
12. <https://news.un.org/en/story/2024/05/1150296> [↑](#footnote-ref-12)
13. <https://sdgs.un.org/sites/default/files/2024-05/ID%204%20digital%20clean%2025may_0.pdf> [↑](#footnote-ref-13)
14. <https://www.aosis.org/as-sids4-ends-aosis-antigua-and-barbuda-launch-new-sids-global-data-hub/> [↑](#footnote-ref-14)