Small island developing states (SIDS): financing the 2030 Agenda for Sustainable Development

Over the past two decades, great strides have been made to raise international awareness of small island developing states (SIDS) as a distinct group of countries with compelling development challenges and special needs. On the threshold of the Sustainable Development Goal era, it is timely to take stock of how the financing for development agenda is shaping up for these countries and where greater efforts and focus are needed. This brief assesses different aspects of the pattern of recent ODA flows to the 35 SIDS who are eligible to receive ODA, and outlines steps the OECD Development Assistance Committee (DAC) is taking to address their development finance challenges.

SIDS face a unique set of obstacles to achieving sustainable development

SIDS share a number of structural challenges and geophysical constraints that result in disproportionately large economic, social and environmental challenges that hinder their development progress. Key features of their common vulnerabilities include:

Economic vulnerability

- Small domestic markets and a narrow natural resource base result in undiversified economies, limits for achieving economies of scale, and reduced scope for private sector development – with attendant impacts on economic growth and job creation.
- SIDS economies are highly open – and thus are quickly and strongly affected by global trade and financial volatility and economic downturns.
- Infrastructure costs – particularly for sustainable energy, communications and transport – are high for small island states.

Social vulnerability

- Rapid population growth in most SIDS creates stress for the provision of basic services and job opportunities.
- The extensive spatial dispersion of some island groupings affects the ability of government to deliver public services and increases their relative costs.

Diverse needs and circumstances

SIDS comprise a heterogeneous mix of 57 countries located across three geographic regions: the Caribbean, the Pacific and the Atlantic, Indian Ocean, Mediterranean and South China Sea (AIMS). Despite numerous commonalities, a large degree of differentiation exists among countries within the group in terms of income levels, population densities, geographic spread and relative development progress. While 22 are high-income countries, most are situated in the middle-income grouping and, among the 35 ODA-eligible SIDS, almost one third are least developed countries. SIDS also differ with respect to the structure of their economies. Some are more service based, such as the Bahamas and Barbados; while others are more natural resource based, such as Trinidad & Tobago and Papua New Guinea.

Environmental vulnerability

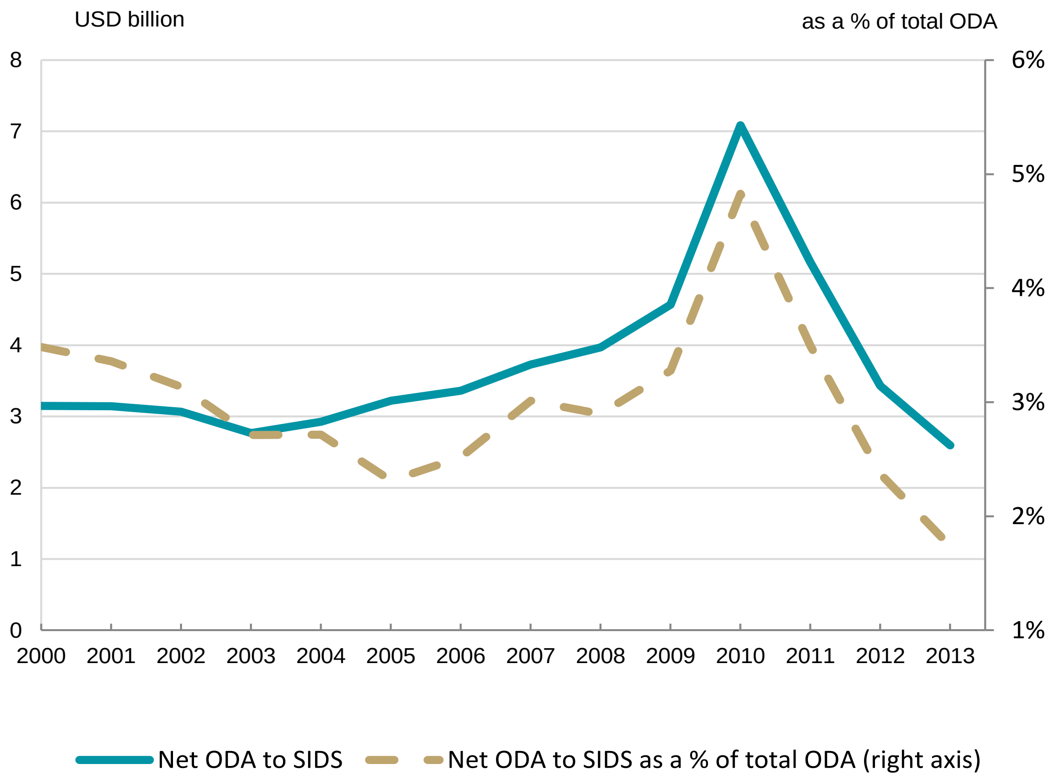
- All small island states are characterised by fragile natural environments (falling fish stocks, threatened biodiversity, limited water availability, land management challenges, etc.).
- SIDS are highly vulnerable to the effects of climate change (extreme weather events, sea level rise, habitat degradation, etc.)
- Many SIDS lack sufficient resilience to deal with the rising incidence of natural disasters (storm surges, droughts, landslides, etc.)

The share of total ODA to SIDS has fallen over the past decade

Despite exceptional aid relief to Haiti in the wake of the devastating earthquake in 2010, net ODA flows to SIDS have hovered at approximately USD 3 billion over the past decade[1]. The SIDS share of total ODA flows, on the other hand, has steadily dropped over this period: while total aid volumes increased by 66% in real terms from 2000 to 2013, the share of total official assistance to SIDS decreased from around 3.5% in 2000 to well under 2% in 2013 and is heavily concentrated in just a few countries. The decline is largely due to rising needs from fragile states and strong support for the African continent.

Net ODA to SIDS 2000-2013

(real terms, 2012 basis)



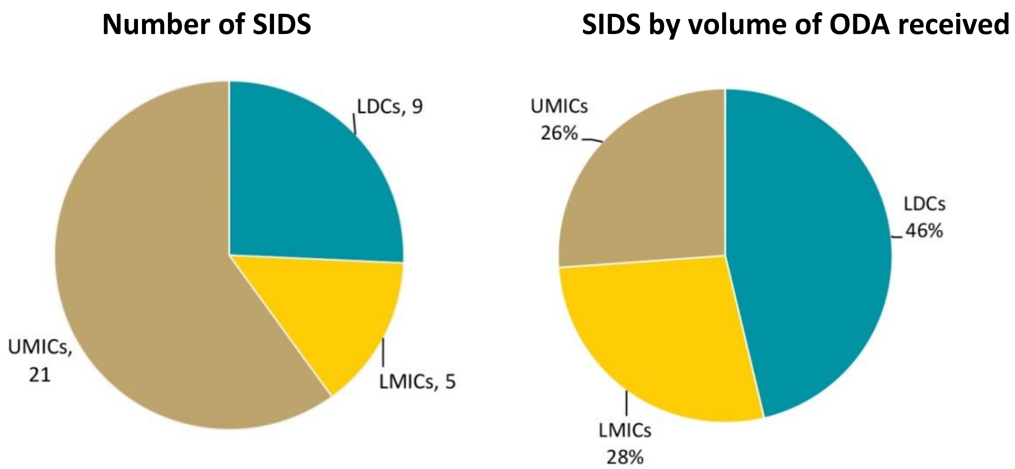
Source: OECD DAC statistics

[1] The increase to $6.8 billion in ODA to SIDS 2010 was attributable mainly to aid provided to Haiti.

Least developed SIDS receive the largest share of ODA to SIDS

While the bulk of ODA-eligible small island developing states are classified as upper-middle income countries, the largest share – 46% – of concessional flows over 2012-2013 was channelled to the nine SIDS falling in the least-developed country category.

SIDS by income groups, 2012-2013

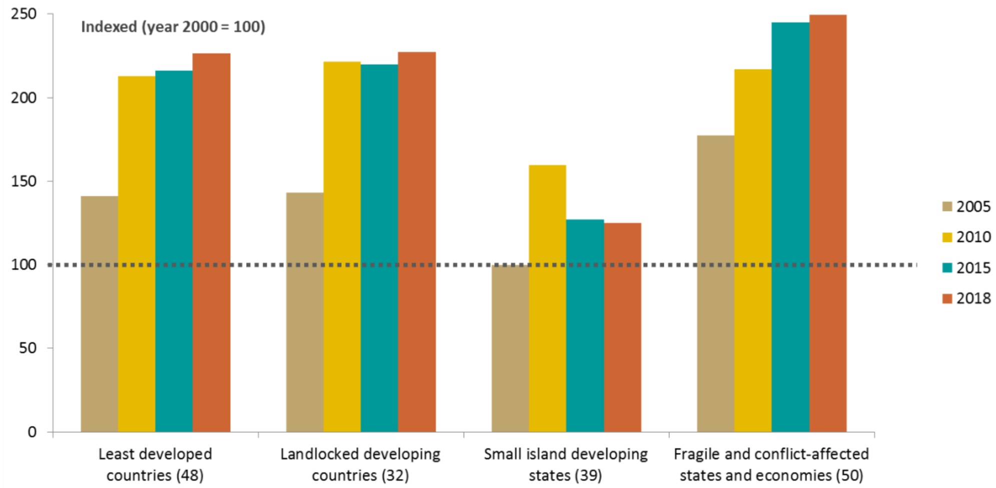


Source: OECD DAC statistics

ODA to SIDS has lagged other vulnerable country groupings – and volumes are set to remain static going forward

When compared to other vulnerable countries, it is clear that SIDS have lost out over the past decade. The chart below shows the relative percentage increase in ODA across four different vulnerable country grouping: least developed countries, landlocked countries, fragile and conflict-affected states and SIDS. Aid to all has risen strongly since 2000 – with the exception of SIDS, where the rise was smaller in 2005 and 2010 compared to the others, and where it has actually fallen in 2013. Projections suggest that aid to SIDS countries will stagnate at current levels over the forward period to 2018.

Comparative trends in ODA flows across vulnerable countries
(percentage change, 2000-2018)

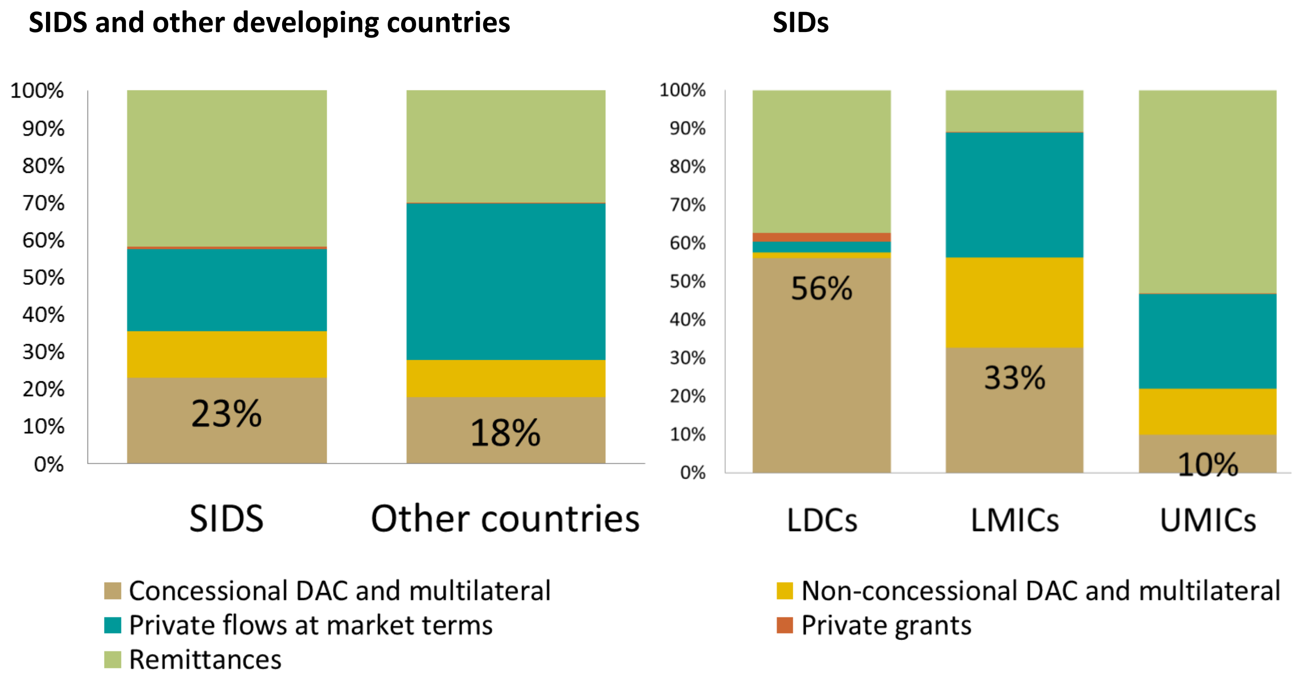


Source: OECD DAC statistics

The mix of available external development finance resources varies across SIDS countries

The Figure (left) below shows that SIDS are more reliant on ODA and remittances than other developing countries, and private flows – bank lending, direct investment and portfolio flows – account for a much smaller share of total external finance than elsewhere. The other Figure below (right), illustrates the financing mix across SIDS on an income basis; it clearly shows a high degree of heterogeneity, with the LDCs relying heavily on concessional finance (bilateral and multilateral) and remittances. This contrasts with LMICs who have balanced shares across official concessional and non-concessional finance and private flows, and UMICs – which rely on remittances for more than 50% of their financing needs.

Composition of external finance to SIDS and other developing countries, 2013



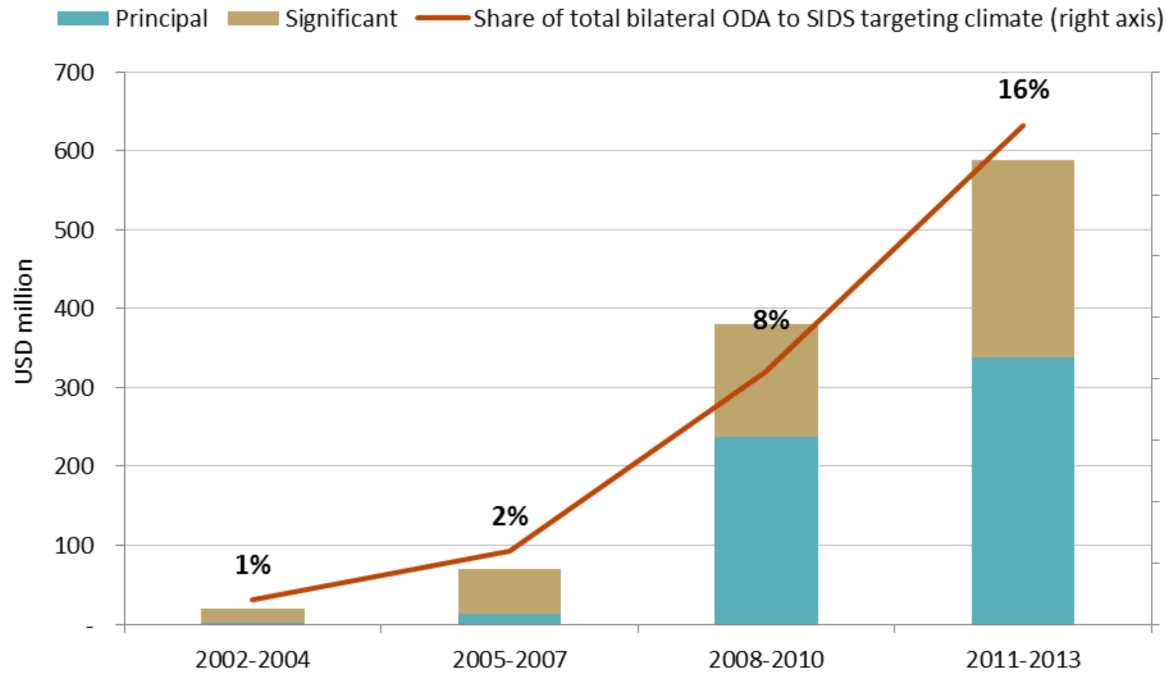
Source: OECD DAC statistics

Funding to SIDS for climate change is rising

SIDS across all three geographic regions have registered strong growth in the volume of climate finance received over the past decade, reaching an all-time high of 15% of total bilateral ODA they received in 2013. The share of climate finance targeting adaptation activities – which support many key development challenges facing SIDS – has progressively increased as well. Support for mitigation activities – including developing green energy sources and enhancing energy efficiency –- needs to be stepped up.

Trends in climate-related bilateral ODA to SIDS, three-year annual averages

2002-13, bilateral commitments, USD million, constant 2012 prices

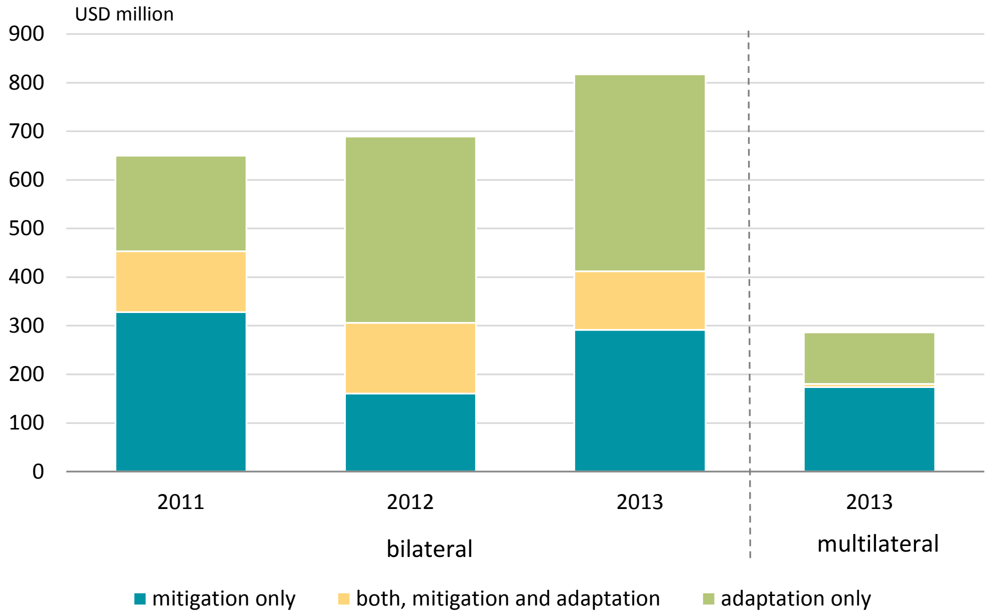


Notes: The chart above presents a trend based on averages over three years, so as to smooth fluctuations from large multi-year projects programmed and committed in a given year, such as observed in 2010. For both graphs, reporting on the mitigation marker became mandatory in 2007, and the adaptation marker was introduced only in 2010, and data on total climate-related ODA for earlier years mainly relates to mitigation and is therefore under-estimated.

Source: OECD DAC Creditor Reporting System

Bilateral aid and multilateral outflows: ODA and OOF to SIDS for mitigation and adaptation

2011-13, commitments, USD million, constant 2013 prices



Source: OECD DAC Creditor Reporting System

How is the OECD DAC gearing up to address SIDS financing challenges?

In December 2014, OECD DAC members reached historic agreements to i) modernise the way ODA concessionality is assessed and ii) allocate more of total ODA to developing countries that are "most in need". A focused work programme and monitoring effort will be undertaken to fulfil these important political agreements, including as regards SIDS. The implications for SIDS financing challenges include:

- The modernised concessionality criteria will create incentives for OECD DAC members to **provide more and cheaper ODA to the poorest and most vulnerable countries;**
- **The OECD DAC will monitor ODA flows to SIDS**, particularly those most in need. Members will hold one another to account individually through the OECD peer review process, and additionally on a collective basis on the occasion of the annual Senior Level Meeting;
- **To address the growing debt burdens of small island developing states,** members will ensure lending policies comply with the agreed IMF/World Bank debt sustainability framework;
- Analytical work will be undertaken to **better understand OECD DAC member practices and policies toward financing for SIDS** including: i)analysing ODA flows to identify trends and gaps, ii) assessing aid allocation processes, the use of innovative and risk financing approaches and the impact of "graduation" to higher income groupings vis-à-vis access to development finance, and iii) evaluating how different innovative financial instruments can most effectively combine and deliver resources for sustainable development.

Key SIDS financing challenges, including as related to climate finance

- High dependency on ODA;
- Attracting and deploying private capital;
- Capacity to access climate finance;
- Marshalling resources for disaster risk management to more effectively limit damages and to respond once a natural disaster has hit;
- Limited access to debt and international capital markets

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