

# FACTSHEET

## Financing for development: the case of Small Island Development States (SIDS)

### Key facts

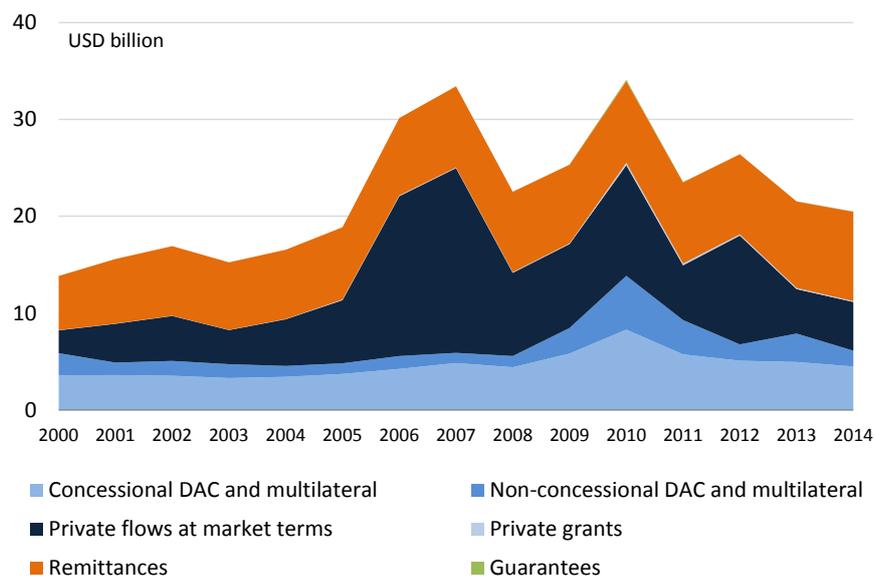
- **Remittances represent the main source of external finance to SIDS (45% in 2014).**
- **Concessional finance to SIDS has decreased in the last five years, but the proportion of climate-related development finance has been growing, amounting to USD 1.1 billion in 2014.**
- **Climate-related development finance to the SIDS primarily targets adaptation activities.**
- **A recent study shows that financing to build resilience to climate and disaster events has increased in recent years, amounting to USD 1 billion in 2014.**

### Remittances represent the largest source of external finance to SIDS

SIDS<sup>1</sup> face significant challenges in attracting external private finance as well as in accessing concessional finance. In 2014, remittances accounted for the largest share of external finance (45%), having recorded a fairly stable share in total external flows since 2000 (41% in 2000). Private finance accounted for 25% of external financing, down from the record share of 51% in 2007 -due to exceptional levels of foreign direct investments (USD 5.3 billion) and bond and security (USD 8.8 billion) flows in a pre-crisis context. Bilateral and multilateral concessional finance represented the third largest external financial flow to SIDS in 2014 (22%). In the past 15 years, overall external finance to SIDS has been decreasing, mainly due to a fall in private flows and concessional finance (see Figure 1).

Apart from a peak in 2010, largely because of exceptional aid relief to Haiti in the wake of the earthquake, concessional finance to SIDS has remained fairly constant since the 2000s, before starting to decrease in 2011. This fall has reduced the share of ODA to SIDS (in ODA to all developing countries) steadily from 2011 onwards. In 2014, gross concessional flows to SIDS, both bilateral and multilateral, represented USD 4.7 billion, or 3.5% of total gross ODA, a decrease of 14% per year over 2010-14.

**Figure 1. External finance in SIDS**

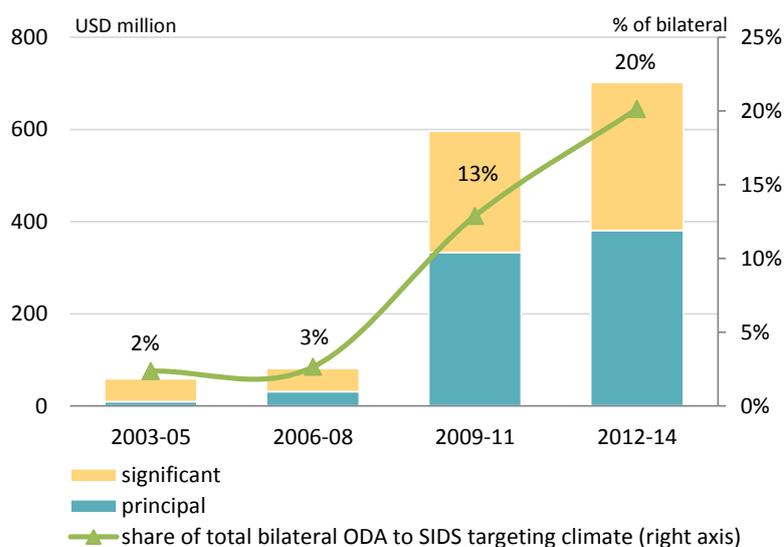


<sup>1</sup> Thirty-five SIDS are currently eligible to receive Official Development Assistance (ODA). Other lists of SIDS exist, such as the Alliance of Small Island States list (AOSIS), the United Nations Office of the High Representative for the LDCs, LLDCs and SIDS list (UNOHRLLS), and others.

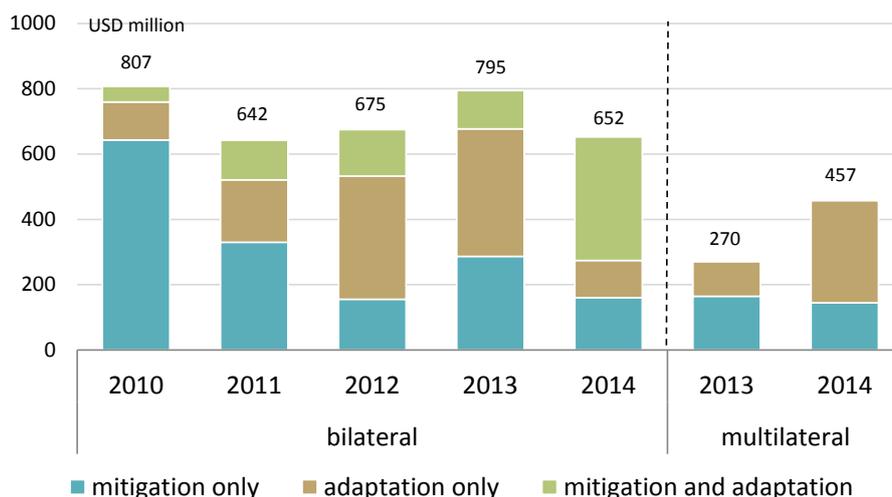
## Climate-related development finance to SIDS is growing

SIDS have registered strong growth in the volume of climate-related ODA over the past decade, reaching a high of 20%, or USD 702 million on average of the total ODA they received in 2012-14 (Figure 2). The share of climate finance targeting adaptation activities – which aims to address many key development challenges facing SIDS – has on average increased as well, although there was a dip in bilateral adaptation finance in 2014 in favour of projects with both mitigation and adaptation objectives (Figure 3). While responsible for a small fraction of gas emissions globally, SIDS could receive more support for mitigation activities to develop green energy sources and enhancing energy efficiency so as to break dependence on imported fossil fuel sources of energy that weight heavily on governments’ budgets and the economy of SIDS.

**Figure 2. Bilateral climate-related ODA to SIDS, 3-year average commitments, USD million, constant 2014 prices**



**Figure 3. Climate-related bilateral ODA and multilateral outflows to SIDS USD million commitments, 2014 prices**



## Resources for climate and disaster resilient development are growing but still represent a small fraction of concessional finance

A recent study<sup>2</sup> estimates that financing to build resilience to climate and disaster events also increased, reaching USD 1 billion in 2014. However, this financing still represents only 14% of the concessional finance SIDS receive. While 71% of this financing was provided by bilateral providers, the growth in 2013-14 was mainly driven by increased concessional lending from multilateral development banks to a limited number of SIDS.

<sup>2</sup> OECD, World Bank (2016 forthcoming) Climate and Disaster Resilience Financing in Small Island Developing States.