

2019 EDITION

THE COWRIE

SIDS Times Magazine



**Economic disadvantages of
SIDS** *pg. 08*

**Financing Development and
Fiscal Volatility** *pg. 16*

**Innovative Financing Solutions
in Pacific SIDS** *pg. 28*



SIDS Unit
Division of Sustainable Development Goals
UN-DESA



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Editorial

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Chief's Corner

Greetings and welcome once again to the Cowrie. In this edition, we focus on the financing challenges of Small Island Developing States (SIDS).

The challenges that confront SIDS in the area of development financing are not new. Significant challenges exist in mobilizing domestic resources and in accessing capital markets in SIDS. SIDS also tend to have small and erratic domestic revenues. These combined with high costs for providing public services and the fiscal impacts of natural disasters often result in limited fiscal space. This is further compounded by the fact that most SIDS are currently in debt distress or are at high risk of debt distress.

In addition, those SIDS that make up half of the 12 countries expected to graduate from least developed country (LDC) status by 2024 have concerns about the impact of graduation, and in particular, how this will affect their access to low-cost long-term development finance. Although more sources of financing have become available, most SIDS struggle to access these due to low absorption capacity and the complex array of accreditation and application processes to access the global funds. Enhanced international cooperation is needed to ensure that sufficient means of implementation exist to provide these countries the opportunity to achieve the Sustainable Development Goals.

This edition opens with articles that review the root causes of fiscal volatility in the SIDS. Faced with unprecedented development challenges as a result of climate change, one article calls for a drastic re-think, and another highlights some of innovative financing solutions in the Pacific.

The editorial team wishes to express its sincere appreciation to all of the contributors of this edition. We trust that readers will find it informative and useful.



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PGA Luncheon on the occasion of High-level Dialogue on Financing for Development



Mr. Liu Zhenmin
**Under-Secretary-
General for Economic
and Social Affairs**
26 September 2019, New York



Honorable Heads of State and Government,
Excellencies,
Ladies and Gentlemen,

It is a distinct pleasure for me to address you at the conclusion of this luncheon.

I will not attempt to summarize the impressive discussion; rather I will highlight some key takeaways.

You have reminded us that the financing needs of our agenda are vast – in the order of trillions of dollars. And that public resources represent the backbone of implementation. You also acknowledged that Member States need to adopt sound social, environmental and economic policies, as well as strong institutions, in order to achieve the Sustainable Development Goals.

Individual country efforts will succeed only if supported by an enabling international environment. The international financial, trading and tax systems and norms must be aligned with sustainable development.

The private sector needs to step up as well. The private sector acts as an engine of growth and job creation. In order to achieve the 2030 Agenda, this growth needs to be sustainable and jobs need to be decent and green.

The private sector is also a key investor. As a major capital owner, private business has a vital role in directing financing to sustainable development. Businesses across the globe are acknowledging the responsibility they have within society.

Yet, on the road to 2030, we will require a lot more than a few steps. We require tangible action by governments and the business sector to fast-track our progress to achieve the SDGs.

We need a change in mindsets, and in the way we do business. Next month, the Secretary-General will convene the Global Investors for Sustainable Development Alliance, which will advance solutions to achieve this shift.

In April 2020, we will also convene the Financing for Development Forum in New York, to take stock of our efforts and assess how we can overcome challenges. Moreover, the SDG Investment Fair, held concurrently with the Forum, will bring together investors and governments to accelerate investment to close the SDG financing gap.

I encourage all of you to continue to stay engaged. I strongly believe that together we can achieve our ambitious goals for the future.

I thank you. ””

Mr. Liu Zhenmin
Under-Secretary-General for Economic and Social Affairs

DFID's Emerging Thinking on the Economic Disadvantage of SIDS

DFID's SIDS economist highlights the organisation's changing work on SIDS, and discusses his analysis of the economic disadvantage of SIDS; whether income is an adequate measure to understand the development experience of SIDS; and how DFID are inviting SIDS and donors to a round-table event in London next year to explore what progress can be made around access to concessional finance¹.

Background: DFID's renewed engagement on SIDS

DFID has long supported and worked with SIDS across the globe, including many in the Caribbean. The UK has historic links: 24 SIDS are British Commonwealth members and 6 SIDS are British Overseas Territories (OTs). This support has included approx. £900m of ODA and non-ODA support to SIDS over the last few years, including assistance to over 90% of ODA-eligible SIDS. While we have been actively supporting SIDS for many years, the organisation did not have a formal policy framework for the specific challenges involved. Over the last year we have started to engage more closely with the SIDS agenda and in the spring of 2020, we will host a major round-table for technical experts to discuss, among other issues, the economic disadvantage of SIDS and their concessional finance needs. A key element of our engagement has been to catch up with the existing body of evidence on development challenges in SIDS. To support this, we have so far

commissioned four reports that draw together existing evidence on:

- The development characteristics of SIDS²;
- The effects of losing access to concessional finance affecting SIDS³;
- Building Government Capacity in SIDS;
- The effectiveness Public Sector Reform and Capacity Building in SIDS.⁴

These reports highlight disadvantages that have long been known, including their economic remoteness and vulnerability, and exposure to natural disasters. However, the reports also highlight that there are unresolved questions and gaps in evidence. We also need to be cautious on policy challenges where causal relationships are difficult to evidence – for example on how concessional financing constraints in SIDS affect public debt levels.

We also need to be realistic that while SIDS share many characteristics, there are at the same time significant differences between them, which means that targeting interventions is difficult in practice. We therefore started to gather data and evidence internally to further our own understanding of the disadvantages of SIDS; how the development experience of SIDS is different from that of other countries at similar income levels; and what this means for the debate on greater and more sustained access to concessional finance.

The economic disadvantage of SIDS

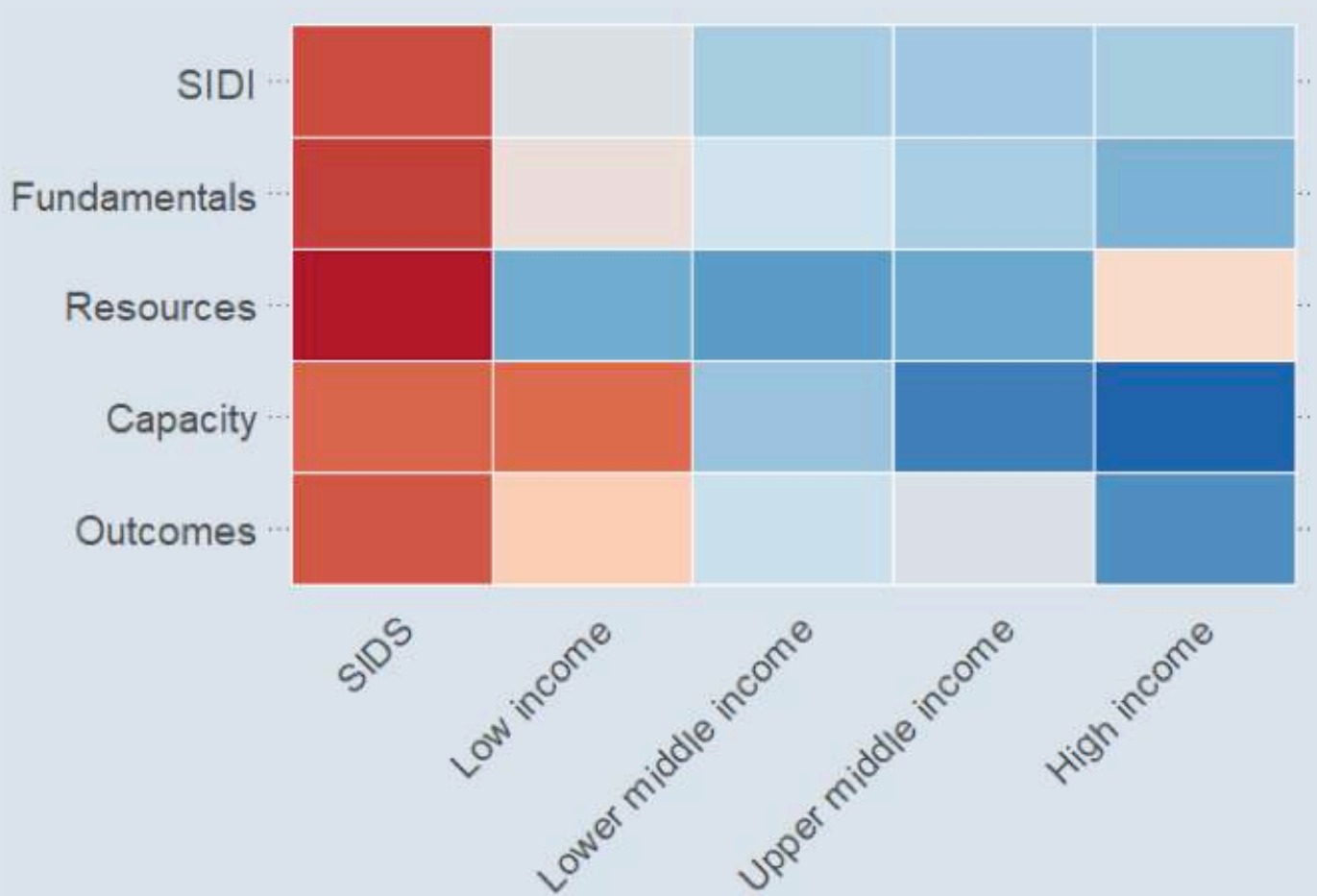
The literature on SIDS highlights a wide variety of factors that disadvantage SIDS (very well summarised in a recent OECD report⁵). We combine the variety of suggested indicators along four proposed dimensions of economic disadvantage:

- **Fundamental factors**, which are to a large degree unchangeable and define the economic opportunities and vulnerabilities of SIDS, including their geography, population size and exposure to climate change;
- **Limited capacity** of the state, which is generally constrained within SIDS due to a very small absolute level of civil servants, which reduces the ability to respond to fundamental disadvantages and vulnerabilities and utilise the limited existing economic opportunities;
- A very high **resource intensity** of the state: Despite very low absolute levels of civil servants and government spending, SIDS governments are disproportionately large relative to the size of their economies and their tax base, due to high diseconomies of scale of government service provision. This often creates large fiscal gaps and reliance on donor support or public debt; and
- Adverse **economic outcomes**, due to the factors above, including a reliance on imports, balanced against very low and volatile exports, high prices of goods and services, and undiversified economies.

The table below visualises SIDS against other country income groups along these four dimensions of disadvantage, and a combined Small Island Disadvantage Index (SIDI – which we use for analysis internally, and which is conceptually similar to other Vulnerability indices⁶ but with greater focus on resource intensity of the state and governance capacity). The table aggregates outcomes in a large number of indicators, which are summarised across the four dimensions introduced above (please contact the author for technical details).

Figure 1: Four dimensions of economic disadvantage

For each dimension, the table shows average outcomes by country group where the most adverse level is most red and least adverse level is most blue.



What does this table tell us? It points to some major challenges that are not simply `normal' development problems at a smaller scale, rather they are a unique configuration of problems that put SIDS at particular risk developmentally (beyond the more widely discussed issues such as climate change):

- Fundamental economic challenges that are significantly higher than in any other income group, with a clear gap even to low income countries;
- A level of resource intensity of the state that exceeds even that of high-income countries (which have a broad tax base and high level of government functions);
- State capacity is lower than in low income countries; (even though resource requirements are as high as those in high income countries);
- Economic outcomes are more adverse than in any other income group.

Are income levels a poor reflection of development in SIDS?

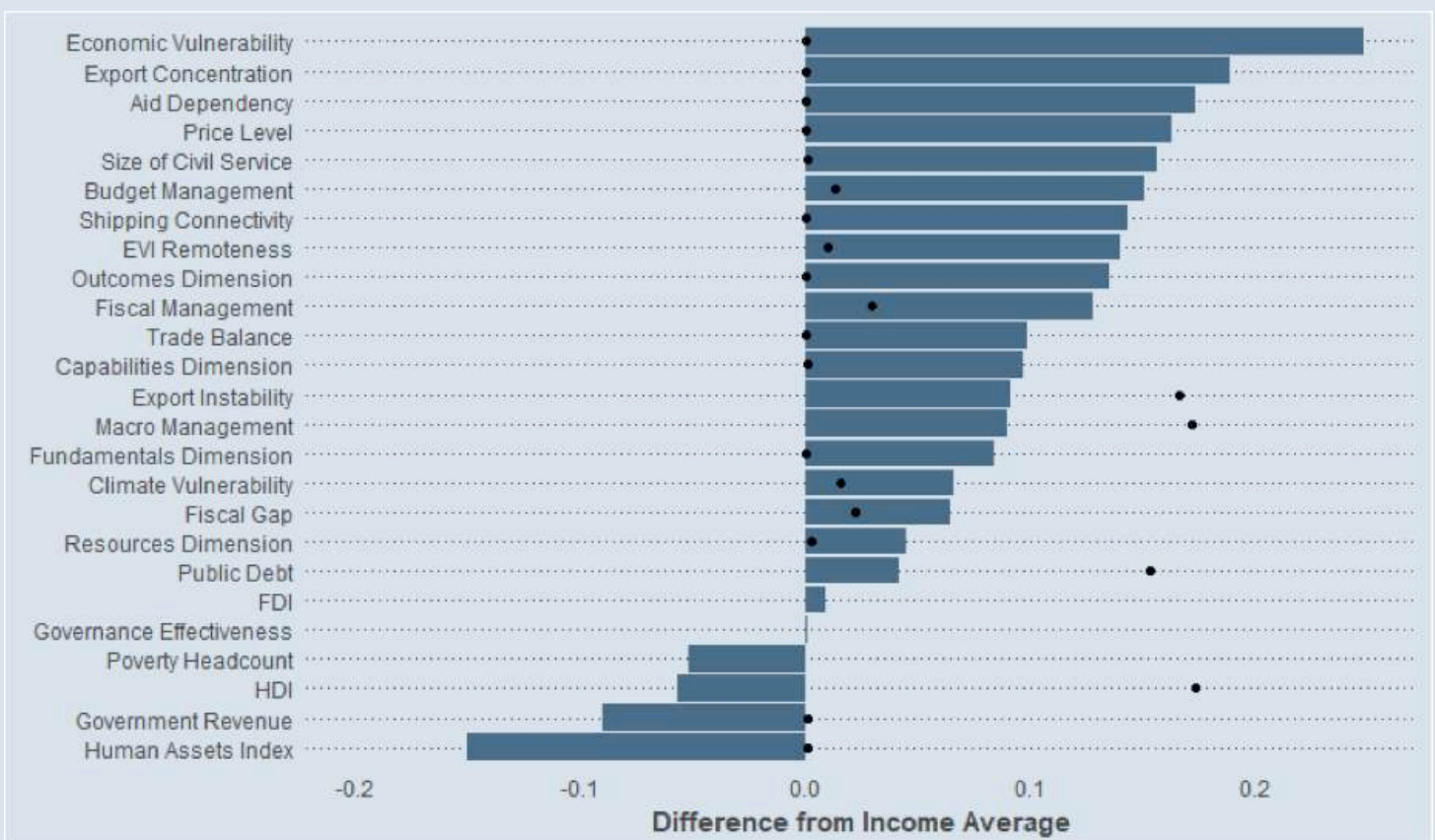
One of the major policy debates related to SIDS is on the question of how we measure development. The above characteristics have led to ongoing suggestions that using income as the only measure may not be a representative reflection of the development and vulnerability of SIDS. During the 2019 Review of the SAMOA Pathway the UN General Assembly again asked members to “address limitations of an income-only assessment of development and graduation readiness”. The above discussion of fundamentals, capacities, resource intensity and

economic outcomes in SIDS points towards a specific set of disadvantages that suggest that the level of economic development and stability of SIDS may be lower than their income level suggest.

A recently commissioned evidence summary could not “*categorically answer whether income alone [is] an inadequate measure for development in SIDS*”.

Our internal analysis aimed to provide further insights to this question, by reviewing publicly available data to assess whether SIDS outcomes vary significantly from the average outcomes of other countries, at a given income level.

Figure 2: Difference of development indicators in SIDS relative to the cross-country income average – positive values indicate more adverse outcomes

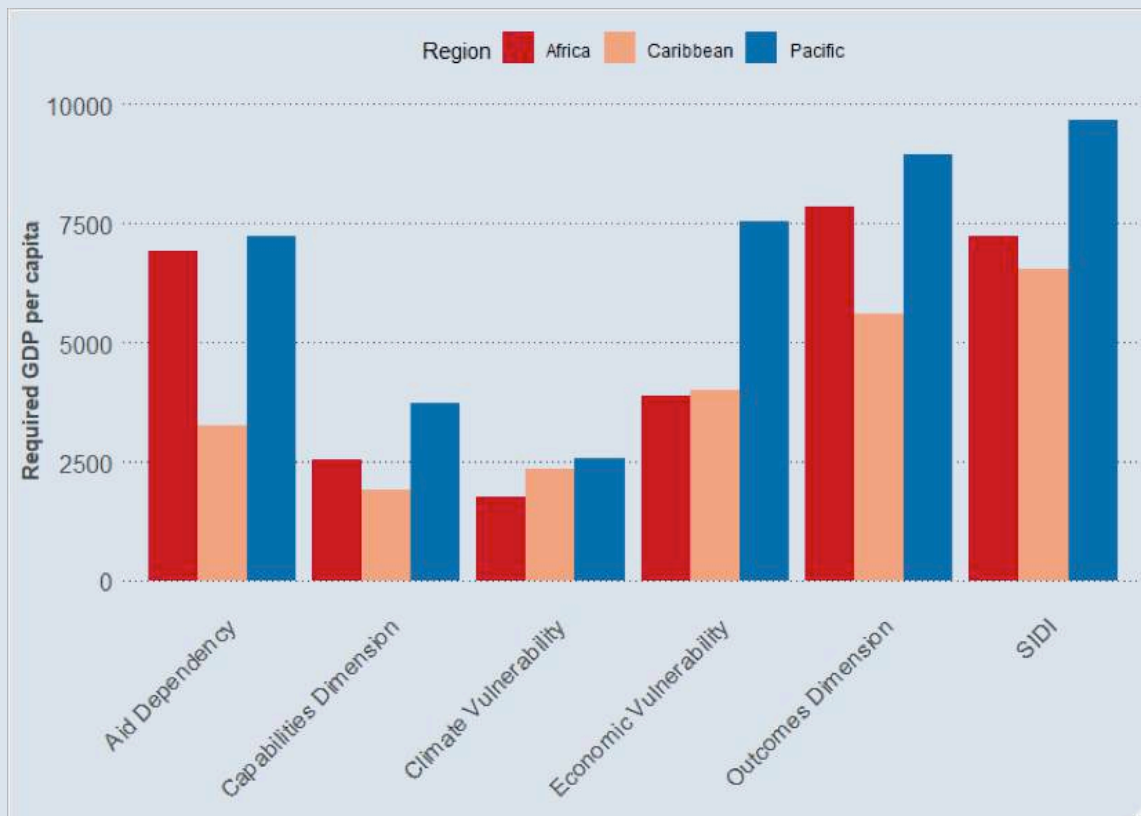


We do indeed find that across most indicators, SIDS have significantly more adverse outcomes than other countries at the same income level. The only area where outcomes are similar are in areas of human development – potentially a reflection of the level of donor financing that supports the significant resource requirements to achieve this outcome. Overall, we conclude that this does not alter the fact that GNI per capita remains the best measure for top level issues such as ODA – all approaches have their flaws and there are significant downside risks to change. However, it does beg a question: if SIDS are an anomaly for established measures is the problem big

enough to warrant mitigation (for example improved support during transition)?

We therefore tried to gauge the scale of the anomaly. An intuitive way to think about this, is to show the income level SIDS would need to reach to achieve the same outcome as other non-SIDS countries (on average). The chart below shows an estimate of the GDP per capita that SIDS must reach for the same outcome level as other countries at the lower middle-income level (US\$1,025) across a number of indicators. This takes into account how much outcomes improve with income on average, and how far SIDS are from the average outcome at a given income level.

Figure 3: The income levels SIDS would require on average to have the same development outcome as a country at the lower middle-income threshold (US\$1025)



While one should not read too much into the exact income levels, the chart above still highlights that SIDS would need to have incomes multiple times higher than the lower middle-income level to achieve the same outcomes. Measured across all indicators of the SIDI, SIDS need to have an income of around US\$7,500 to be as well off as a country at the lower-middle income threshold – a significantly higher ‘figure’ than we had anticipated at the start of our work. However, we should also caveat this by saying that the “developmental penalty” of being a SIDS is lower for some indicators than for others, and there are SIDS and regions which are affected in different ways across the indicators.

While more work is needed, this does suggest that a discussion is warranted on how the SIDS disadvantage can be mitigated, such as through improved transitions during changes in access to finance.

Targeting concessional access to finance for SIDS

There are practical challenges in developing mechanisms to support SIDS during the period of adjustment to loss of finance (particularly for those that had been highly dependent on concessional finance). For example, improved transitional approaches would need to define which SIDS are more in need of support, a process complicated by the question of which thresholds or criteria would be used. The indicators used above illustrate the overall disadvantage and economic challenges related to SIDS, however in defining a criterion for transitional support arguments could be made for the use of other measures and data.

The available data shows that not all SIDS suffer from the same combination of disadvantages, aren’t easy to separate from other developing countries individually, and fundamental disadvantages and vulnerabilities can be overcome. Other country groups are also frequently discussed as requiring additional resources at a given income level (most importantly fragile and landlocked countries).

Some donors already take factors other than income either implicitly or explicitly into account, such as the World Bank’s Small Island Economies Exception (which may in the next iteration take into account economic and climate vulnerability and access to finance), or the UN’s Least Developed Country classification (which takes into account human assets and economic vulnerability). While such considerations take into account important aspects of the multiple issues affecting SIDS, they do not take into consideration other important elements, such as a governance capacity, resource intensity of the state and high price levels. Taking these into account would improve targeting of countries that may not suffer from economic or climate vulnerability but still face other challenges. It would however at the same time pose new difficulties in defining thresholds and data availability across multiple indicators. While the evidence on general characteristics is clear, and the right intentions exist to better tailor support to SIDS, practical solutions will require further technical work and discussion.

Conclusion

Our internal work confirms that SIDS face unique challenges in establishing resilient and diversified economies and financing and managing effective service delivery. The available data highlights that SIDS indeed are worse off across many indicators of development and vulnerability than their income levels suggest, and their incomes in some cases would on average have to be multiples that of other countries to achieve similar economic and governance outcomes. We therefore support the search for more tailored solutions to effectively target concessional finance to SIDS while acknowledging that income remains a critical measure to guide overall international aid flows. However, our analysis highlights that an identification of the problem alone is far from finding a transparent, fair, fitting and feasible solution. This spans issues such as: identifying the right indicators and setting appropriate thresholds; data availability; acknowledging significant diversity between SIDS; and separating the SIDS experience from those of other disadvantaged country groupings.

DFID will work closely with SIDS and the donor community to find options where progress can be made on access to concessional finance. There are substantial challenges in any process to identify solutions that can command international support. The round-table we will host in Spring 2020 will explore the questions raised in this article further.

DFID would invite SIDS, donors and other parties which would like to attend and contribute towards the conference to contact us via:

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Notes

¹ The views expressed are the views of the author, not of DFID. This article is based on a discussion note written to encourage debate, the views expressed do not necessarily represent DFID policy.

² <https://opendocs.ids.ac.uk/opendocs/handle/123456789/14624>

³ <https://opendocs.ids.ac.uk/opendocs/handle/123456789/14595>

⁴ <https://opendocs.ids.ac.uk/opendocs/handle/123456789/14485>

⁵ <https://doi.org/10.1787/9789264287648-en>

⁶ <https://sscoe.thecommonwealth.org/wp-content/uploads/2018/11/BuildingtheResilienceofSmallStates.pdf#page=28> and <https://ferdi.fr/en/indicators/a-retrospective-economic-vulnerability-index>



Financing Development in Pacific Small Island Developing States (SIDS) - Challenged by Fiscal Volatility



Fiscal volatility is an impediment to stable and predictable fiscal resources

To undertake investments with a long-term horizon, countries need not only have sufficient fiscal resources but also to ensure that such resources are stable and predictable. In the Pacific region, this is not always the case, which complicates the planning and execution of public investments. For instance, shocks such as natural disasters constrain the capacity of Governments to allocate sufficient and predictable flows of funds to implement development priorities over the medium term. Other impediments include the structural features of these economies: generally characterized by small population size and limited land area, remote geographic location and exposure to natural hazards, such as tropical cyclones, floods and droughts. The economies of the Pacific region are mostly open and highly dependent on the global economy, especially through remittances and aid flows, tourism, imports of basic foods and fuel, fishing license fees, employment and investment returns on trust funds and sovereign wealth funds.

These characteristics of Pacific SIDS make fiscal management particularly challenging, as national budgets are subject to several sources of volatility due to large fluctuations in GDP, terms of trade, tax and non-tax revenues, procyclical remittances or the negative impact of disasters.

Indeed, over the past decade, most Pacific SIDS have experienced considerable volatility in their fiscal balances. For instance, significant levels of volatility in the fiscal balances between 2014 and 2016 was evident in Kiribati and Tuvalu where the standard deviations in the level of their fiscal balances were 21.3 (mean fiscal balance of -0.4 per cent of GDP) and 20.9 (mean fiscal balance of 3.6 per cent of GDP) respectively.

Root causes of fiscal volatility

A few reasons explain the high fiscal volatility in Pacific SIDS. On the expenditure side, geographic isolation and dispersed populations mean that government expenditure per capita, especially recurrent costs and spending to supply essential services, is quite high relative to GDP. For example, in Kiribati and Tuvalu the level of government expenditure averaged about 100 per cent of total GDP between 2007 and 2016. Although the amount was less in Marshall Islands, the Federated States of Micronesia, Nauru, Palau and Solomon Islands, government expenditure averaged between 40 and 80 per cent of GDP during the same period¹. Such high current spending levels occur because the public sector is typically the main employer² and the main provider of goods and services. This implies very limited budget allocations for public investments, which are often pursued through foreign grants and loans.

The long-run impact of natural disasters on fiscal position and economic development is also substantial.

It has been estimated that damage and losses due to natural disasters reduced the average GDP growth rate in Pacific SIDS by 0.7 percentage points per year during the period 1980-2014 (IMF, 2015). From a related estimate in the same study, it was suggested that, for damage and losses equivalent to 1 per cent of GDP, the fiscal balance would deteriorate by 0.5 per cent of GDP in the year after a disaster, as spending on reconstruction rises while tax revenue falls. Another study found that among Pacific SIDS, a natural disaster that affects 1 per cent of the population causes a contraction in tax revenue of 0.2 percentage points of GDP in the year of the disaster, followed by a revenue rebound in the following year (IMF, 2015). The rebound generally stems from development assistance flows aimed at supporting recovery and reconstruction activities. Owing to a narrower economic base and vulnerability to exogenous shocks, including from natural disasters and terms-of-trade shocks, revenue volatility in small States is larger than in developing non-small States (IMF, 2015).

The rebound generally stems from development assistance flows aimed at supporting recovery and reconstruction activities. Owing to a narrower economic base and vulnerability to exogenous shocks, including from natural disasters and terms-of-trade shocks, revenue volatility in small States is larger than in developing non-small States (IMF, 2015).

An emerging source of revenue is the windfall fishing revenues in recent years for six of the eight Parties to the Nauru Agreement³. For Kiribati, Marshall Islands, the Federated States of Micronesia, Nauru, Palau and Tuvalu, estimates show a twofold increase in average fishing license revenues across these economies between 2012 and 2015 (ADB, 2016). In the case of smaller States in the Pacific subregion, fishing license fees provide lumpy non-tax revenues (about 38 per cent of current government revenues on average – for Kiribati 90 per cent of current government revenue), a situation which further increases revenue volatility. Fishing license fees are intrinsically volatile (IMF, 2014) because ultimately, they are determined by the amount of fish caught, which is uncertain in itself⁴.

Fiscal positions in Pacific SIDS are also vulnerable to large inflows of foreign aid and grants that typically follow natural disasters. However, high dependence on foreign aid is a source of fiscal volatility, given the unpredictability of the flows and direction of spending. Over the 10 years from 2007 through 2016, aid accounted for an average 29.4 per cent of total revenues⁵, including grants. There were wide variations both between countries and between the average grants in the first three years (2007-2010) and the final three years (2014-2016) of the 10-year period.

Volatile revenue flows, including from aid and natural resource rents, combined with rigid recurrent expenditure commitments and the impossibility to benefit from economies of scale in the provision of public services contribute to underpin fiscal volatility. As a result, predictability of funding and the capacity to fund national development plans, including basic services and infrastructure, are compromised. This makes it difficult for Pacific SIDS to engage in sustainable development projects in the medium-to-long run.



Policies to manage implications of fiscal volatility

In view of the specific characteristics of Pacific SIDS and the varied country-specific implications of fiscal volatility, tailored policy measures are required. These measures should be supported by a multipronged approach towards enhancing fiscal resilience.

Ongoing efforts in applying fiscal policy tools, together with risk management approaches on both the revenue and expenditure side, and broader structural reforms are all important for managing fiscal volatility.

Pacific SIDS have adopted several measures to smooth out revenues over time, including transferring windfall revenue to public trust and sovereign wealth funds, and participating in a regional risk-pooling insurance scheme. These initiatives and a selected few policy principles and options, noting the stage of implementation of reforms in Pacific SIDS, are highlighted below.

Strengthen public financial management and build buffers and fiscal frameworks.

Further strengthening national fiscal frameworks is necessary to minimize fiscal risks from both volatile revenue and high and recurrent expenditure rigidities, create fiscal space for strategic investments in support of the 2030 Agenda, build buffers to support macroeconomic stability and allow for timely countercyclical spending. While several Pacific SIDS have made some progress in building fiscal buffers since the 2008 financial and economic crisis, most of them still have higher debt and lower fiscal balances than they did before the crisis (IMF, 2015). A fiscal framework built around simple fiscal anchors, such as debt-to-GDP ratios and underlying fiscal balances, could help to minimize volatility by creating consensus on medium-term budget allocations to specific sectors, such as education. As a specific policy tool in this regard, the use and maintenance of a complementary medium-term expenditure framework may also help build political consensus on budgeting plans and spending priorities.


Improve domestic revenue flows. Higher flows of domestic revenues can support the build-up of fiscal buffers and mitigate the impact of unpredictable external inflows, such as revenue windfalls, development aid or multilateral finance.

To build the domestic tax base, introducing tax measures on natural resources, such as fisheries and minerals, and tourism-related activities could yield a higher revenue base for Pacific SIDS. The imposition of various levies and taxes on tourism activity in Fiji and Palau, and application of duties on prescribed volumes of mineral water extracted in Fiji provide some other examples.

Continue to broaden the economic base.

Broadening the economic base can create more sources of domestic revenues. More effort is required to implement reforms to create an enabling environment for private sector development and strengthen areas of comparative advantage in the Pacific, such as agriculture and tourism. Tapping further into global employment opportunities in the security industry, sports, caregiving, seafaring and various seasonal work schemes can contribute to higher remittances and improved tax returns⁶.

Sovereign wealth fund or national trust fund. Most Pacific SIDS⁷ with budget surpluses arising from resource rents and royalties have sovereign wealth and national trust funds. These provide a means to build fiscal buffers that may be used to smooth windfall revenue flows into the annual budgets and to ensure sustainability over the longer term. Sovereign funds can be drawn down when required, subject to the established fund rules. Recent sharp increases in fisheries license revenues have enabled recipient countries to increase savings in public trust funds, including the Tuvalu Trust Fund (ADB, 2016).



Managing risk of natural disasters. Several ex ante and ex post options are available and have been implemented by Pacific SIDS (ESCAP, 2016). Two specific measures adopted in the Pacific regions are discussed below.

Emergency funds and contingency budgets set aside by Governments annually can provide a resource that can be called on immediately to support disaster response. For example, Tonga has established a statutory emergency fund that can be accumulated from year to year. While such funds can support early recovery, further replenishment is likely required to respond to the occurrence of major damage and loss. In terms of cost effectiveness and quick access to funds for frequent disaster events causing relatively low levels of damage and loss, the use of both national emergency and contingency funds is applicable. In comparison, trust and sovereign wealth fund arrangements are

more efficient for less frequent but higher-cost events.

Insurance against natural disaster risk has been implemented for several years, and the results seem quite positive. Notably, a risk-sharing mechanism called the Pacific Catastrophe Risk Insurance Company, provides limited insurance cover for five Pacific island economies, namely Cook Islands, Marshall Islands, Samoa, Tonga and Vanuatu⁸. This insurance programme provides an immediate payout on the occurrence of an insured disaster event that meets specified parametric triggers. This provides participating economies with access to liquidity immediately after a natural disaster in a cost-efficient way as the risk is pooled across several countries.

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Notes

¹ For details, see ADB Key Indicators 2017.

² Private sector size in most Pacific island developing countries is generally small due to a combination of factors, including supply side and infrastructure constraints, limited scale of domestic demand and high costs for transportation and doing business.

³ The Nauru Agreement Concerning Cooperation in the Management of Fisheries of Common Interest is a subregional agreement between the Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, Papua New Guinea, Solomon Islands and Tuvalu. The Parties to the Agreement collectively control 25-30 per cent of the world's tuna supply.

⁴ In 2013, the fee earnings ranged from 15 per cent of total revenues in the Marshall Islands to 65 per cent in Kiribati (IMF, 2014). Despite the wealth derived from fisheries, Pacific island countries have enormous untapped marine resources and further efforts are ongoing in that regard: first, the ratio of the income that those countries receive from foreign companies for selling their fishing rights to the value of the fish catch is very low; and second, there is a risk that a poorly managed scheme of access rights could lead to the overexploitation of marine resources, which might induce a depletion of fish stocks and undermine fiscal sustainability (IMF 2014).

⁵ Traditional development partners in the Pacific include multilateral development banks and agencies, and bilateral partners, such as Australia, China, Japan, New Zealand and the European Union.

⁶ Several Pacific islands developing countries (particularly Fiji, Kiribati, Samoa, Tonga and Vanuatu) have benefited from overseas employment opportunities in recent years.

⁷ The list of sovereign wealth funds from the Pacific include the following: Kiribati Revenue Equalization Reserve Fund; Marshall Islands Compact Trust Fund; Micronesia Compact Trust Fund; Nauru Phosphate Royalties Trust Fund; Palau Compact Trust Fund; Papua New Guinea Mineral Resources Stabilization Fund; Tonga Trust Fund; and Tuvalu Trust Fund. For further details, see (Le Borgne and Medas, 2007).

⁸ For more information, see Pacific Islands Forum Secretariat (2017). Disaster Risk Financing Instruments. A discussion paper for the 2017 Forum Economic Ministers' Meeting prepared jointly by the Asian Development Bank and the World Bank Group. Available from www.forumsec.org/resources/uploads/attachments/documents/PCRAFI_&_Contingent_Credit.pdf. Also see www.worldbank.org/en/news/press-release/2016/11/02/new-insurance-facility-to-boost-natural-disaster-resilience-in-pacific-island-countries and <http://pcrafi.spc.int/about/>, <https://www.radionz.co.nz/international/pacific-news/344787/us45-million-for-pacific-catastrophe-insurance>.

⁹ IMF (2015), "Strengthening Fiscal Frameworks and Improving the Spending Mix in Small States", Working Paper 15/124, International Monetary Fund.

Changing tack

Financing development in Pacific SIDS due for a drastic re-think

Disclaimer: The views and opinions expressed in this article are those of the authors and do not necessarily reflect the official policy or position of UNDP, UNCDF or UNESCAP.

Climate change has created unprecedented development challenges for Pacific Small Islands Developing States (SIDS). The cost of damages from climate-related disasters alone including losses from Cyclone Pam that devastated Tuvalu and Vanuatu in March 2015 have been estimated at 34% and 61% in their Gross Domestic Product, respectively.

The overall framework of efforts to address these challenges is set out in various agreements, such as the SAMOA Pathway, the 2015 Paris Agreement, the 2030 Agenda and the Sustainable Development Goals. Each Pacific SIDS has put considerable effort into developing long-term strategic plans, clearly setting out development visions and key aspirations in line with these frameworks and emphasize the urgency in responding to the existential threat of climate change. And yet, across the region, delivery on these ambitions still need concerted effort.

The development challenges and efforts required to address climate change need both the political will and mobilization of financial resources in an unprecedented way. Moreover, it requires enhancing SIDS' capacity to utilize and absorb those capital injections productively and effectively.

As discussed in the various high-level meetings at the UN General Assembly in September, growing concerns about the impact of climate change have put the issue of development finance in the spotlight. Time is not on our side, and perhaps nowhere more so now than in Pacific island countries and territories.

This raises the serious question of whether we should revisit the way we approach development finance. Apart from asking for more technological innovation, collaboration and institutionalizing the existing approaches, we should also examine how we frame the question about financing development. Is there a need for a creative re-think?

An unexpected parallel

It is important to keep our mind open to new ideas and innovation, and sometimes, inspiration can come from unlikely places. Historically, we have seen that times of crisis have often been met with innovation that helps us to find new and better ways of doing things.

Take conflict- warfare is an extremely expensive business, and yet, for whatever reasons, countries have found themselves in conflicts with first and foremost incalculable human losses, but also crippling financial costs. Yet, faced with imperatives that cannot be ignored, and needs that could not be met with the resources that seemed to be available, governments have shown great creativity. And this creativity has historically laid the foundations of many of the early forms of public finance. This ranges from the practice of taxing the population, to borrowing by monarchs, the creation of government bonds, and more recently the Marshall Plan to rebuild Europe after WWII. We may perceive these as normal practices nowadays, but all were extraordinary at the time when they were introduced and came about only when the situation looked at its bleakest. The challenges facing Pacific SIDS call for that same creativity and determination.

Money on the table

Finding ways to get much-needed resources invested more effectively into nationally owned priorities matters. This goes as much for investments in social sectors such as health and education that are crucial for delivering on human development plans, development of economic infrastructure to boost competitiveness, as for financing vital climate change adaptation in small, vulnerable islands.

This is about ensuring that Pacific countries can get adequate access to international public sector and concessional financing, including development partners living up to the commitments made to support SIDS, especially when it comes to climate finance.

It is also about the ability of governments to raise resources domestically. The reality across most Pacific SIDS is one of small private sectors already struggling with small markets and high operational costs, and often large informal sectors. However, more domestic resource mobilisation can both make financing more predictable and give Pacific leaders greater autonomy in determining how resources are used, and in many cases, there is certainly room for improvement. The success of the Vessel Day Scheme for purse seine tuna fisheries¹ showcases how improved management of available resources can radically change the revenues that are derived from it.

Sticking to the plan

Delivering on ambitions is also about focus and efficiency. Pacific island countries' own budgets -the funding governments have the most direct control over- often deviate significantly from the priorities set out in national plans. Management of windfall revenue, and allocation of expenditure to productive investments require improved fiscal discipline, coupled with governance arrangements which prioritise national sustainable development concerns.

Often, challenges emanate from the planning side as a result of unrealistic and unclear policy and planned interests. This is exacerbated by lack of understanding of cost estimates at the planning stage, which in turn, makes allocation of budgetary resources challenging. On the budget side, similar challenges arise from fiscal constraints, political interests which often shape allocations, and major capital spending which is often dependant on foreign aid.

Private Financing

The answer cannot just be about public investments, but also about what can be done to improve the alignment of private investment with national plans.

The 2015 Addis Ababa Action Agenda puts forward a set of strategic recommendations for leveraging finance from all sources to make the achievement of Sustainable Development Goals a reality, specifically recognizing that “funding from all sources, including public and private, bilateral and multilateral, as well as alternative sources of finance, will need to be stepped up”. Speaking at the mid-term review of the SAMOA Pathway, Fijian Prime Minister Voreqe Bainimarama specifically said “We need to expand the available pool of finance and draw significantly more from the private sector”, highlighting the insufficiency of current initiatives.

So, it is well-accepted that the 2030 Agenda can only be achieved with the support of the private sector. And yet, the private sector is more often than not seen as just a (limited) source of tax revenue, rather than an intrinsic stakeholder and contributor to national progress. Decisions about policy tend to be made behind closed doors, missing out on opportunities to build private sector buy-in, and crowd in vastly more investment.

In most Pacific countries, the public sector, either domestic or international- currently dominates the development financing landscape. Across the region, domestic public finance accounts for more than half of total financing, and international public finance more than 20%. Private financing accounts for less than a quarter of total resources². National plans often explicitly recognise the need to strengthen and engage the private sector as part of their vision, but practical steps to bring this about are generally limited. Yet the potential is significant – if Pacific countries were to unlock domestic lending and attract FDI at levels similar to those in other SIDS it could unlock over \$1.2 billion in domestic investment and close to \$1 billion in foreign direct investment each year³.



Photo Credit: UNDP Pacific

Walking the talk

We should be prepared to not only re-think about how we approach financing development, but we should also be committed to its implementation.

Taking everything, we know about the situation in the Pacific, points towards the 'governance' aspects of raising, managing, and utilizing development finance as potentially unlocking the most progress. The UN in the Pacific has taken some tentative steps toward working with governments and the private sector in the region to develop new ways of doing things.

One important part of this is recognising the benefits that can come from stepping back and looking at the full picture, rather than being locked into discipline, sectoral, or ministerial silos. Taking a more integrated approach that looks across the full range of potential sources of financing, the mechanisms by which it is managed and targeted, and national objectives and goals, offers the best chance of spotting new systemic opportunities.

In this vein, UNDP has worked with the governments in Fiji, the Marshall Islands, Samoa, and the Solomon Islands to undertake Development Finance Assessments that map the landscape of development finance in each country, and start to identify possible ways to improve on the status quo. These provide a solid basis for thinking about concrete ways to improve the Pacific countries' ability to finance their development needs.

Building on this, the Solomon Islands has become a global leader in developing an Integrated Financing Framework. Under the leadership of the National Development Strategy Implementation Oversight Committee, this brings together policy areas from across government and identifies specific policy actions to deliver on national plans - working to break down silos in how development financing is thought about at the national level..

There are also more specific, practical things that can be done. Working with the private sector and governments, the UNCDF's Pacific Financial Inclusion Programme (PFIP) has successfully created innovative financial solutions for underserved populations in Fiji. One of these was the development of a bundled micro-insurance product by FijiCare, providing a combination cover for life, personal accident and fire to more than 120,000 Fijians. With this initiative alone insurance coverage in Fiji has grown from 12% in of the adult population in 2015 to more than 40% of the adult population in 2019.

The experience with the bundled microinsurance product created the levels of trust required within the insurance industry to innovate and try out new approaches. This experience has led the PFIP team to reach out to the Munich Climate Insurance Initiative, who have extensive experience in the Caribbean to develop a new programme, the Pacific Insurance and Climate Adaptation Programme in order to respond to the growing needs for finance and insurance solutions for the many natural catastrophes in the Pacific region.

Fiji broke new ground for the emerging economies with its issue of the Pacific's first 'green bond' in 2017, drawing on technical support from the World Bank and Australia to raise \$50m in financing climate change adaptation and mitigation.

A drastic re-think

Despite some of these promising examples, few really believe that the current efforts will be enough to overcome the challenges posed by climate change, or to achieve Pacific SIDS broader development ambitions. The progress of action remains dramatically insufficient and it becomes ever more evident that it is not enough to just intensify our efforts. Therefore, we realize that we need to ask ourselves some hard questions about whether the path we are on and more importantly, the speed with which we are moving, is enough if we are to rise to the challenge in front of us.

So, perhaps, what is needed is a drastic re-think about the way we approach development finance. The question worth asking then becomes; Is the threat posed by accelerated climate change enough to push governments, development partners and other, sometimes forgotten stakeholders, such as the private sector to start thinking about unprecedented development finance solutions and more importantly dare to make bold decisions? And if it is, what might they look like?

Maybe we can draw inspiration from the scale of previous crises, such as

warfare and show some of the extraordinary creativity and boldness that has characterised previous leaps in how we have financed solutions for these challenges. There is international experience and expertise that we can draw on to work with local knowledge and understanding. There are new financial instruments and mechanisms available that we can take inspiration from, and global support and momentum from which we can take some hope. But, ultimately, what will matter most is the determination, creativity, and leadership of people living and working in Pacific countries to tackle the challenges head on.

Authors

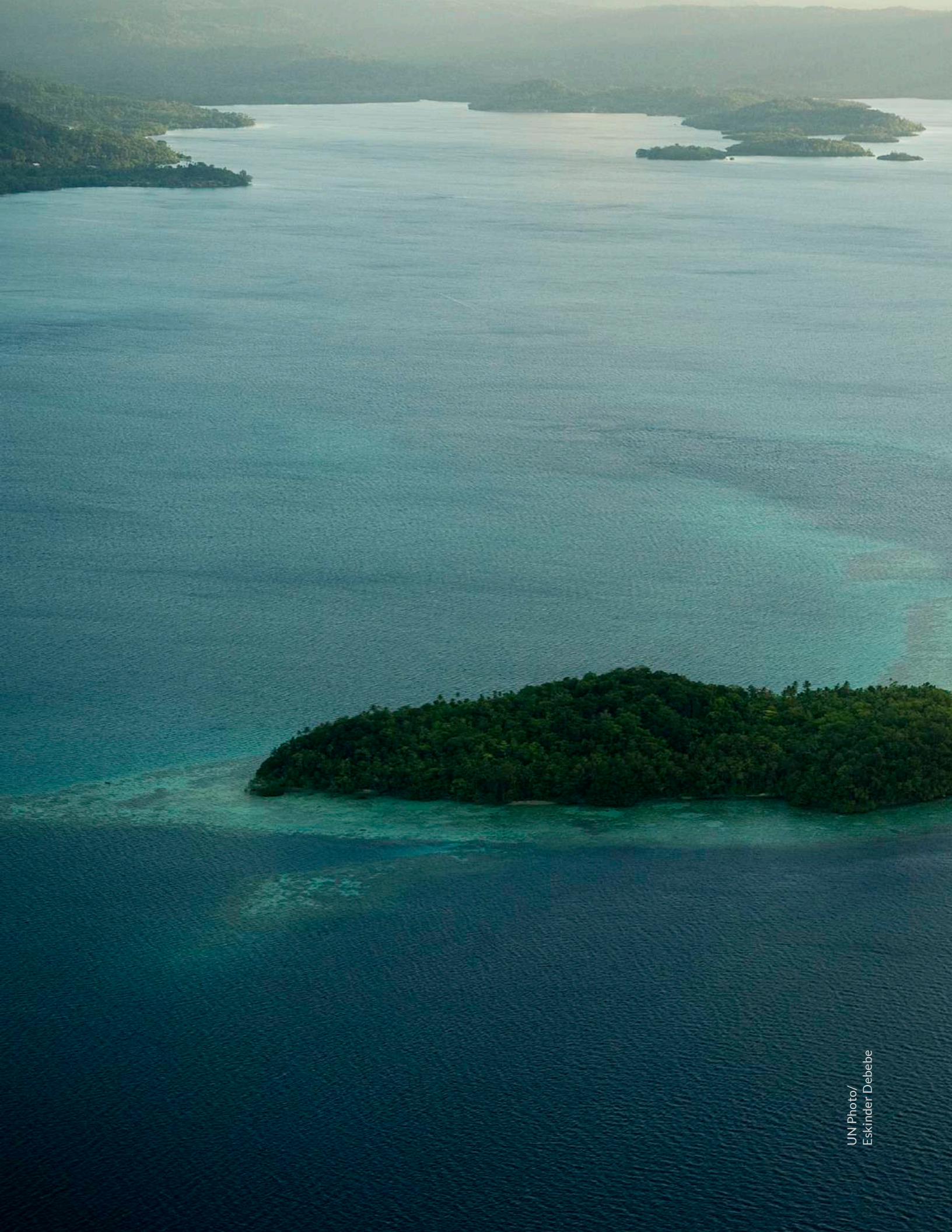
Matthew Johnson-Idan, Development Economist, UNDP Pacific Office
Bram Peters, Programme Manager – Pacific Financial Inclusion Programme, UNCDF
Sanjesh Naidu, Economic Adviser, UNESCAP Pacific Office

Notes

¹ The Vessel Day Scheme is a scheme where vessel owners can purchase and trade days fishing at sea in places subject to the Parties to the Nauru Agreement. The purpose of the VDS is to constrain and reduce catches of target tuna species and increase the rate of return from fishing activities through access fees. For more info: <https://www.ffa.int/vds>

² UNDP, 2016, Achieving the SDGs in the era of the Addis Ababa Action Agenda.

³ Calculated from World Bank data based on domestic credit to the private sector and FDI data relative to GDP in Pacific countries compared to other SIDS.



Pacific Grown Innovative Financing Solutions Spurring Community-based SDG Innovations and Social Entrepreneurship in the Pacific Island Countries

Introducing low risk, self-sustaining scalable solutions for meeting conservation and livelihood needs in the Pacific

The views expressed in this article are those of the authors and does not reflect the views of the organization



Figure 1: UNDP-USP Innovation Hub & Co-working space

Following the United Nations Climate Change Summit 2019, there is a renewed focus amongst the stakeholders to mobilize at least USD 210 trillion in private capital markets to deliver on the Sustainable Development Goals (SDGs) commitments by 2030. But how can this be achieved in the Pacific is still a big question often raised and debated in most SDG policy discussions. Yet, the Pacific Island Countries (PICs) grapple with uncertainties associated with the geographically isolated small island economies. Additionally, risks from climate change is further amplified by social, cultural, financial and political upheavals. With slow and negative economic growth and growing inequalities in society, the youth unemployment is at its peak. On the positive side, despite the challenges, the private sector in the Pacific, which mainly comprises of the State-Owned Enterprises (SOEs) and the Micro Small and Medium Enterprises (MSMEs) are slowly embracing the Sustainable Development Goals (SDGs) and the 2030 agenda by aligning their triple bottom line (social, environmental and economic) targets with the SDG indicators. The early SDG champions and the social entrepreneurs are often featured in the SDG Voluntary National Reporting (VNR) to the United Nations High-Level Political Forum in New York to keep the SDG momentum alive and going. However, with rapid urbanization, climate change and population growth, the oceans and the natural habitats are increasingly under threat. In this context, the word 'Innovation' is not just a new mantra but a growing concern and a livelihood imperative for the youth (60% of the population) living in Pacific island countries.

Recognizing the challenges, beginning last year (late 2017/2018), UNDP together with other UN agencies and the Australian Aid have established a regional Innovation Hub Fiji¹ to define and drive innovation capacity building and entrepreneurship ecosystem building in the Pacific. The Council of Regional Organizations of the Pacific (CROP) agencies - the South Pacific Tourism Organization (SPTO) and the University of South Pacific (USP) are spearheading these initiatives with capacity building support from the United Nations Development Programme (UNDP). They are mobilizing the private sector, youth and the local communities to develop SDG oriented innovative market-based solutions. As a result, several promising homegrown innovative financing solutions have emerged with demonstrable positive impact on the SDGs.

Moreover, the youth and the social entrepreneurs of the Pacific are developing low risk innovative solutions with high social return on investment by identifying and tapping into new sources of financial capital inflows that are flowing into the Pacific Island Countries:

- 1** Green Climate Finance
- 2** Diaspora Direct Investments and inward Remittances
- 3** Inclusive business for sustainable Tourism
- 4** Sports for the SDGs (e.g. rugby)

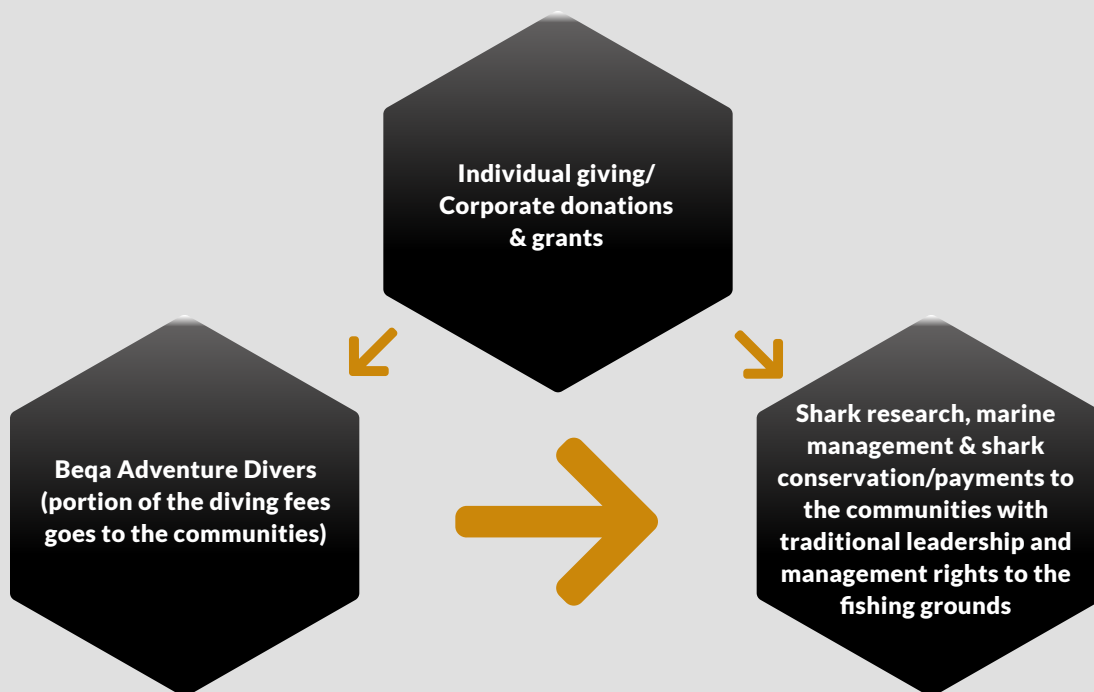
Moreover, with small capital injection (USD 5,000 - 25,000 each per venture either as grant or part of the blended finance solutions) these solutions with high SDG impact are opening new avenues to crowd in private capital to accelerate progress on the SDGs commitments. Some of the innovative financing solutions that are regularly featured in the local news media and likened by the Pacific Leaders are highlighted below:

Green Finance and digital fund-raising campaign for conservation of marine ecosystem and Shark protection

Shark and ray ecotourism are major contributors to the Fijian economy, generating over US\$4 million in tax revenue alone, and in 2012 shark dive tourism contributed over US\$42 million to the Fijian economy. My Fiji Shark² is a shark conservation initiative that raises .

funds through adoption of sharks in their natural habitat. The initiative was launched by the South Pacific Tourism Organization (SPTO) a regional CROP agency in the Pacific in partnership with Beqa Adventure Divers (BAD) and UNDP. The mission of My Fiji Shark is to protect and conserve the shark species of Fiji and protect their marine ecosystem and habitat through ecotourism, research, advocacy and education through public, private community partnership. The ownership and the management of the shark reef marine reserve lies within the traditional village leadership and governance structures of Galoa village. In 2004, it was promoted as a Locally Managed Marine Protected Area in 2004, which later became Pacific region’s first privately managed marine reserve. The purpose of this cause related marketing and conservation campaign is to provide funds for shark research, sustainable marine management and coral reef protection. Video: <https://vimeo.com/334204361>

Figure 2: Flow chart of My Fiji Shark fund flow in Fiji



Impact Investing and Pacific Crowd funding platform

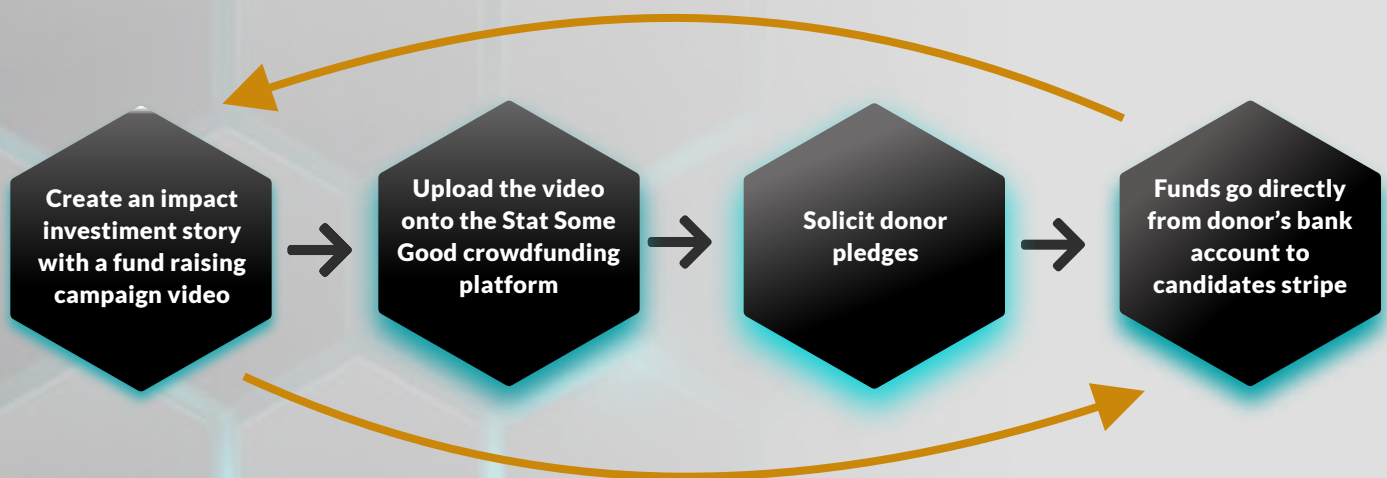
Impact investors seek to generate positive social and environmental impact for society alongside strong financial return. The impact investment industry is estimated to be as much as USD 26 trillion.

StartSomeGood.com is a leading social enterprise crowdfunding platform with above average industry rating for fund matching success in the Pacific region. This private sector company is a social enterprise ecosystems builder which is

customizing its successful digital fundraising platform to mobilize capital for promising SDG aligned early stage social entrepreneurs in the Pacific.

StartSomeGood works with organizations like ING, Huddle Insurance, MetLife, Ian Potter Foundation, Foundation for Young Australians and the Cities of Sydney, Melbourne, Adelaide and Perth to unearth, up skill and launch social impact projects. UNDP Pacific Office is working with this impact investment and crowdfunding platform to bring the crowdfunding and social enterprise capacity building programme to the Pacific.

Figure 3: Flow chart of Start Some Good Crowd funding platform



Inclusive eco-tourism business- the People-First Tourism in the South Pacific

According to the World Bank's 2016 report, People's Republic of China (PRC) is growing throughout the world, with more than 74 million outbound travelers in 2015. While only 363,000 of these visited the Pacific, this figure is growing rapidly; between 2012 and 2016 Chinese

arrivals grew 59% (to 12,937) in Papua New Guinea (PNG), 53% (to 49,083) in Fiji, and sevenfold (to 64,995) in Palau. A recent World Bank report suggested the PRC could provide more than a quarter of all visitors to the Pacific by 2026. Similarly, according to the Cruise Industry Source Market Report (2016), Outbound tourism demand from New Zealand to Pacific island countries grew 8.7% per year from 2014 to 2016.

In Australia, the number of ocean cruise passengers grew 21% from 2015 to 2016 to 1,281,159, 42% of whom went to the south Pacific.

People-First tourism³ is a digital marketplace for buying and selling community based eco-tourism experiences in Fiji, Vanuatu and Tonga. It is run via a global network of universities and is supported by several institutional partners. The main goal of the initiative is to preserve, facilitate and promote local sustainable tourism products and services by linking the community-based ecotourism entrepreneurs with discerning high-end international travelers and tour operators around the globe. The Pottery Village⁴ and the Fiji Salt Ponds⁵ are some of the sustainable tourism experiences that are popular amongst the discerning travelers.

Diaspora Direct Investment (DDI) to fund Biomass Efficient Stoves

Increasingly, diasporas are recognized as important players in mobilization of capital and know-how to support entrepreneurship and innovation in their countries of origin. According to the World Bank report (2015), remittances to developing countries, have risen to \$US432 billion (\$F896b) and in Fiji alone it was US\$219m. Dwain Qalovaki⁶ is a two-time international award-winning sustainability champion from Fiji that's working with the Pacific diaspora and social enterprises to increase the use of biomass efficient stoves in the Pacific beginning with massive dissemination of clean cook stoves in 1,139 villages across the Fijian archipelago. In this business model, the stoves are first marketed to the Fijian diaspora who purchase the biomass stoves online which are then delivered to their families and distributed in the diaspora adopted villages via the youth owned and led social enterprise- Dwain Qalovaki and Associates.

Tackling SDG innovations through sports

A 2016 report prepared by the organizers of the Super Rugby claims that Fiji accrued direct economic benefits of FJD 19.7million by staging the match between the two New Zealand teams in Fiji . At the Ministerial level, both Pacific Sports Ministers (2015 and 2017 Meetings) and Forum Economic Ministers (2017 and 2018 meetings) have emphasized the role of sport in achieving sustainable development in the region, and notably, called for the development of a Pacific Sport and Physical Activity Action Plan.

In Fiji, the Fiji Rugby Union legend, Mr. Seremaia Bai, is running a rugby academy⁷ <https://www.fijione.tv/news-posts/rugby-academy-fiji-grows-bigger;> to unpack the value of rugby. He exposes aspiring young talents on the role of sports, shares the development tools and lessons which he has acquired over the years to highlight the impact of various sports related initiatives in the Pacific and is committed to maximizing the contributions of sport to the economic and social development of the Pacific Island Countries. He says *“Principles are more important than fame & rugby academy is not just an organization.”* Discipline and self-discipline are very important to him. Seremaia aims to empower youths through rugby and advises them on life after rugby. He is an advocate for being inclusive and leaving no one behind



Figure 4: Rugby Academy Fiji Director & Innovation Hub User, Seremaia Bai

Grant funding and blended finance solutions for the users of the Innovation hubs and coworking spaces

The Innovation Hub Fiji⁸ is a joint UNDP and the University of the South Pacific (USP) project with support from the Australian Aid. It provides free internet access in a well-equipped office setting and is located at the Laucala Bay Campus in Suva, Fiji. The hub regularly hosts online and offline trainings, provides mentoring and coaching services to Small Medium Enterprises (SMEs), researchers, artists, freelancers and other stakeholders to further develop SDG aligned ideas, network and engage with the USP think tank, Pacific Leaders and the private sector to develop Pacific centric solutions to accelerate progress on the SDGs. Similarly, in the Solomon Islands with the

support from the Ministry of Commerce, UNDP has started IumiWaka Co-Working Space⁹, the space provides customized services to the small business owners aged between 18 – 34 years and is open during weekdays for young entrepreneurs and aspiring businesses to use, network and collaborate. In Samoa, there is The Hub Samoa¹⁰ which is founded and run by a young entrepreneur, Olisana Mariner, she is also a recipient of Youth Co: Lab challenge in Samoa. Basically, through these spaces the social enterprises with promising SDG solutions can access grant funding by participating in SDG challenges or design blended finance solutions by taking part in enterprise accelerator programs that are hosted nationally and internationally and have access to blended finance solutions.



To summarize the beauty of the business models outlined above is that it builds on the greatest assets of Pacific island countries- the young talents and community-based solutions. The examples highlighted above, provides insights and outlines several promising entry points to unlock new resources of financing for the SDGs such as the climate finance, inward remittances, tourism and sports which runs in billions of dollars.

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Notes

¹ <https://www.facebook.com/innovationfiji/>

² <https://www.myfijishark.com/>

³ <https://www.p1tlab.ncsu.edu/partners>

⁴ <https://www.fiji.travel/us/activity/aqua-tours-fiji-pottery-village>

⁵ <https://www.youtube.com/watch?reload=9&v=BQp86pcRfUU>

⁶ <http://www.fcef.com.fj/wp-content/uploads/2019/04/Dwain-Qalovaki.pdf>

⁷ <https://www.fijione.tv/news-posts/rugby-academy-fiji-grows-bigger>

⁸ <https://www.facebook.com/innovationfiji/>

⁹ <https://www.facebook.com/SOlentrepreneurs/>

¹⁰ <https://www.facebook.com/thehub.samoa/>

Risk Management and Sustainable Development: Perspectives from the SIDS

Introduction

Both the 2030 Agenda for Sustainable Development and the Addis Ababa Action Plan put ample emphasis on risk-informed decision-making. Preventing crises, building resilience and mitigating threats to development are indispensable to the achievement of the Sustainable Development Goals. Reciprocally, implementing the SDGs is the most effective strategy for reducing vulnerabilities and ensuring inclusive sustainability (A/74/73-E/2019/14). In this regard, SIDS may be subject to what the eminent economist Albert Hirschman once called “bias for hope” (1971). Like the peculiarities of the developmental trajectory of Latin American countries bearing their own local solutions back in the mid-1900s, SIDS today can use the raft of challenges afflicting their development journey to create their home-grown solutions for tackling them heads-on. Risk management is one such cross-cutting area that shows signs of cautious optimism as a development catalyst in SIDS. A multidimensional assessment of development and graduation readiness would do well to pay heed to it.

Background: The Context

As illustrated in **Table I** below, SIDS are a heterogeneous group. Five UN Member SIDS are located in Africa, two in Arab States, 15 in Asia & Pacific and 16 in the Americas. They include the Seychelles where the percentage of the population living below the international poverty line of \$1.90 dollars/day is less than 2 percent as well as Guinea-Bissau, where the equivalent figure is 67. Singapore’s Gross Domestic Product (GDP) was worth 364.16 billion US dollars in 2018; Tuvalu’s was 39.73 million USD (2017).

The current population of Nauru is less than 11 thousand while Cuba’s is 11.3 million. Singapore ranks second in the ease of doing business worldwide whereas Haiti occupies the 182nd rank near the bottom (World Bank 2019). Nine SIDS are currently categorized as Least Developed Countries with three of them having graduated in the past fifteen years (Cape Verde, Maldives, Samoa). 13 SIDS are categorized as IDA countries by the World Bank; six of them as blend (World Bank 2017).

Table I: SIDS' heterogenous developmental profile

Country	Region	Subregion	Income Level	Graduation Status	IDA/Blend
Antigua & Barbuda	GRULAC	CARIBBEAN	HIGH		
Bahamas	GRULAC	CARIBBEAN	HIGH		
Bahrain	A&P	AIMS	HIGH		
Barbados	GRULAC	CARIBBEAN	HIGH		
Belize	GRULAC	CARIBBEAN	UPPER-MIDDLE		
Cabo Verde	AFRICA	AIMS	LOWER-MIDDLE	Graduated '07	Blend
Comoros	AFRICA	AIMS	LOWER-MIDDLE	LDC	IDA
Cuba	GRULAC	CARIBBEAN	UPPER-MIDDLE		
Dominica	GRULAC	CARIBBEAN	UPPER-MIDDLE		Blend
Dominican Republic	GRULAC	CARIBBEAN	UPPER-MIDDLE		
Fiji	A&P	PACIFIC	UPPER-MIDDLE		Blend
Grenada	GRULAC	CARIBBEAN	UPPER-MIDDLE		Blend
Guinea-Bissau	AFRICA	AIMS	LOW	LDC	IDA
Guyana	GRULAC	CARIBBEAN	UPPER-MIDDLE		IDA
Haiti	GRULAC	CARIBBEAN	LOW	LDC	IDA
Kiribati	A&P	PACIFIC	PACIFIC	LDC	IDA
Maldives	A&P	AIMS	UPPER-MIDDLE	Graduated '11	IDA
Marshall Is.	A&P	PACIFIC	UPPER-MIDDLE		IDA
Mauritius	AFRICA	AIMS	UPPER-MIDDLE		
Micronesia	A&P	PACIFIC	LOWER-MIDDLE		IDA
Nauru	A&P	PACIFIC	UPPER-MIDDLE		
Palau	A&P	PACIFIC	HIGH		
Papua New Guinea	A&P	PACIFIC	LOWER-MIDDLE		Blend
Samoa	A&P	PACIFIC	UPPER-MIDDLE	Graduated '14	IDA
Sao Tome & Principe	AFRICA	AIMS	LOWER-MIDDLE	LDC	IDA
Seychelles	AFRICA	AIMS	HIGH		
Singapore	A&P	AIMS	HIGH		
Solomon Is.	A&P	PACIFIC	LOWER-MIDDLE	LDC	IDA
Timor-Leste	A&P	PACIFIC	LOWER-MIDDLE	LDC	Blend
Tonga	A&P	PACIFIC	UPPER-MIDDLE		IDA
Tuvalu	A&P	PACIFIC	UPPER-MIDDLE	LDC	IDA
Vanuatu	A&P	PACIFIC	LOWER-MIDDLE	LDC	IDA

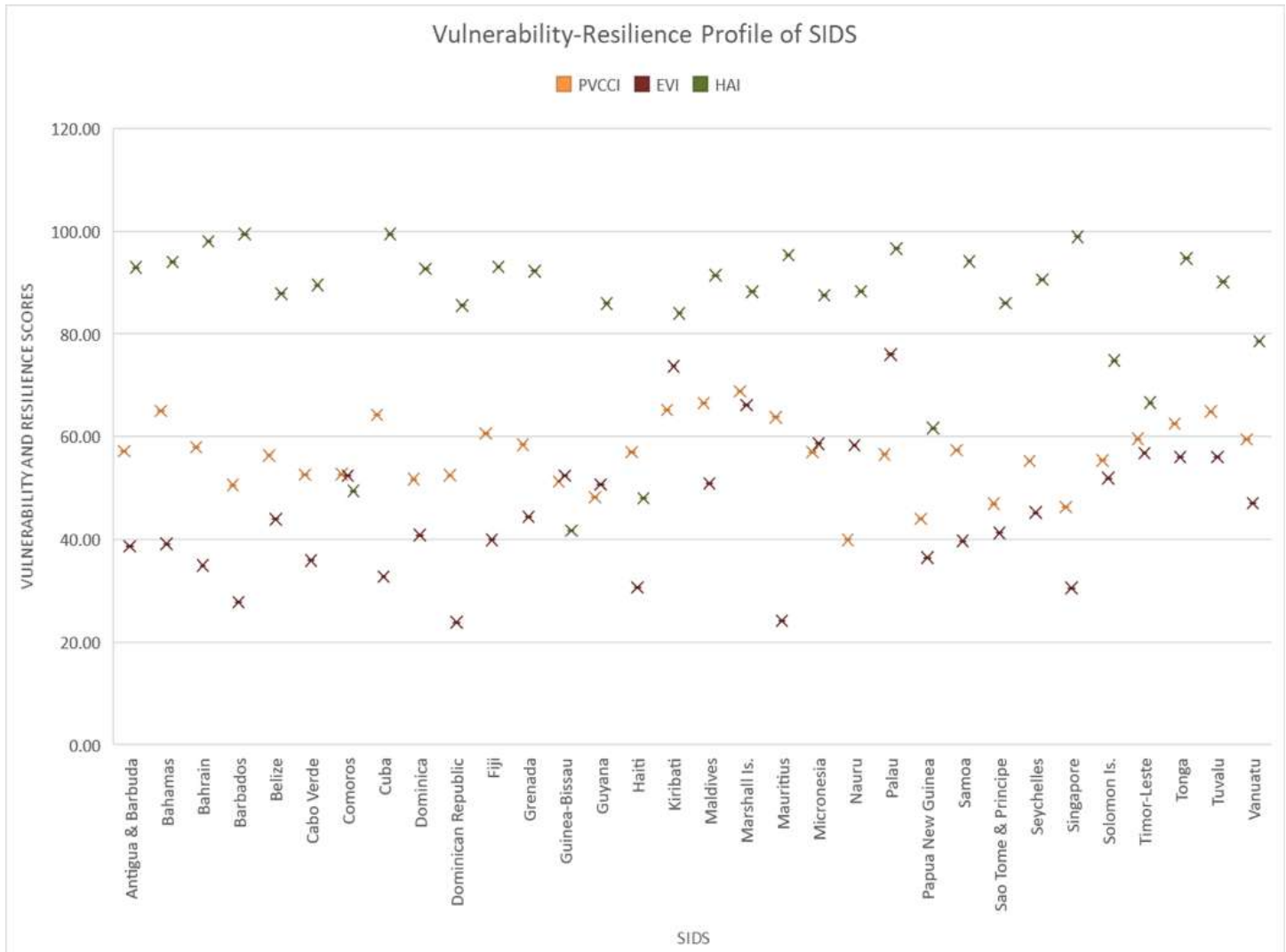
Sources: Compiled from WB income-groups, UN Regional Groupings, UN Sustainable Development Knowledge Platform, UNDESA DPAD/CDP website.

Despite their differences, many SIDS suffer from similar structural predicaments ranging from small internal markets and single commodity exports to limited connectivity and vulnerability to shocks and disasters the ramifications of which are exacerbated by climate change (Rossignol 2014). Ecological fragilities and economic vulnerabilities often tend to go hand in hand, the two being endogenously related. SIDS' capacity to respond to both has been increasing thanks, in large part, to their rising human capital and developmental focus on resilience (Guillaumont 2017: 11). As shown in **Figure I**, the Natural and Economic Vulnerability Index rankings of SIDS tend to cluster together with variations occurring between SIDS that are LDCs and those that are not.

The Natural Vulnerability Index (PVCCI) measures physical

vulnerability of countries to the effects of climate change. It is a composite index based on five climactic shock and five national exposure variables (FERDI 2018). The Economic Vulnerability Index is a synthetic measure of structural vulnerability formulated by ECOSOC's Committee for Development Policy to identify Least Developed Countries and graduation criteria. It encompasses indicators like population size; remoteness; merchandise export concentration; share of agriculture, forestry and fisheries; share of population in low elevated coastal zones; instability of exports of goods and services; victims of natural disasters; and instability of agricultural production. HAI (Human Assets Index) is a composite index of health and education also used by the CDP in identifying LDC status. The latter influences structural vulnerabilities are mitigated with impact on long-term growth and resilience (Guillaumont 2007: 11, 14, 17).

Figure 1: SIDS' homogenous vulnerability-resilience profile



Source: Author's elaboration

SIDS have been tackling these challenges using various effective and innovative tools of risk management. Their use of risk management strategies and institutional arrangements have often gone beyond their initiatives to comply with the Sendai Framework of Disaster Risk Reduction, 2015-2030 and other

comparable regional initiatives aiming to mitigate the loss and damage caused by disasters. The following section presents select examples of risk management initiatives by SIDS based on their Voluntary National Review Reports and a systematic desk review analysis of national risk assessment initiatives and institutions of SIDS.

National Risk Assessment and Management in SIDS

17 out of 38 UN Member SIDS have already presented their Voluntary National Reviews at the High-level Political Fora organized annually since 2016. A review of their key statements and reports shows that they all have covered risk as a core element of their national sustainable development programming and policy-making. They cover most of the multifarious risks indicated in the Addis Ababa Action Agenda, the S.A.M.O.A Pathway outcome document and the outcome documents of the regional/ interregional preparatory

meetings towards S.A.M.O.A Pathway's mid-term review. SIDS also make references in their VNRs to their use of multifaceted risk management methods and instruments. Box I summarizes the types of risk and risk management methods and tools covered by SIDS' national policies of disaster risk and risk management.

Out of the 17 presentations reviewed, none omitted risk and risk management from their reporting while some explicitly stressed the integrated nature of their national risk management policies and strategies including but not limited to disaster risk reduction.

Box I: Risks and Risk Management Methods and Tools in SIDS' VNRs

Risk types indicated in VNRs by SIDS

Ecological fragilities: climate change, environmental risks, biodiversity, those associated with natural disasters and complex emergencies including their specific variants like flood, tsunami, volcanic eruption, landslide, wildfire, earthquake, cyclone and others,

Economic and financial vulnerabilities: international financial and economic conditions, debt management, trade, currency, investment including foreign direct investment and investment in infrastructure, financing of development including access to concessionary financing, money-laundering

Security and social threats: terrorism, conflict, violence, crime, gender equality, migration and displacements, decent employment

Sectoral threats: food security, nutrition and agriculture, water and sanitation, public health, health and well-being of vulnerable groups and different diseases and their spread, waste management including chemical waste management, transportation and housing.

Risk management methods and tools stated in VNRs by SIDS

Risk mapping, multi-hazard threat assessment, systemic versus sporadic risk evaluation, impact analysis and loss and damage assessment, scenario building, early warning mechanisms, coastal risk management, community-driven risk management, sandboxing, diversification and openness policies, partnerships and data, managing misaligned incentives, spillover effects, bridging regulatory gaps and instituting safety nets, innovative financing including debt swaps, blue bonds, Islamic finance, remittances, green climate financing, parametric risk insurance and insurance facilities, building capabilities, capacities and resilience including sustainable recovery and long-term reconstruction, humanitarian-development-peace risk connections, technology, research and development, etc.

Source: Author's elaboration

Bahrain's National Risk Matrix and Integrated National Risk Registry is one example as are Bahamas' Integrated Disaster Risk Reduction Policy and Cabo Verde's National Strategy for Disaster Risk Reduction, 2017-2030. Several interconnected and innovative approaches to national risk management are visible in Fiji's National Humanitarian Policy for Disaster Risk Management, Guyana's Community-based Disaster Risk Management and Community Action Councils (CACs)—interlinking national and subnational risk management, Nauru's Intergenerational Trust Fund and Seychelles' Blue economy approach to risk and disaster management. Also noteworthy are the risk-informed SDG implementation and forward-looking scenario building approaches adopted by Mauritius, Belize and Dominican Republic, context-based SDG prioritization adopted by Samoa and the targeted focus on disaster recovery adopted by Vanuatu.

SIDS also display innovative approaches to managing sectoral risks. Palau's focus on episodic poverty risk is grounded in its cultural tradition of Sharing and Caring, for instance. Guinea-Bissau concentrates on catastrophic risks through its National Strategy of Management of Catastrophic Risks. Timor-Leste's experiences have led the country to zero in on good governance, peace and justice, paving the way to the establishment of the Conflict Prevention and Response Network with the mandate to identify risks early on and diffusing them before they transpire. Kiribati stresses

conservation of fisheries and managing the risks associated with population relocation to high-grounds. Singapore has a social risk-pooling mechanism for healthcare and is working on one on long-term care. Belize has a Biomass Production Risk Management Plan as well as an Anti-Trafficking in Persons Council. Bahamas includes obesity as a risk factor in addition to lifestyle risk factors to health such as smoking and alcohol consumption.

Innovative in-depth approaches to national risk management by SIDS benefits from the slew of regional initiatives in managing risk. Prominent examples of regional pools, which support CARICOM in addressing loss and damage, include the Caribbean Catastrophe Risk Insurance Facility (CCRI), the Pacific Disaster Risk Financing and Insurance Programme, which was built upon the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), and the African Risk Capacity (ARC). The vibrancy of regional risk management mechanisms should be a reason to pay more and not less attention to risk governance innovations at the national level. A multi-dimensional assessment of development should take disaster risk and risk management into account.

Conclusion

Vulnerability and sustainability are hardly dichotomous. Preventing crises, preparing for disasters and mitigating their negative effects does not ipso facto lead to long-term resilience. Robust national risk management policies and institutions can act as the interlink between liabilities and immunities to shocks and disasters. Similarly, the capacity to manage threats depends on effective risk management policies as effective complements to others of economic diversification, social cohesion, trade and good governance, among others. SIDS' advances in risk management can contribute to what drives economic progress, which is also often the hope or what Hirschman calls "bias for hope" or "blessings in disguise," which can be the start of a hitherto unfamiliar path to sustainable development.

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GLOBAL
PROGRAMMING
CONFERENCE



Green Climate Fund, 2019. Source: <https://www.greenclimate.fund/meetings/2019/globalprogramming>

Moving from Access to Management Capacities

A focus on Public Institutions and Competency Gaps to Strengthen Development Finance and Climate Finance Impacts in SIDS



Unveiled this past July, the UN Secretary-General's Roadmap for Financing the 2030 Agenda for Sustainable Development places special emphasis on Small Island Developing States (SIDS). It highlights these as vulnerable states on the frontline of the battle to adapt to climate change calling for strengthening SIDS capacity to access more green finance. However, the Roadmap was especially value adding in that it emphasized the need to “strengthen the project development, implementation and reporting capacity” of SIDS and other vulnerable states. Indeed, the conversation is often about increasing capacities to access finance, but not enough on the capacity of public institutions to absorb and effectively implement, manage, and report on finance.

Development funds to SIDS have seen an upward trend over the last decade, especially with regards to climate finance. Between 2003-2017 (a 15-year period), SIDS received USD 1.38 billion from multilateral climate funds covering 210 projects in 38 SIDS. Within the last five years, the Global Environment Facility invested close to USD 1 billion on climate finance to support the SAMOA Pathway – Small island developing states Accelerated Modalities of Action – a ten-year international framework that articulates the aspirations of small island developing states. In 2017, a full USD 228 million was approved for projects in SIDS, 50% of these funds programmed by the Green Climate Fund in line with SDG target 13.A.

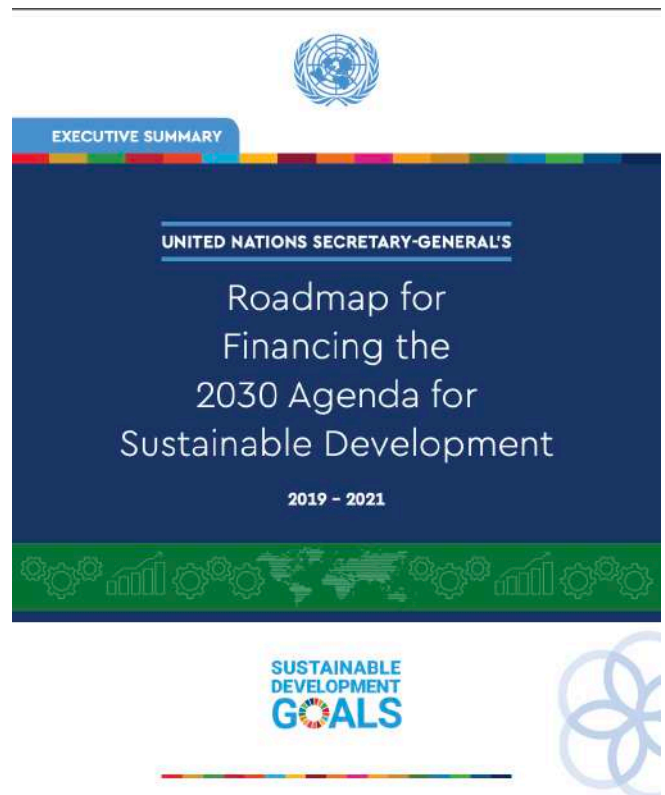


Figure 1. United Nations, 2019

However impressive these numbers, the financial needs of SIDS to adapt to the growing threat of climate change are far greater and rapidly multiplying; while the capacities of public institutions to effectively manage these funds are slowly being addressed. This article focuses on the expressed needs of SIDS in this regard and calls for greater attention to strengthening public administration capacities to not only access finance, but also manage funds for impact.

The Sustainable Development Goals and Strengthening Public Institutions in SIDS

The SDG Summit that took place during 24-25 September, 2019 has presented a resolution text to the President of the UN General Assembly in the form of a Political declaration of the High-Level Political Forum on Sustainable Development convened under the auspices of the General Assembly. The Political Declaration presents a “call to accelerated action” committing member states to key areas such as mobilizing adequate and well-directed financing, enhancing national implementation, and strengthening institutions.

The Sustainable Development Goals place a primary focus on strengthening public institutions to be effective in their ability to finance and implement the SDGs. SDG 16.6 measures institutional effectiveness, accountability and transparency according to how a nation manages its public budget. Closing the capacity gaps in public institutions’ ability to manage financial resources is of central importance, especially in vulnerable states like SIDS, which rely on few human resources to administer multi-million USD projects in their existential fight against climate change. SIDS have smaller population sizes and thus limited public service personnel to cover vast territories and increasing challenges posed by the growing intensity and frequency of climate related disasters. Greater importance needs to be placed on building the capacity of public institutions in SIDS to manage finances effectively and

coherently – bridging climate and SDG related financing and navigating the regulatory and reporting complexities of multiple donors and projects. But this is easier said than done.

SIDS are all too familiar with the complex web of rules and regulations across climate finance and traditional development cooperation actors. Implementing the SDGs, including goals on climate action and more, means an urgent response is needed with training programmes that can equip public service with up to date financial management capacities. Equally, on the donor side, greater coordination and mainstreaming is needed to harmonize procedures for accessing, managing and reporting climate financing and SDG financing alike.



Figure 2 Project Everyone for the United Nations. Source: www.GlobalGoals.org

Placing an emphasis on Institutional Capacities to Manage Climate Finance – A look at the Green Climate Fund and SIDS

As one of the largest donors to SIDS, the Green Climate Fund has already approved 24 projects in SIDS countries, and 11 of these are under implementation. Equally, at the September SDG Summit Prime Minister Charlot Salwai Tabimasmas of Vanuatu, for the Pacific Islands Forum, noted that Forum members have successfully mobilized USD 1.5 million for the GCF. SIDS are calling for the replenishment of the GCF but have also raised the challenges of accessing funds from the institution and the lack of investment in training their institutions on ‘readiness’ to manage climate finance. In fact, GCF has already disbursed USD 14.3 million covering 60 readiness grants to strengthen capacity in SIDS. However, for many SIDS the task is still daunting given the size and complexity of climate finance projects.

For example, the Solomon Islands which is also a Least Developed Country, was approved in April 2017 for a multi-million USD project under the GCF for the Tina River Hydropower Development Project. Under the GCF commitment to the project, USD 70 million is approved as a loan instrument and USD 16 million as a grant, but no funds were approved to increase the “readiness” capacity of the Solomon Islands to financially manage the project. Still, over two years later, none of the approved funding has been disbursed to the executing agency, the Ministry of Finance and Treasury (MOFT) of the Solomon Islands.

These challenges were especially apparent during the recent SIDS Forum convened as part of the Green Climate Fund’s first Global Programming Conference on 19-23 August 2019. The GCF conference included a morning session where high-level SIDS representatives emphasized the importance of capacity-building for public institutions to navigate the complexities of climate finance accreditation. SIDS representatives also called for greater coherence and alignment between SDG financing and climate financing. The outcome messages of the GCF conference’s high-level segment noted the challenges of transforming public institutions to ensure their readiness.

“Institutional transformation is hindered by a lack of knowledge, vision and qualified personnel, while public institutions are inflexible, incoherent and unfit for purpose ... An emphasis also needs to be placed on institutional human capacity-building at the country level and within direct access entities.”

*– Green Climate Fund
Global Programming Conference,
19-23 August 2019*

The Green Climate Fund has developed a [financial management capacity assessment tool](#) for institutions to assess their readiness to implement projects. It also has a [Readiness and Preparatory Support Programme](#), which acts as a funding programme to enhance country ownership and access to the Fund. Still many capacity gaps and the need for training remains according to statements from SIDS ministers delivered at the conference.

SIDS need accelerated finance but also skills-building programs on public financial management to effectively drive their own climate resilient future.

Gaps in Financial Management Capacity can cause SIDS to Return Hard-won Funds

It is not the first time SIDS note their need for capacity development to effectively manage development finance for climate change and sustainable development priorities. These challenges were raised previously by SIDS representatives during the [UN DESA Symposium on Building Effective, Accountable and Inclusive Institutions for Advancing the 2030 Agenda for Sustainable Development held in December 2017](#) in the Republic of Korea.

SIDS representatives from Ministries of Finance spotlighted that the challenge is not unavailability of financing, but rather navigating the administrative complexities of managing finance. SIDS such as Nauru stressed that “small islands also have small public administration”, Staff may play multiple roles at once, which places daunting challenges on the ability to navigate complex donor rules and reporting

SIDS representatives also underscored that in some cases when projects are financed, public institutions may spend the funds not knowing that these may later in reporting phases be deemed as “ineligible expenditures”. These cases force SIDS to return what may seem like small sums; but in a SIDS context these unforeseen incidents cause disruption in essential financing and programming.

UN DESA took note of these expressed challenges by public institutions in SIDS and organized specific training modules for island states during its [Forum on Strengthening Capacities of Public Administration in Island States held in August 2018](#). There, twelve Small Island Developing States and regional bodies such as the Pacific Islands Forum Secretariat and the Indian Ocean Commission shared their lessons learned and agreed that more training is needed for SIDS public institutions on not only accessing climate financing and other essential development funds for the SDGs, but also on financial management. In addition, representatives from island states, such as Kiribati and Fiji, noted that SIDS can more coherently integrate project-based funds into the national budget to coordinate climate, disaster risk and SDG funds into one financial management picture. The Secretary-General’s Roadmap for Financing the 2030 Agenda also calls on more increased support to countries to develop integrated national financing frameworks. This more integrated approach could facilitate reporting, data management, and reduce the human resource costs of overseeing fragmented SDG and climate finance projects.

Next Steps to Close Financial Management Capacity Gaps in SIDS

Today, these lessons shared by SIDS public institutions have continued to inform UN DESA's capacity development activities and programme design for these priority countries. In fact, after the conclusion of the recent SAMOA Pathway High-Level Midterm Review on 27 September, there is even more focus on strengthening institutional capacity in SIDS.

Greater attention and capacity development responses are needed to measure and close the skills gaps SIDS have in managing donor funds. This is part and parcel of a broader process of institutional transformation and making public institutions fit for purpose to achieve the SDGs.

Without investing in competent public financial management, the challenge of securing a sustainable future for SIDS will be an elusive one. The [UN Committee of Expert on Public Administration \(CEPA\)](#) has emphasized that institutional capacity—including financial management—plays a critical role in the achievement of all the Sustainable Development Goals (SDGs) highlighting the challenge with its new [Principles of Effective Governance for Sustainable Development](#). The CEPA principles endorsed by ECOSOC call for pragmatic and ongoing improvements in national and local governance capacities, including on “public financial management and control” to ensure “competent” public governance.

To close these capacity gaps, a first recommendation could be for joint UN-GCF training programmes for public institutions in SIDS to strengthen their general financial management capacities in the context of national sustainable development and climate change priorities. These trainings would also aim to equip public institutions with the skills to integrate project-based SDG and climate financing into national budgets and planning, while addressing the specific challenges of SIDS in this regard.

Lastly, [the Political Declaration from the SAMOA Pathway's Midterm Review also calls on the financing or donor community to also review financing instruments and the “complex funding environment”](#) that presents challenges for SIDS. The solution is not only in strengthening public administration capacities, but also in greater harmonization on the financing or donor side. A second key recommendation is to tackle the complexities of regulations and reporting to avoid the pitfalls of ineffective spending in SIDS. More donor coordination and harmonization are needed in the rules and regulations for accessing, implementing and reporting on climate and SDG finance projects.

With these next steps, public institutions in SIDS can benefit from a fairer playing field to effectively finance their sustainable and climate-resilient future for generations to come.

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Financing for Development: UNODC Assistance to Small Island Developing States

UN General Assembly Resolution 70/1 of 25 September 2015, entitled “Transforming our world: the 2030 Agenda for Sustainable Development”, adopted a comprehensive, far-reaching and people-centered set of universal and transformative Sustainable Development Goals (the 2030 Agenda). Resolution 69/313 of 27 July 2015 on the Addis Ababa Action Agenda explained how Financing for Development is an integral part of Sustaining Development and recognized the importance of the UN Convention against Corruption and Convention against Transnational Organized Crime.

Corruption, organized crime and illicit financial and other flows erode our institutions and have a devastating impact on the rule of law and sustainable development on the whole. These interlinkages have been outlined in various international frameworks.

On 20 December 2017, the UN General Assembly further adopted Resolution 72/207 entitled (the) “Promotion of international cooperation to combat illicit financial flows in order to foster sustainable development”. This Resolution shows the global recognition of the threat to sustainable development caused by illicit financial flows and the urgent need to combat this. Also, the Resolution recognized

the challenge posed by the increasing scope and complexity of illicit financial flows and the need for the recovery and return of stolen assets, which necessitates the strengthening of international cooperation on this matter.

The problem of illicit financial flows has been emerging for some time now. For example, recent studies have shown that the volume of assets flowing from Africa may be over USD 50 billion a year. Of this amount over 40% is estimated to be the proceeds of crime.

These challenges have far preceded the 2030 Agenda, and strong international legal frameworks for combatting transnational organized crime, illicit arms flows, corruption and economic crime, money laundering and financing of terrorism already exist. In addition, there are well established international standards and a responsive set of best practices that countries can access.

However, despite the existence of these institutional frameworks, five years into the 2030 Agenda, progress on these issues is slow.

Corruption; tax evasion; and political instability are key impediments to the

achievement of the Sustainable Development Goals. These are formidable challenges for large, developed countries, that become all-but insurmountable in Small Island Developing States.

The flow-on effects of these issues - the erosion of tax revenues, the misapplication of State resources and political instability evolving into terrorist activity - are poverty; hunger; diminished health and wellbeing; poor education; reduced economic growth and inadequate environmental management.

Ensuring that economic resources are raised and applied in a manner that is consistent with the achievement of the Sustainable Development Goals is fundamental to progress towards the achievement of those goals. Maintaining economic and political stability is, similarly, key to that continued progress.

Few activities cut-across and impact these issues in a manner that is comparable to the field of anti-money laundering and countering terrorist financing (AML/CTF). The effective application of AML/CTF is a force-multiplier like no other - particularly when applied in jurisdictions such as Small Island Developing States, where law enforcement institutions often lack the skills, experience and resources to tackle complex issues such as environmental crime, grand corruption and human-trafficking.

The fundamental principles behind the international standards on AML/CTF is that entities involved in the movement of funds around the world must understand the ownership of those funds and the nature and purpose of their source and application. This corralling of private-enterprise resources into the fight against crime is as much art, as it is science - that when done

effectively has almost unlimited potential.

AML/CTF is, arguably, the ultimate cross-cutting issue of the Sustainable Development Goals in Small Island Developing States and one which is worth examining in more detail.

One of the key outputs of an effective domestic AML/CTF system is intelligence on suspicious transactions and financial activity. This intelligence, developed using information from financial institutions and government authorities as its raw material, often becomes the trigger for the investigation and prosecution of offenders for a range of financially-motivated offences such as corruption.

The United Nations Office on Drugs and Crime has provided assistance in both AML/CTF and anti-corruption and currently has a dedicated Regional Anti-Corruption Adviser based in Fiji and covering 14 Pacific Island States. The below mentioned capacity building assistance provides examples of the anti-corruption work being carried out in the Pacific.

The Solomon Islands have been a State party to the United Nations Convention against Corruption (UNCAC) since 2012 and taken various initiatives to put in place a comprehensive anti-corruption framework. The road has not been easy, but the main piece of legislation, the Anti-Corruption Act was finally adopted in August 2018. The United Nations Office on Drugs and Crime and United Nations Development Programme (UNDP), through the Australian-funded United Nations Pacific Regional Anti-Corruption (UN-PRAC) Project, have been working with the Solomon Islands since the Project's inception in 2012.

The Project has provided both legislative and policy assistance in the drafting of the Anti-Corruption Act, Whistleblowers Protection Act and the National Anti-Corruption Strategy, as well as capacity-building of integrity institutions and non-State actors including with the media and civil society actors including youth groups such as the Pacific Youth Forum Against Corruption Solomon Islands Chapter. In 2018, a spin-off anti-corruption project was developed, the Transparency and Accountability for the People of Solomon Islands (TAP) Project, also funded by the Government of the Solomon Islands.

Since 2012, UN-PRAC has been working together with the Government of Vanuatu, through the Office of the Prime Minister, on the National Right to Information (RTI) Policy and Act, both approved and legislated in 2014 and 2017, respectively. With UN-PRAC support, the RTI Unit in the Office of the Prime Minister was established. The work of the Unit is overseen by the RTI Steering Committee which is made up of representatives from Government and civil society. Vanuatu was the first Pacific Island country to operationalize its RTI policy. In 2015, 14 Members of Parliament were jailed for corruption in Vanuatu. This was a hallmark decision taken in not only the Pacific but the World.

In 2018, UN-PRAC supported the training of RTI Officers from Government Agencies. This enabled them to understand the RTI Act and their role as RTI officers and how to action RTI requests from members of the community. The RTI Unit has also been working with the Media Association of Vanuatu and Transparency International Vanuatu to continue to create awareness on the implications of the RTI Act and the rights of Vanuatu citizens to access

information. This awareness has extended also to the outer islands. Moreover, the RTI Unit, Transparency International Vanuatu and the Peer Educators Advocacy Group, with UN-PRAC support, have also been working on the development of the 'Citizens Budget'. This aims to make the national budget and its expenditure not only available but more understandable for the citizens of Vanuatu. As part of this, surveys conducted in Port Vila, Luganville and Tanna found that 76% of the those interviewed did not know about the national budget or how Government finances are being allocated or details of Government expenditure. Wilson Toa of Transparency International Vanuatu said, "Without access to information and transparency, there will be no meaningful participation of citizens in the governance process".



United Nations Pacific Regional Anti-Corruption (UN-PRAC) Project being implemented in Samoa
Credit: Annika Wvthes

A well-known method of money laundering involves moving cash that has been generated by criminal offending away from the location where it was generated to obfuscate the link between the crime and the money.

A key element of anti-money laundering therefore is the detection of movements of large volumes of illicit or 'undeclared' cash. The United Nations Office on Drugs and Crime through its Global Programme against Money Laundering, Proceeds of Crime and the Financing of Terrorism provided countering cash smuggling assistance to the following eight Caribbean countries: Antigua and Barbuda, Bahamas, Barbados, Grenada, Jamaica, St Kitts and Nevis, St Lucia and Trinidad and Tobago.

Prior to the project¹ implementation, the baseline for seizures of illicit cash was zero. This began to change once the project got underway.

Some of the seizures include²:

	Date	Amount Seized
Country A	Mar 2017	Approx USD \$2.1MM
Country B	Aug 2017	39, 500 Euros
Country B	Sept 2017	21,150 Euros
Country C	Aug 2017	USD \$39, 500
Country D	Sept 2017	Approx USD \$23, 000
Country B	Nov 2017	129, 880 Euros



United Nations Pacific Regional Anti-Corruption United Nations Pacific Regional Anti-Corruption (UN-PRAC) Project being implemented in Samoa
Credit: Annika Wythes

An unanticipated positive outcome of this training has been the shift in mentality for some of the Customs administrations. As the majority of the governments in the region are reliant on indirect taxation, Customs administrations have primarily been traditionally viewed as a revenue collection authority. It was usual for Customs to involve the assistance or give direct responsibility of enforcement at the border to the national Police. As the project progressed, it appeared that Customs administrations were beginning to take responsibility of both revenue and enforcement. As a result of this shift in mentality, there have since been numerous other seizures at various borders. As an example, St Lucia Customs has stepped up their profiling at border for other illegal/undeclared goods. The recent interception (March 2018) of hundreds of packets of cigarettes being smuggled is one of them.

Financially motivated crime such as tax evasion and corruption potentially present insurmountable challenges to Small Island Developing States in achieving the Sustainable Development Goals. AML effectively corrals international resources to assist Small Island Developing States in addressing these challenges in a manner that is unparalleled - the ultimate cross-cutting issue. AML requires expertise and the United Nations Office on Drugs and Crime through its Global Programme against Money Laundering, Proceeds of Crime and the Financing of Terrorism (GPML) is a world-leader in the delivery of this assistance.

All countries face challenges in detecting and dissuading offenders from engaging in financially-motivated crime such as corruption and tax evasion. Small Island Developing States face even greater



challenges because of the close-knit nature of their communities, where the investigation of an offender may mean the investigation of a relative or close friend.

The international standards on AML/CTF require countries to have in place systems that detect money laundering. In effect these systems require financial institutions to detect, report, disrupt and prevent the movement of illicit funds through the international financial system.

Small Island Developing States can be particularly vulnerable to the loss of correspondent banking relationships – something that is somewhat of a double-edged sword in that it has the potential to motivate political support but comes with potentially problematic consequences for failure.

The manner in which anti-money laundering works means that international transactions have the potential to be detected and reported – and potentially acted upon – by financial institutions and authorities anywhere in the world. This can be particularly important for SIDs that are challenged to address complex financial crime with limited law enforcement resources and experience.

Over the past few years GPML has assisted a number of Small Island Developing States, (Tonga, Samoa, Niue, and the Maldives) improve their AML systems, including assistance on the assessment of risks, the testing of systems and the gathering and use of intelligence and development of laws and processes.

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Notes

¹ The project duration was from October 2016 to 31 March 2018.

² As some of the cases are ongoing, country names have been anonymised.

Activities related to SIDS in the Division of Sustainable Development Goals/UN-DESA during 2019

Implementation of the Blue Economy Project

The implementation of the capacity-building Blue Economy project being carried out by the SIDS Unit entitled “Bridging SIDS Capacity Gaps in the Implementation of the 2030 Agenda, with a Focus on SDG 14–The Abyssal Initiative,” with the Pacific SIDS (PSIDS) Regional Training and Capacity Building Workshop on Deep Seabed Mining, took place in Nuku’alofa, Kingdom of Tonga, from 12 to 14 February. The Abyssal Initiative is a voluntary commitment announced by UN DESA and the International Seabed Authority (ISA) at the 2017 UN Ocean Conference. The event brought together over 35 participants from PSIDS countries, technical experts from the ISA, including its Secretary-General Michael Lodge, and members of its legal and technical commissions, geologists and marine scientists. The objective of the Abyssal Initiatives is to firstly, ensure that the PSIDS are in position to comply with their national and international obligations as deep seabed mineral resources activities progress, and secondly, that the necessary governance structures and mechanisms required are in place to achieve these objectives.



2nd Roundtable Meeting of SIDS Statisticians

The SIDS Unit in collaboration with PARIS21 and together with OHRLLS, CARICOM and the Secretariat of the Pacific Community (SPC) organized and hosted the 2nd Meeting of SIDS Statisticians in the margin of the 50th Session of the UN Statistical Commission in the first week of March, 2019. The aim of this year's Roundtable was to hear an update on the progress of initiatives agreed to in the 2018 Roundtable, and to take stock of the ongoing efforts and progress made in SIDS regions to address critical statistical challenges such as limited financing, human resources issues, data production and dissemination challenges.



Second Meeting of SIDS Statisticians

Special Event on SIDS and Public Institutions

In collaboration with DPIDG, and with the sponsorship of the Permanent Missions of Singapore and Belize, the SIDS Unit organized a SIDS special event on 12 April about “Building Capacities of Public Institutions in Small Island Developing States to implement the SAMOA Pathway and the 2030 Agenda for Sustainable Development.” The event was well attended by representatives of SIDS and their partners. Opening remarks were delivered by ASG Maria Francesca Spatolisano. The event featured exchanges of good ideas, initiatives and examples of good governance practices. Attendees also heard a briefing from DPIDG on its past and planned initiatives in 2019 and beyond to build the capacity of public institutions in SIDS.



Meeting photo on “Building Capacities of Public Institutions in SIDS to implement the SAMOA Pathway and the SDGs”

Blue Economy side event “The Abyssal Initiative for Blue Growth” in Jamaica

A side event entitled “The Abyssal Initiative for Blue Growth” was held by DSDG in the margins of the 25th Annual Session of the International Seabed Authority in Kingston, Jamaica. The Event is an integral part of the Activities to be carried out by the Unit for the period 2018 -2020 under a Voluntary Commitment announced by UN-DESA and the International Seabed Authority during the 2017 UN Ocean Conference. The Abyssal Initiative is a component of DSDG’s Blue Economy Capacity Building Project targeting seven SIDS from the Pacific and the Caribbean Regions.

SIDS Partnership Webinars on Unique Challenges facing SIDS

On 4 September, DSDG organized two SIDS Partnership Webinars aiming at sharing information about the unique challenges facing SIDS, the Samoa Pathway, High-level Review, and SIDS partnership gaps. Participants were encouraged to establish more partnerships in the underrepresented areas and register their partnership activities on the SIDS Partnerships database.

The SIDS Partnership Webinar for the scientific community was in collaboration with the International Science Council. The SIDS Partnership Webinar for Philanthropy was held from in collaboration with the SDG Philanthropy Platform and the Rockefeller Philanthropy Advisors. H.E. Ms. Lois Michele Young, the Permanent Representative of Belize to the United Nations, Co-Chair of the SIDS Partnerships Steering Committee and Chair of the Alliance of Small Island Developing States, made opening remarks at both webinars.

PARTNERSHIPS FOR SMALL ISLAND DEVELOPING STATES (SIDS): WEBINAR FOR PHILANTHROPY

4 SEPTEMBER 2019, 11:00AM-12:00PM (EDT)

- SAMOA PATHWAY FOR SIDS AND ITS HIGH LEVEL REVIEW
- SDG PRIORITIES AND OPPORTUNITIES FOR PARTNERSHIP
- OPPORTUNITIES TO ENGAGE IN SEPTEMBER 2019 AND BEYOND

SDG Philanthropy Platform

ROCKEFELLER Philanthropy Advisors



Panelists and speakers at "Caribbean Philanthropic Alliance"

Launch of the Caribbean Philanthropic Alliance

The Caribbean Philanthropic Alliance was officially launched on 26 September with 16 business and corporate philanthropic organizations from the Caribbean joining forces to support the SDG implementation in the region, supported by DSDG. The Alliance convened the Caribbean Philanthropic Forum on Thursday, 26 September, at the Consulate General of Jamaica. DSDG also coordinated media opportunities with the Alliance in the SDG Action Zone and SDG Media Zone on "Garnering Private-Philanthropic support for the SDGs and Samoa Pathway".

Ambassadors, meet the experts!

Insights from the “Financing the Resilience of SIDS” Conference

“ I will need a few weeks to process all I've learned,” exclaimed one of the attending UN permanent representatives at the closing of the “Financing the Resilience of SIDS” conference on Antigua last year. The Governments of Belgium and Antigua & Barbuda, together with the UNDP’s Centre of Excellence (COE) for SIDS, had convened the event to connect UN ambassadors from SIDS with a range of finance and resilience experts.


FINANCING the
RESILIENCE of **SIDS**

Antigua & Barbuda, May 21st - 22nd 2018

Topics ranged from disaster risk reduction and management, to climate resilient infrastructure, to the inclusion of the private sector through PPPs.

The opening keynote by H.E. Peter Thomson, the UN Special Envoy for the Ocean, emphasized the value of the sustainable blue economy as a key asset and economic opportunity for SIDS. And many experts followed, sharing their insights from their work at CDEMA, Clinton Climate Initiative, ECCB, GLISPA, OAS, PIF, World Bank, UNDP, and UWI, amongst others. A rich document with the presentations, polling results and speeches is available at the link: <http://www.sustainablesids.org/wp-content/uploads/2018/08/Financing-for-Resilience-of-SIDS-conf-Knowledge-doc.pdf>, as well as the outcome document that was agreed on.

The outcome document stressed that the participants recognized that resilience in this context is multifaceted and includes the economic, social, and environmental pillars of sustainable development. It emphasized that resilience for SIDS must also reflect the vulnerability to climate-induced risks and shocks. In reaffirming the commitments and recognition of the special status of SIDS (included in the Sustainable Development Goals, Paris Agreement, SAMOA Pathways, Sendai Framework for Disaster Risk Reduction and Financing for Development Outcome Statements), participants called for strong action in themes such as Building Resilience, Financing, Economic Diversification, and SIDS Collaboration.



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Note:

The organization of the conference was led by Arno Boersma (then Director of UNDP's Center of Excellence for SIDS) and Bianca Peters (Director of innovation foundation 360 Degrees of Innovation). They are founding partners of social enterprise Island Impact.



SIDS Unit
Division of Sustainable Development Goals
UN-DESA