Pacific SIDS Regional Preparatory Meeting
16-18 August 2023
Nuku'alofa, Tonga

Roundtable 4: Financing Development in Pacific SIDS

17 August 2023, 11:00am – 12:45pm

Background Note

Introduction:

Many SIDS are functioning under heavy debt burdens with seemingly few opportunities to bring about economic growth. Debts increased considerably as a result of the COVID-19 pandemic and response. Addressing the servicing of debt has become problematic to several Pacific SIDS.

In particular, most Pacific economies are heavily reliant on a narrow range of sectors, such as tourism and agriculture. This lack of economic diversification makes them susceptible to external shocks and changes in global market. So, with the onset of the COVID-19 pandemic, already high fiscal imbalances and debt distress have exacerbated vulnerabilities.

At the global and regional levels, the lack of financing continues to proliferate, leaving the developing countries more susceptible to exogenous shocks. Developing countries don't have the resources they urgently need to invest in post-pandemic recovery, climate action and the SDGs.

These challenges have thus brought the increased amount of divergence and created economic stagnation. These economies are witnessing challenges to benefit from growth ambitions. Importantly, the blue-green transition will likely be postponed due to lack of investable resources and financing opportunities.

This session will explore ways that may be available for the Pacific SIDS to address the ways to improve financing opportunities, while keeping debt distress within control. The session will further discuss the ways to improve the utilization of new financing initiatives and instruments and to explore ways to work with the International Financial Organizations and Regional Development Banks.

Challenges and perspectives

Mounting national debt is hindering progress as Pacific economies put aside money for debt-servicing and repayment, that could otherwise be dedicated to sustainable development. Almost all Pacific SIDS (Fiji, Kiribati, Marshall Islands, FSM, Nauru, Palau, PNG, Samoa, Tonga and Tuvalu) are being rated as high risk of debt distress, whereas Solomon Islands and Vanuatu are rated as medium risk.

Similarly, Pacific SIDS face average annual losses from multiple hazards totaling to USD 1.1 billion in the current scenario. This figure is expected to increase to USD 1.3 billion under moderate and USD 1.4 billion under worst-case climate warming scenarios.

Through the G20-led Debt Service Suspension Initiative (DSSI), the potential debt service savings in Fiji, PNG, Samoa and Tonga are estimated at 0.3-2.8 per cent of GDP in 2021. Pacific SIDS also received $430 million following a new allocation of special drawing rights by the IMF in August 2021 to help developing countries meet their external debt service payments.

The multidimensional vulnerability index (MVI) is a data-driven index developed through the United Nations to demonstrate the fragility of SIDS' economies and environments and highlight their needs for concessional financing. The MVI seeks to increase eligibility for SIDS to receive greater financing to address their unique vulnerabilities, namely, their proximity and reliance to the ocean and climate change.

The UN Secretary General announced a SDG Stimulus Plan to help countries deliver the Agenda 2030 (the SDG Stimulus). It calls for a minimum of $500 billion in additional financing per year, aimed at mitigating the effects of cumulative shocks and providing developing economies with better access to long-term and affordable finance for sustainable development, including dealing with climate change. Implementing the SDG Stimulus will require urgent action from the G7 and G20 countries and the multilateral system at large. More specifically, the SDG Stimulus puts forward three action areas for the international community: 1) to tackle the high cost of debt and risks of debt distress; 2) to massively scale up affordable long-term financing for development; and 3) to expand contingency financing to countries in need.

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Recommendations for Action

The Pacific region can take policy actions to mobilize financing to address the investment needs of sustainable development agenda.

- Stakeholders should aim to reduce the high transaction costs, move from project-based to programme-based approaches to increase the scale, and minimise fund fungibility.
- Debt swaps have regained interest as a potential mechanism that can help reduce debt obligations and directly benefit sustainable development.
- Development of capital markets can also be explored to supplement fiscal borrowings over the long term.
- Promote prudent public debt management would promote policy credibility and reduce financing costs, including the need to improve coverage of debt statistics.
- Make greater use of risk-sharing disaster financing mechanisms can help avoid fiscal shocks.
- Strengthen mechanism for rich countries to help poor countries to cope with and adapt to climate change, especially on building climate resilience in climate-vulnerable countries (The Bridgetown initiative, championed by Barbados).
- Improve the role of the private sector in sustainable development needs to be better understood in Pacific SIDS and governments need to learn to work better with non-state actors that could contribute immensely to the sustainable development agenda.
- International community must lay the path toward a new financial system that drives financial resources towards vulnerable small economies, including the Pacific SIDS. Rapid scaling up of investments and available financial resources to reduce vulnerability and build resilience.

Proposed Guiding Questions for the Discussions

- How can we effectively address these financing challenges in the Pacific region?
- What are the key factors that will help mobilize financing of priorities at the national level?
- How can we prepare development financing policies to support national efforts within the Pacific regional financing and sustainable debt context?