An international financial architecture that delivers for SIDS

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Debt sustainability in SIDS: the challenge

- **High public debt is a persistent and unresolved issue in many SIDS**
- **Inadequate access to concessional finance: in 2022 SIDS received just 1.7% of total ODA (US$5.6 bn)**
- **Large and rapid increases in debt due to external shocks (scarring effects)**
- **SIDS borrow not to *advance* sustainable development but to recover *previous* development levels**
- **Shift towards non-concessional forms of debt**

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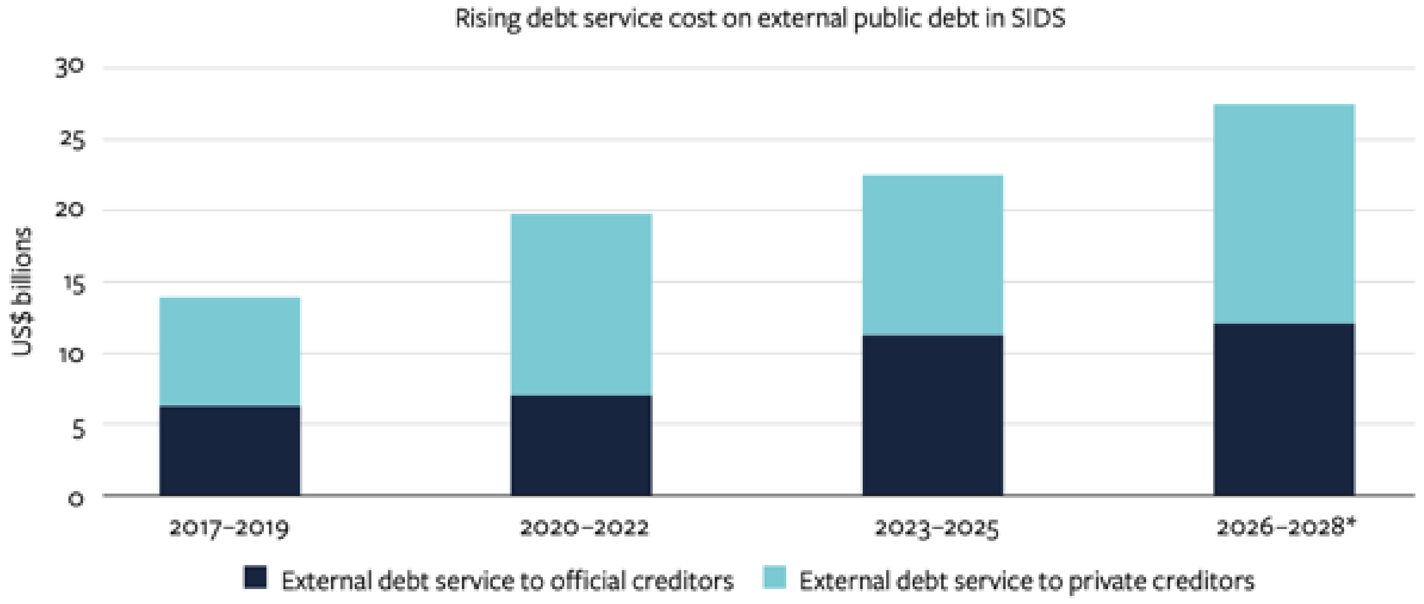
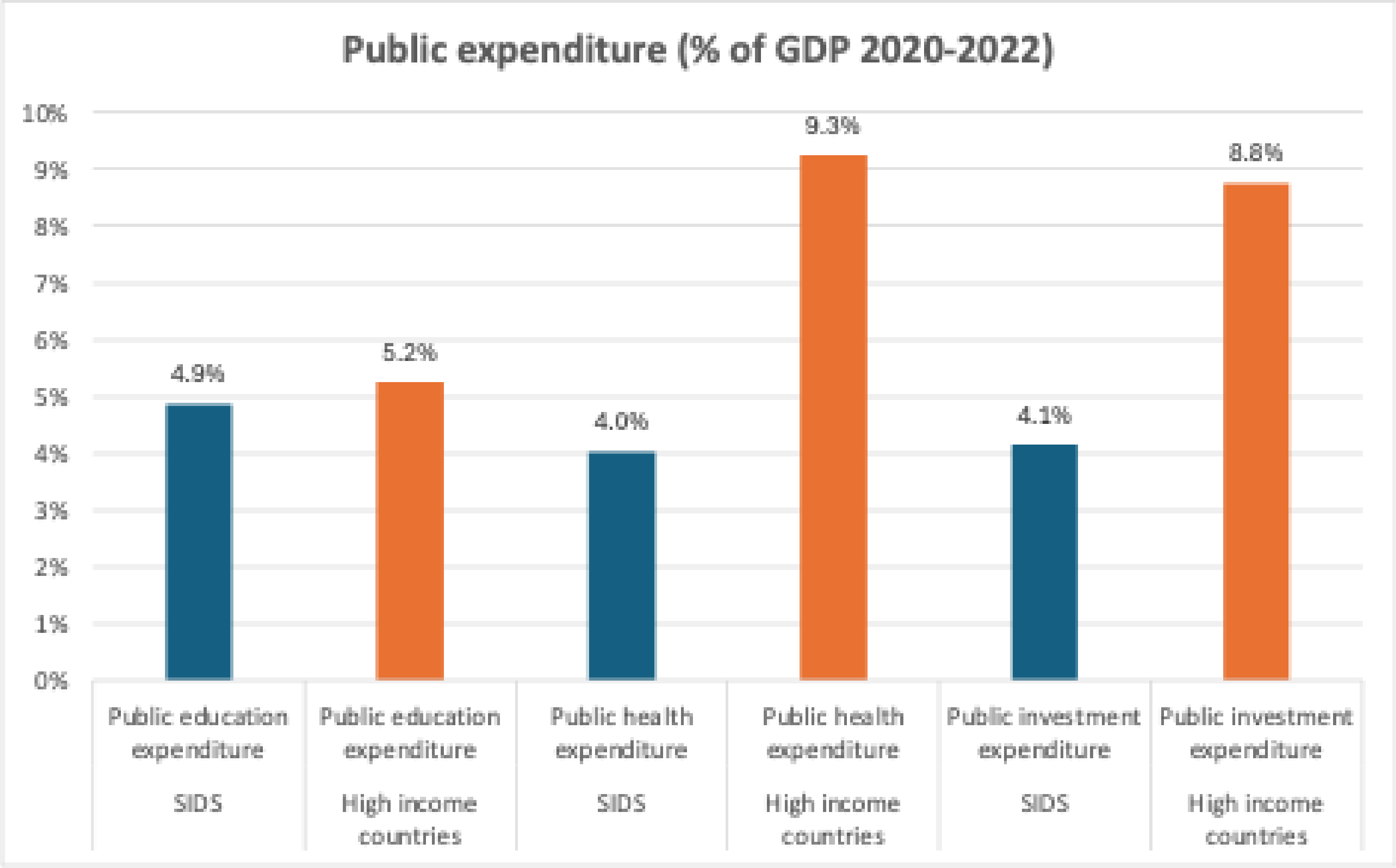
Climate extreme event	Economic damage*		Public debt to GDP (%)			
	$ mil.	% of GDP	Event year (t)	t+1	t+2	t+3
2019 Hurricane Dorian, the Bahamas	3,400	27	60	75*	100	89
2017 Hurricane Maria, Dominica	1,456	226	84	86	98	113*
2015 Tropical Cyclone Erika, Dominica	483	90	69	77	84	86
2016 Hurricane Mathew, Haiti	2,000	14	22	19	22	25
2018 Tropical Cyclone Josie and Keni, Fiji	60	1	46	49	64*	83
2020 Tropical Cyclone Harold, Tonga	111	24	44*	48	45	41
2021 Hurricane Elsa, St. Lucia	34	2	83	74	74	76



SIDS: locked in a high debt, low investment cycle

- **High debt service locks countries in cycles of low growth and low public investment**
- **High debt service: crowding-out spending on building the climate-resilient, climate-friendly high-skill economies of the future**
- **Debt has been well-used! Concessional finance has been important to fund infrastructure, resilience and disaster recovery**



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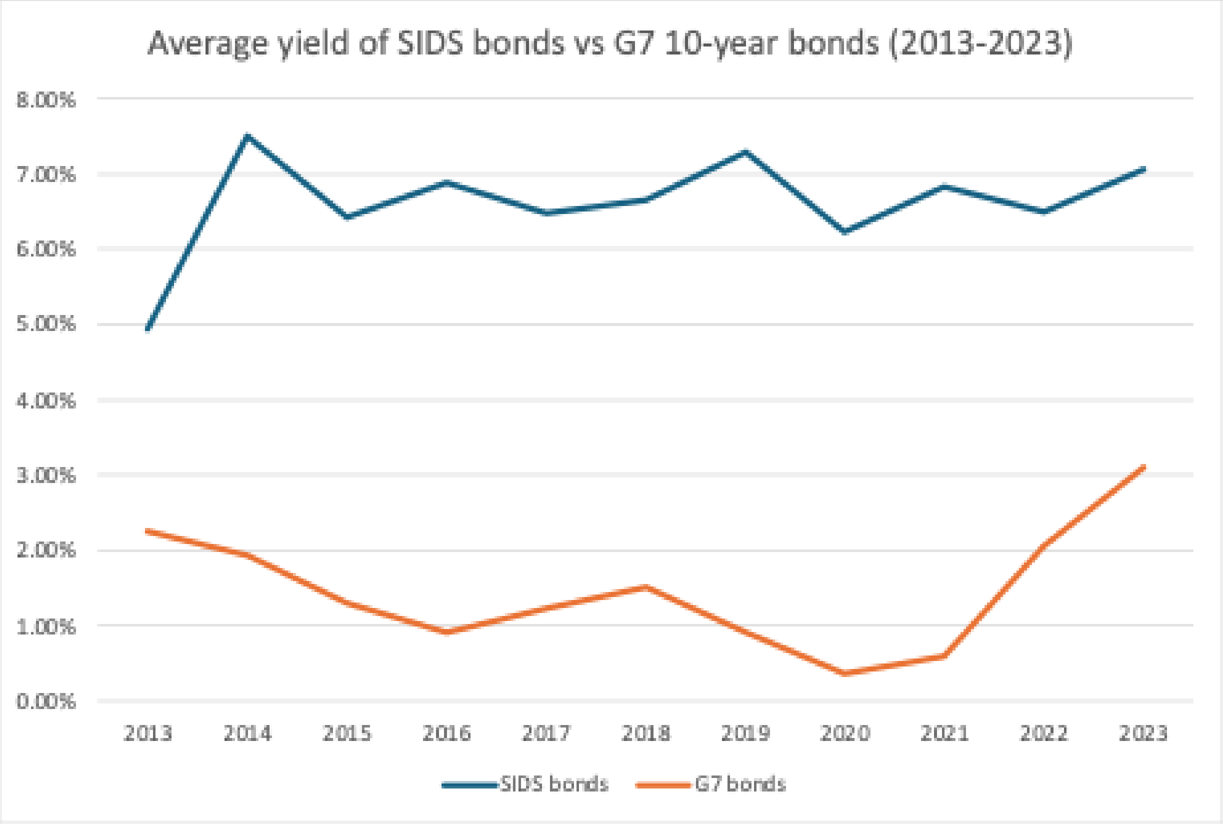
SIDS: The high cost of capital

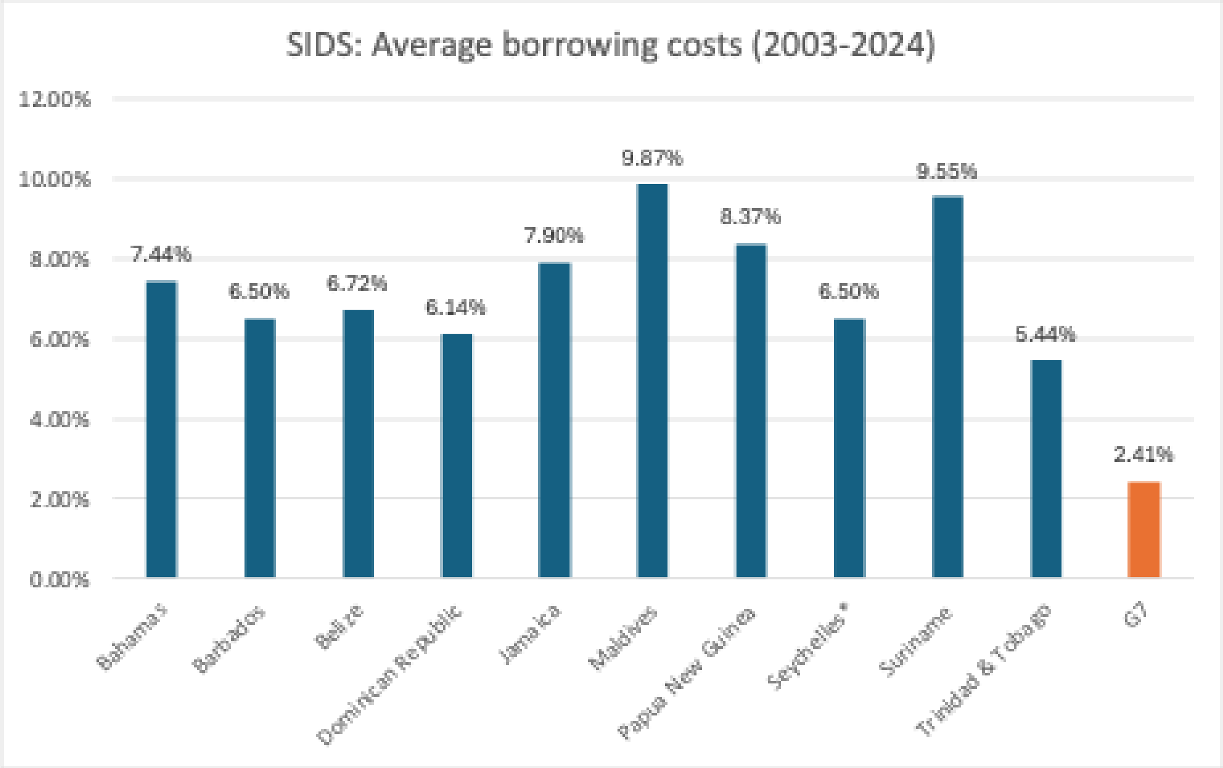
In 2023, the average cost of borrowing for SIDS on international bond markets was 7.05% compared to 3.09% for G7 countries

Between 2015 and 2020, SIDS' cost of capital remained well above 6% while for G7 economies it fell below 1%

A self-fulfilling prophecy: high interest can push sovereigns to default (Suriname and the Maldives)

A SIDS risk premium? CRAs do not take sufficiently into account factors such as: low history of default, investments in debt management, the availability of contingent financing from the international community and investments in resilience suggesting excess returns





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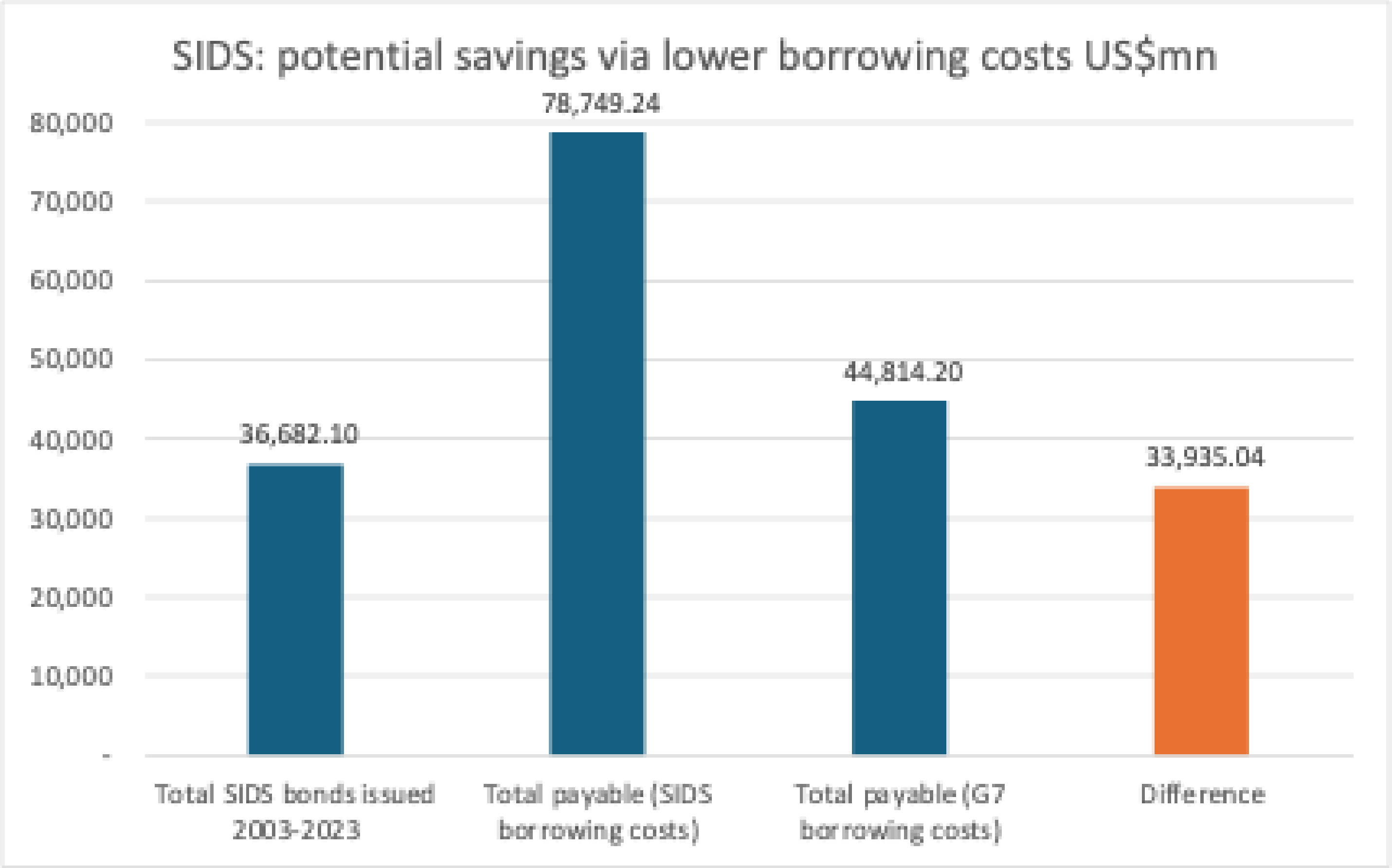
What if the international community made borrowing more affordable for SIDS?



- **SIDS' high cost of capital is incompatible with their need to dramatically scale-up investments in resilience, green growth and the SDGs**

- **Substantial fiscal space could be freed-up via lower borrowing costs**

- **On US$36.6 billion in bonds issued by SIDS between 2003 and 2023, US$34 billion could be freed-up through borrowing costs on a par with G7 countries**

What does this mean for FfD4?

A more responsive international debt architecture is possible. Core features:

- **More concessional finance non-debt finance is needed: minimum annual allocation for SIDS; use multidimensional vulnerability index to guide access to concessional finance; simplify access to climate finance**
- **SIDS-specific guarantee mechanism to lower borrowing costs for SIDS**
- **Go ‘above and beyond’ CRDCs: automatic debt cancellation mechanism in the event of major shocks could help improve creditworthiness**
- **Fairer sovereign credit ratings: More expertise on SIDS, need to take into account investments in resilience and broader international support mechanisms**

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