Financing for Sustainable Development

Domestic and International Private Business and Finance

Key trends and challenges for SIDS

New York, December 2024

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Overview

- Progress since the 2015 Addis Ababa Action Agenda
    - ❖ While developing countries as a group have increased their share of inward FDI, SIDS continue to be largely marginal in global flows of FDI, as their share of FDI inflows has stagnated.
    - ❖SIDS face significant challenges in attracting stable external private financing. Private flows show high volatility, and ften even negative figures (USD 2.8 billion of private external financing left SIDS in 2018 and USD 0.9 billion in 2020)
    - ❖Remittances represent on average almost sixty per cent of total external flows (or USD 21.5 billion on average per year)
    - ❖Challenges also remain in other areas, including relating to correspondent banking relationships and in financial inclusion.
    - ❖Amounts mobilized by blended finance remain far below expectations

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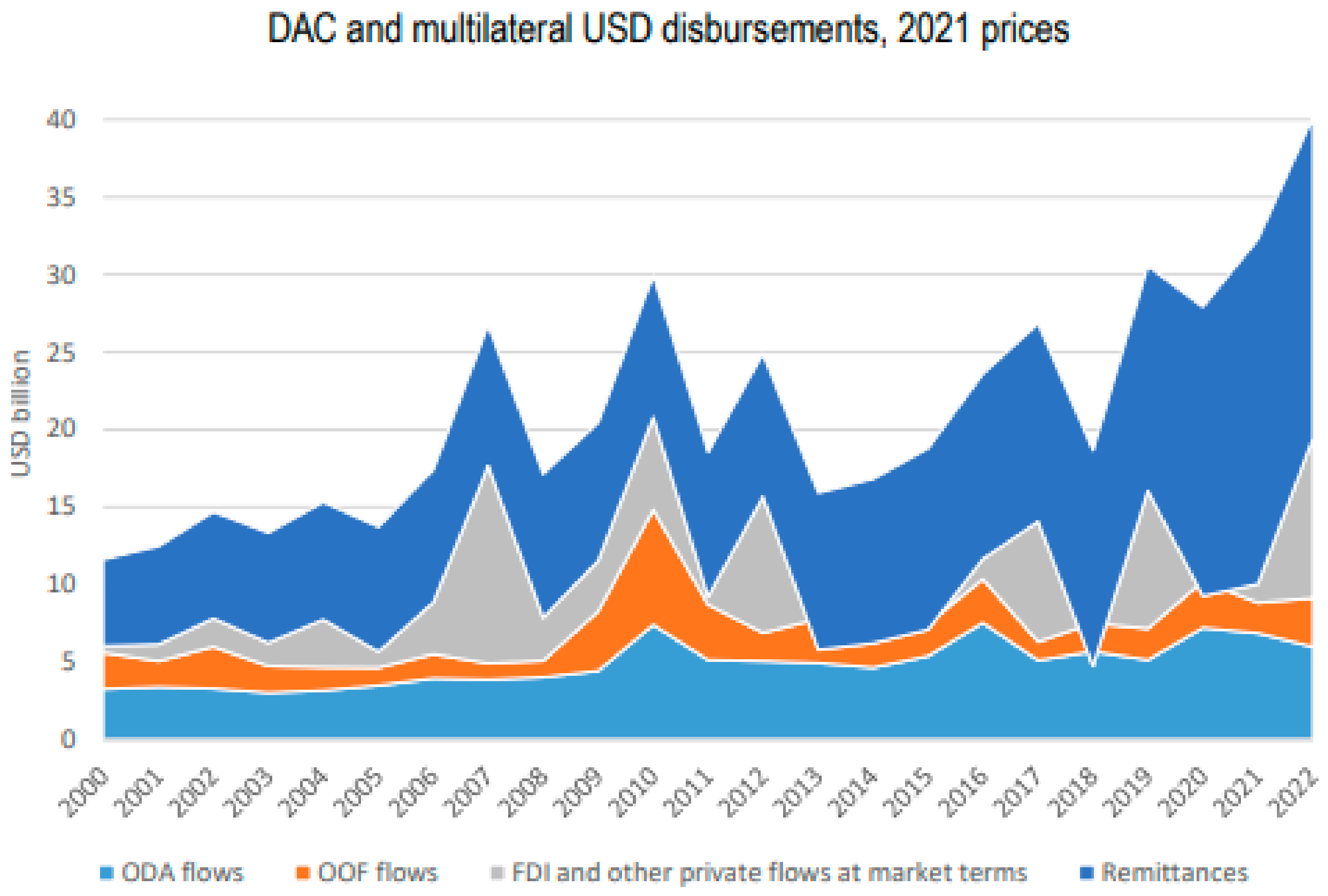
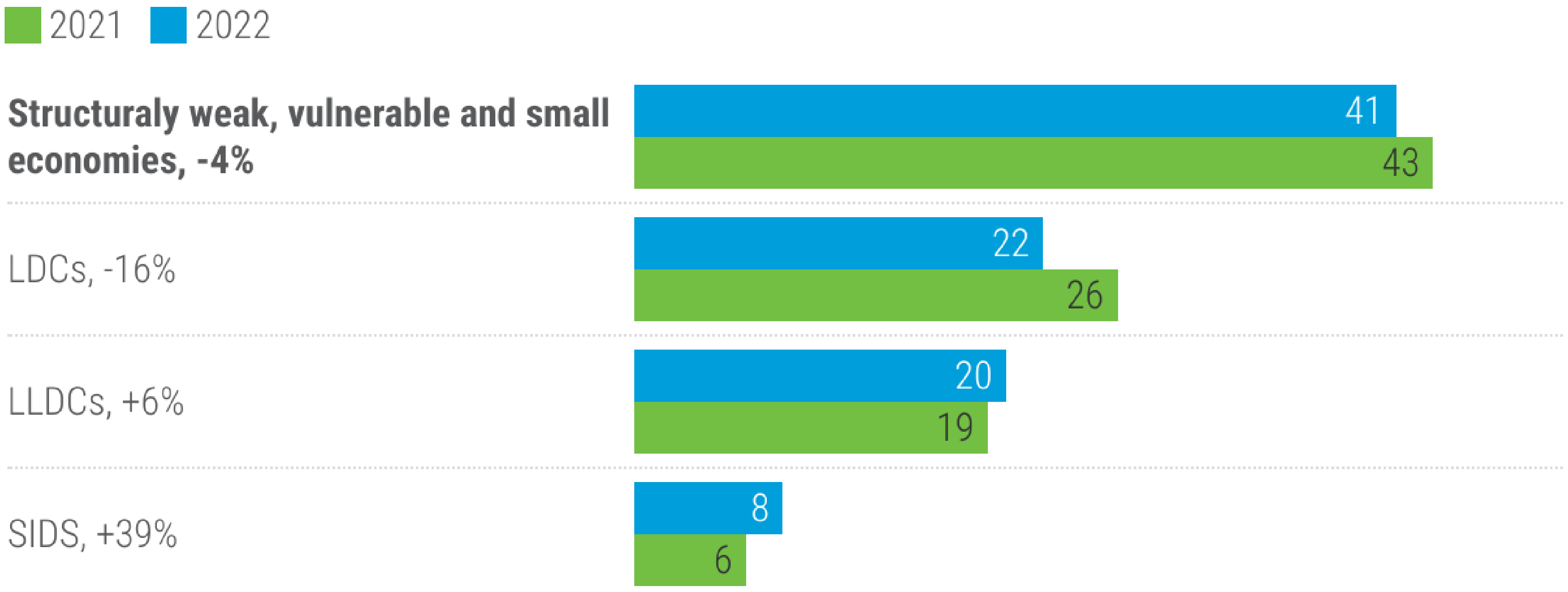
Figure 1. The external financing mix in SIDS is dominated by remittances



FDI inflows continue to be low

Billions of dollars, per cent, 2021–2022



Note: LDCs=Least developed countries, LLDC=Landlocked Developing Countries, SIDS=Small Island Developing States

Source: UNCTAD, FDI/MNE database (https://unctad.org/fdistatistics).

Factors hindering FDI

Structural

- Minimum efficient scale of production
- Remoteness implies high transport costs which limits exports and inhibits the establishment of global production networks.

Sectoral concentration

- Mineral extraction and related downstream activities
- Tourism
- Financial services

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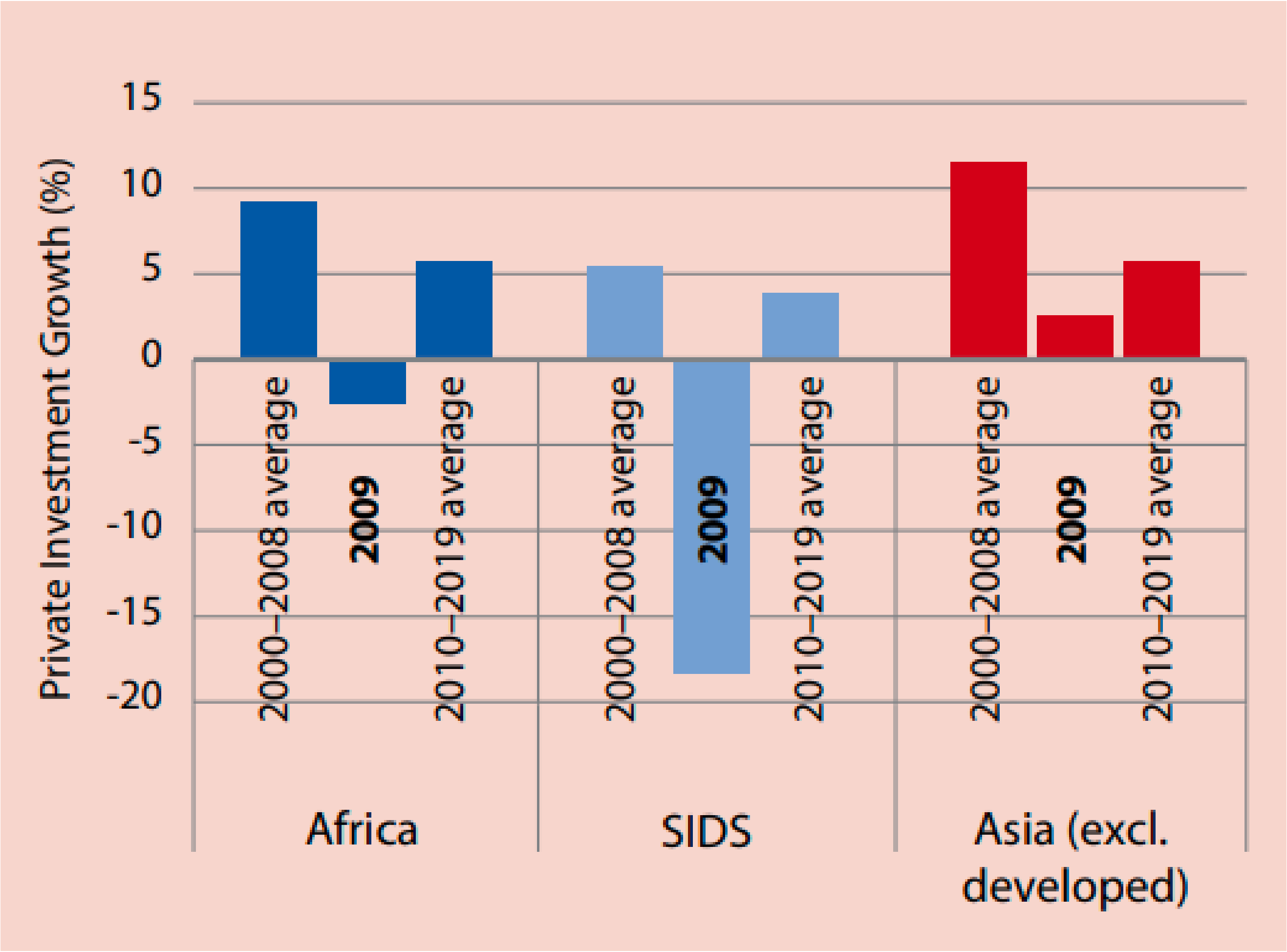
Private sector dynamism reduced following 2008/09 Financial Crisis



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Despite some progress on financial development, further actions are needed

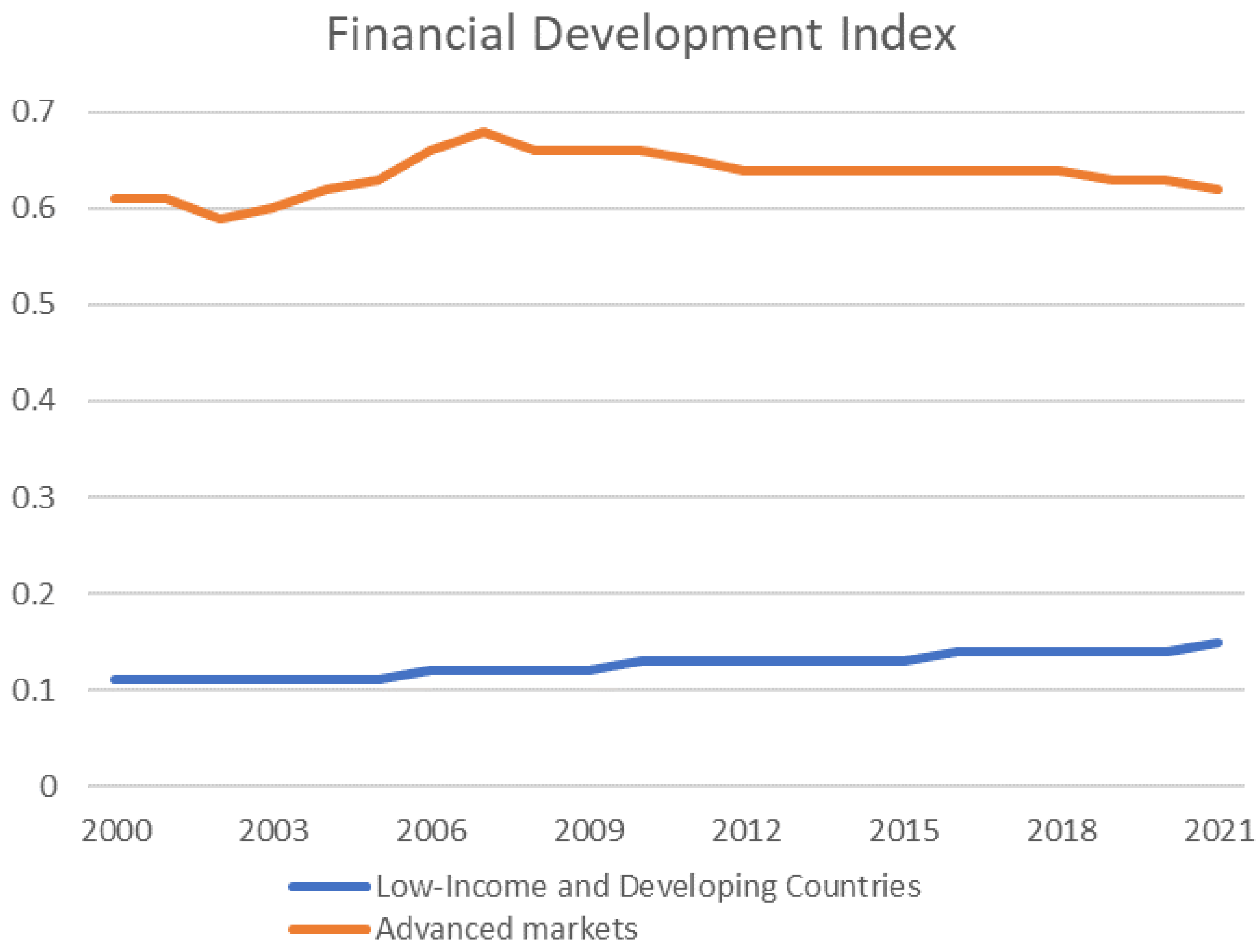

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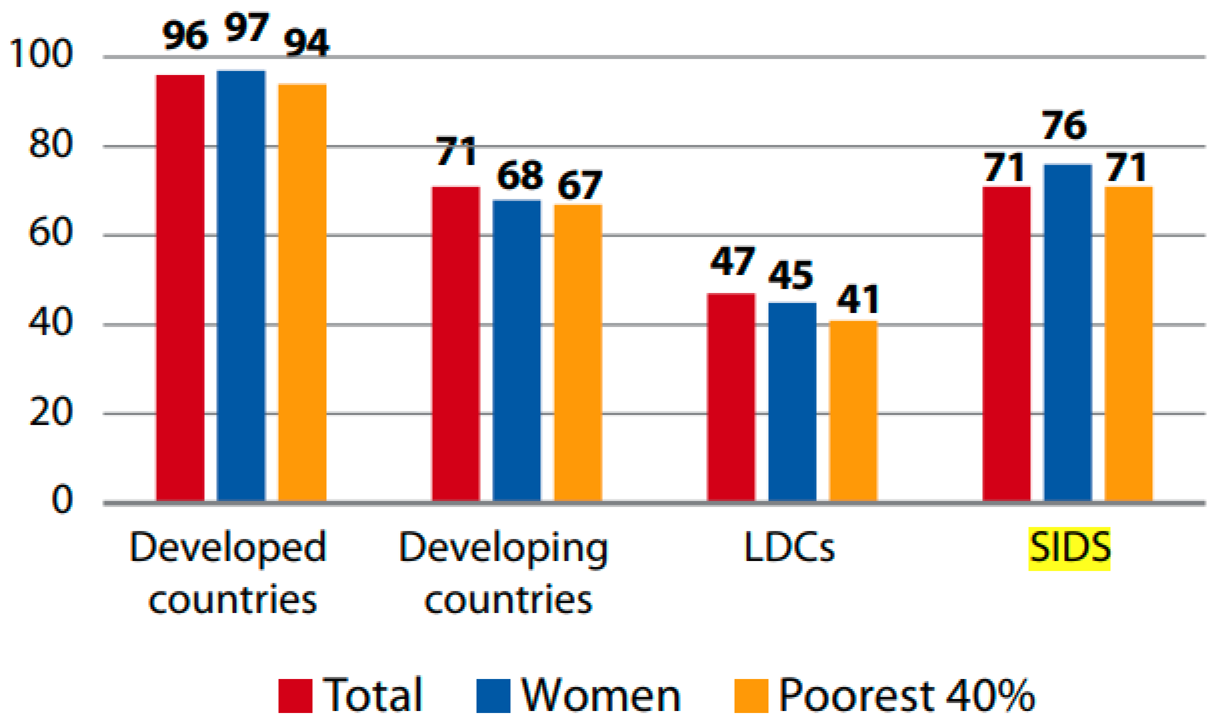
Figure III.B.12

Adults (age 15+) with a bank account by country grouping, 2021

(Percentage rates)



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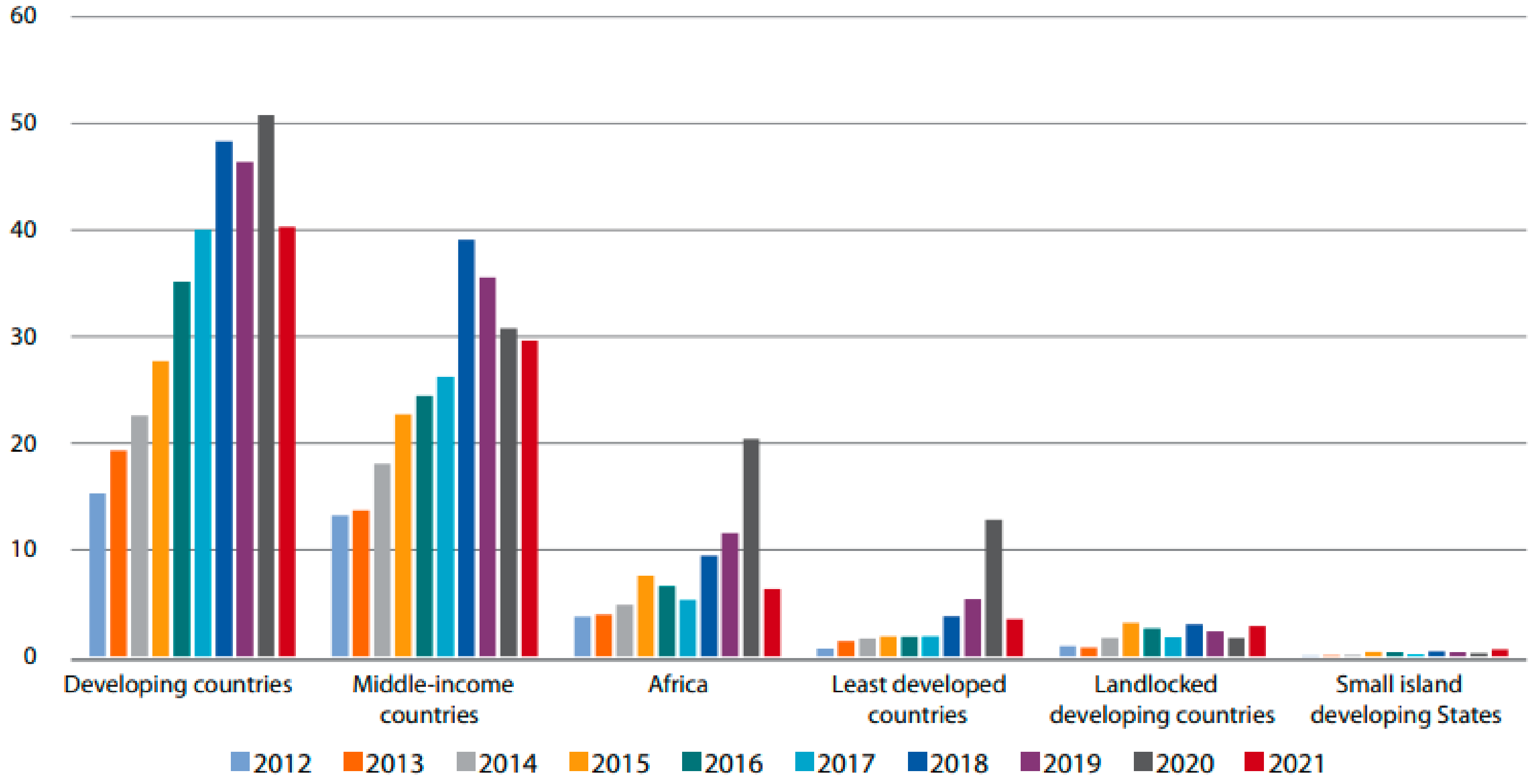
Amounts mobilized from the private sector by blended finance activities remain far below expectation

Amounts mobilized from the private sector by official development finance interventions, 2012–2021

(Billions of united States dollars, current)



Source: OECD.

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Challenges

- Lack of integration in global value chains and trade
- Limited (foreign) investment in productive capacity
- Limited domestic financial markets
- Continued challenges in financial inclusion
- Lack of access to finance for SMEs
- Correspondent banking relationships

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Commitments

- The **Addis Ababa Action Agenda** committed to enhance international support in developing domestic capital markets in developing countries, in particular in LDCs, LLDCs and SIDS
- **The Antigua and Barbuda Agenda for SIDS** calls for enabling business environments for private sector investment, entrepreneurship, especially MSMEs, to strengthen investment promotion agencies in SIDS to attract stable and development-conducive foreign direct investment, and maximize diaspora remittances and investment as well as further develop private financial products such as green and blue bonds

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The elements paper

- Scale up FDI in developing countries and promote quality FDI by measuring the contribution of FDI to the SDGs.
- Support investments in development and digitalization of financial system infrastructure
- Broaden awareness and adoption of impact investment strategies among investors, spanning impact funds, green bonds, sustainability bonds and social bonds
- Promote capacity building for entrepreneurship and promote SME’s access to affordable credit
- Expand access to financial services, particularly for women and marginalized groups, and strengthen financial health through consumer protection, financial literacy, and regulation
- Enhance efforts to reduce remittance costs to less than 3 per cent of amounts transferred by 2030
- Support correspondent banking relationships through technical assistance programs
- Facilitate diaspora investment, including through investment agencies and innovative instrument