

## **Pacific SIDS Dialogue on Access to Finance, 9 June 2021 Outcomes Summary**

Almost 90 participants from Pacific governments, financial institutions, regional organisations, and development partners joined the Pacific SIDS Access to Finance Dialogue on 9 June 2021, jointly organised by the UK, Fiji, and the Pacific Islands Forum Secretariat (PIFS). The Dialogue aimed to identify, discuss and prioritise Pacific SIDS' recommendations to improve access to concessional finance. The meeting followed and built on the Round Table on **SIDS Access to Finance – Identifying Solutions for Resilient COVID19 Recovery** convened by the UK, Fiji, and Belize in October 2020. Three broad focus areas emerged from that Round Table: adapting measures of development to better reflect SIDS' vulnerabilities, addressing debt sustainability and the need to tailor multilateral systems to help SIDS access concessional finance.

The Dialogue focussed on two of these themes: Measures of Development; and Tailored Systems. This document summarises the discussion. A list of speakers and panellists is annexed.

### **Context of the Discussion**

The Dialogue began with an opening statement by PIF Secretary General (SG) Henry Puna, followed by keynote statements by Fiji's Attorney General and Minister for Economy, Civil Service, Communications and Climate Change Honourable Aiyaz Sayed-Khaiyum and Ambassador Courtenay Rattray, Jamaica's Permanent Representative to the United Nations.

Opening speakers set out the challenges and vulnerabilities of SIDS, and the continuing need for external financing. SIDS face challenges in attracting investment because of scale and distance. They are disproportionately affected by the impacts of climate change. In addition, COVID-19 has had a huge adverse effect on the economies of many SIDS, through impacts on tourism, remittances, and debt, resulting in an extremely contracted fiscal space. As the UK's Pacific Development Director, Jean-Paul Penrose, put it: "COVID-19 has cruelly laid bare the underlying social and economic vulnerability of small island states. Poverty levels have increased dramatically throughout the region and debt levels are extremely worrying. Reforming the systems to help small island states to access concessional finance is key to addressing the challenges posed by COVID-19 and climate change". The SG noted that the rigidity of international financial systems calls into question their relevance and responsiveness to the specific circumstances of SIDS in emergency situations.

At a time when access to finance is critical, speakers saw a need to address the rigidity of international finance systems, and to revise traditional financing criteria in the light of SIDS' vulnerability. A number of speakers drew attention to the administrative burden involved in accessing concessional finance, set against the

severe capacity constraints in many SIDS. SG Puna drew attention to PIF's COVID Economic Recovery Taskforce, which is working to develop feasible and practical options for consideration by the Forum Economic Ministers' Meeting in July. SG Puna also noted the recent launch of the *Pacific Resilience Facility* to allow Pacific Island countries to access small-scale grants to make communities disaster-ready.

Honourable Aiyaz Sayed-Khaiyum described the dual threats of COVID-19 and climate change as the "perfect storm" for Pacific SIDS. He stated the urgent need to transition from projectised to programmatic development finance that instils a bottom-up approach to improving absorptive capacity of Pacific SIDS. Greater innovation, flexibility and responsiveness are needed from bilateral and multilateral partners alike to better respond to the financing needs of SIDS. Honourable Sayed-Khaiyum referred to the positive outcomes of the recent G7 Finance Ministers' Meeting, and the renewed commitment to \$100 billion per year in international climate finance. However, he mentioned that SIDS are currently not receiving finance at the required scale and speed. PSIDS need more concessional finance over a longer time than other developing countries. He highlighted with concern that SIDS have suffered from "fly by night financing projects" from development partners and this must urgently change. Financial commitments from development partners need to be spread at least over 5 to 10 years to support structural reforms, techno-economic assessments, creation of robust business cases for blended financing solutions and an enabling environment for scalability. This must be paired with appropriate technology transfer and capacity building to lower the inherent cost of service delivery in the Pacific.

In terms of potential solutions, Honourable Sayed-Khaiyum highlighted budget support as a highly effective model for development finance, though it must be combined with accountability and transparency on the part of recipient governments. He spoke of Fiji's plans to launch a Blue Bond, currently under development with UNCDF and the UK, which could provide funding in areas including coastal protection, marine protected areas (MPAs) and clean marine transport. He also described work with India, Australia, and New Zealand on a pilot approach to disaster and climate risk insurance.

Ambassador Rattray, Permanent Representative of Jamaica to the UN, highlighted SIDS' debt problems. An average SIDS has debt servicing costs of 5.3% of GNP. Servicing Jamaica's external debt consumes a quarter of the country's export earnings. Possible solutions include the provision of additional liquidity: for example, through additional IMF Special Drawing Rights (SDRs), or voluntary reallocation from countries whose need is less urgent. The Poverty Reduction and Growth Trust could extend its mandate, covering all SIDS rather than only low-income SIDS. Building back better could be facilitated by recapitalisation of the development banks, and greater donor support to multilateral climate funds. Vulnerability should be incorporated more fully into the MDBs' eligibility criteria, for example through the use of a multi-dimensional vulnerability index (MVI). The Ambassador further noted the need for reform of the international debt architecture.

Denton Rarawa of PIFS highlighted the World Bank's 2020 debt sustainability assessment categorises Pacific SIDS as at high risk of debt distress, that is being exacerbated by climate change induced disasters and the impact of COVID-19, for example, COVID-19 has led Pacific SIDS to take on additional debt of \$1.6 billion. He highlighted options for debt relief such as the Debt Service Suspension Initiative (DSSI), rolled out by G20 in April 2020 and the IMF's Catastrophe Containment and Relief Trust (CCRT) as available to eligible PICs. He highlighted the idea of a "debt-for-resilience swap" and plans to convene a Pacific regional debt conference in late 2021 or early 2022, as proposals to be presented to Forum Economic Ministers at their meeting in July.

### **Session 1: Measures of Development**

Discussion focussed on the limitations of GNI per capita as a measure for graduation and for access to concessional finance. For some SIDS, losing LDC status has led to increased debt. A single climate-related disaster can wipe away decades of development progress. On average Official Development Assistance (ODA) still accounts for 27% of SIDS financing needs at graduation, whereas for other graduating countries it is close to zero.

GNI per capita does not reflect social, economic, and environmental vulnerabilities. Speakers recommended the establishment of a standard index of vulnerability that would be dynamic – reflecting changing situations – while also reflecting the different aspects of vulnerability between countries. The COVID-19 situation has also highlighted infrastructure vulnerabilities including limited or no broadband access. A number of Pacific countries are also highly dependent on fisheries, which are directly affected by climate change.

A related issue – which came up throughout both discussion sessions – is SIDS' capacity. This can be an issue even with respect to providing the data required for reclassification of a country. Greater capacity is needed in a range of government and social services including statistical services, revenue collection, public financial management (PFM), climate adaptation, health, and education

The OECD recognised that GNI per capita does not give the full picture. However, to date, there is no consensus in the OECD Development Assistance Committee (DAC) to change from GNI as the criterion for graduation. Different measures, such as GNI per capita and a multi-dimensional vulnerability index, can coexist. There are exceptions in relation to access to concessional finance, and there have been decisions to defer graduation from eligibility for ODA, in the light of the impacts of COVID-19. Work is going on in the DAC on "transition finance" and on how to better manage substitution of financial flows around graduation. In this context, investment in data and statistical capacity in SIDS is crucial.

However, recognition of the particular issues faced by SIDS is growing and at the OECD DAC high level meeting in November 2021 development ministers made the

following commitment: *“We commit to improving how our policies and programmes address the particular needs of SIDS, and to working with them to address obstacles they encounter in accessing finance for resilient and sustainable development”*. This commitment provides a clear entry point for SIDS to raise in international fora to call for the improvements that have been promised.

There was widespread recognition of the importance of capacity building, particularly for strong PFM, and support for the use of MVIs.

Tuvalu’s experience of establishing its Ministry of Finance and Economic Development as a national implementing agency for the Adaptation Fund is an example of the time and effort required. It took almost five years, from 2013 to 2018, and many aspects still need improvement, for example the Financial Management Information System. Panellists underlined that PSIDS have taken a very big hit from COVID-19, and need access to fast and effective donor support, through tailored and smart deployment of international finance in support of economic resilience and diversification.

## **Session 2: Working Towards Tailored Systems**

The ADB noted that some tailored systems already exist in recognition of SIDS’ vulnerability. For example, the ADB has stepped up funding through the ADF. Ten out of 13 ADF countries are SIDS, and an “economic vulnerability premium” has been created for ADF-eligible SIDS, providing an additional US \$44.5 million to help mitigate structural vulnerabilities. The World Bank’s IDA has a Small Island Economies Exceptions Policy to enable delivery of grant and highly concessional lending to middle-income but vulnerable SIDS. However, these efforts need to go further.

Speakers referred to a “gaping funding gap”, with PSIDS highly vulnerable to economic shocks, and subject to high costs for building climate resilience. Attracting investment remains difficult, and COVID-19 has had a huge impact. MDBs should review their funding window for SIDS, using targeted design frameworks to provide greater volumes of funding and greater concessionality. MDBs’ private sector arms could usefully work to raise risk tolerance for investment in SIDS. This could have a catalytic effect in support of diversification. Additionally, there would be value in a dedicated financing facility to assist countries dependent on tourism, perhaps in the form of a multi-donor trust fund led by an MDB.

This part of the discussion continued to highlight the issue of capacity building. One example is the Pacific Technical Assistance Centre’s (PFTAC) work in Samoa to strengthen PFM for climate change. Strong PFM systems are key to increasing donors’ confidence, both for lending and in the context of budget support. Bilateral partners and MDBs in turn are held accountable by their own stakeholders. Despite capacity issues, donors should work as much as possible through local systems.

They should seek both to strengthen those systems and to simplify and harmonise their own processes to reduce the administrative burden.

Another approach suggested to address the issue of access was the possibility of an organisation working as a broker or intermediary between multilaterals on the one hand and PSIDS on the other.

Other issues raised included the high premiums required for Catastrophe Risk Insurance, which had led to low take-up thus far through the Pacific Catastrophic Risk Insurance Company. It was suggested that there may be an important role in the medium term for a regional development bank, which so far does not exist for the Pacific. CROP agencies and national development banks also have a significant role.

## **Conclusions**

The Dialogue raised a range of possible solutions to the challenges faced by Pacific and other SIDS. Among them were:

- PIFS Forum Economic Ministers Meeting in July will consider a Debt for Climate Swap and a proposal for a Pacific Debt Conference late 2021;
- Reforming the international debt architecture;
- Expanding the Debt Service Suspension Initiative (DSSI) to bring in a greater range of creditors;
- Reviewing IMF Special Drawing Rights to provide liquidity for SIDS, reallocation of SDRs to the most vulnerable countries;
- Investing in capacity building in SIDS for long term sustainable and resilient economies. This needs to focus on a long-term strategy rather than short term project capacity building. Key areas of focus should include statistical services, revenue collection, public financial management, climate adaptation; health and education;
- Greater use by development partners of budget support modalities;
- Donors and MDBs to operationalise “build back better” to make this more than a slogan;
- Donor support for insurance to manage risk – example of a pilot to provide micro-insurance to 500 fisherfolk and low-income farmers in Fiji;
- Simplifying access to climate finance and ensuring development effectiveness principles apply;
- Establishing a SIDS Tourism Fund to re-build the shattered tourism sector including more sustainable and resilient pathways;
- Strengthening and expanding social protection systems to create a buffer against the shocks which hit SIDS; and
- Creating a brokerage facility to help capacity constrained SIDS navigate complex systems to access concessional finance.

The Dialogue will feed Pacific views and recommendations into the 2<sup>nd</sup> SIDS Access to Finance Roundtable in London scheduled for September 2021 which will result in a Co-Chairs Call for Action.

## **Annex A**

### **Dialogue Speakers and Panellists**

#### **Keynote speakers**

- Mr Henry Puna, Secretary General, Pacific Islands Forum
- Honourable Aiyaz Sayed-Khaiyum, Fiji's Attorney-General and Minister for the Economy, Civil Service, Communications and Climate Change
- Ambassador E Courtenay Rattray, Permanent Representative of Jamaica to the United Nations

#### **Context setting speakers**

- Mr Jean-Paul Penrose, Pacific Development Director, British High Commission, Fiji
- Mr Denton Rarawa, Senior Economic Adviser, Pacific Islands Forum Secretariat

#### **Measures of development**

**Moderator:** Mr Zarak Khan, Director, Programmes & Initiatives, Pacific Islands Forum Secretariat

#### **Panellists:**

- Mr Garth Henderson, Permanent Secretary for the Ministry of Finance and Economic Management for the Cook Islands
- Mr Niuatui Niuatui, Acting CEO for the Ministry of Finance, Government of Tuvalu
- Mr Eric Bensel, OECD Development Assistance Committee (DAC)

#### **Working towards tailored systems**

**Moderator:** Rosalind McKenzie, Principal Operations Coordination Specialist Pacific, Asian Development Bank

#### **Panellists:**

- Mr Pankaj Singh, Adviser to the Executive Director SE Asia, World Bank on secondment from Fiji Ministry of Economy
- Mr Iulai Lavea, PFTAC PFM Adviser and former CEO for the Ministry of Finance
- Mr Jonathan Pryke, Pacific Director, Lowy Institute

#### **Closing Remarks**

H.E. George Edgar, British High Commissioner to Fiji