FACTSHEET

External financing to Small Island Developing States (SIDS): where we stand

To inform DAC members about the current external financial situation in SIDS[1], this note compiles the most recent available information concerning external financing to these countries, e.g., concessional and non-concessional flows, private flows (foreign direct investments and other private flows at market terms) and remittances, and introduces the first results on the new measure 'total official support for sustainable development' (TOSSD). Finally it also delivers information on tax revenue mobilisation.

KEY FINDINGS:

- **Remittances represent the largest source of external financing to SIDS, reaching on average about three-quarters of total external financing in 2017-18.**
- **Concessional finance (ODA) shows a moderate but steady growth over 2000-18. In 2017-18, ODA to SIDS reached 16% of total external inflows, a level as high as for other developing countries.**
- **Non-concessional flows, on the other hand, have declined slightly over the same period.**
- **FDIs and other private flows at market terms show a high volatility in SIDS withamounts subject to drastic changes from one year to another.**
- **Tax revenues are on average lower in SIDS than in other developing countries at all levels of development.**
- **The first TOSSD survey shows that this measure can provide more comprehensive and accurate data on external resources for sustainable development and be of particular interest for SIDS. In 2017, additional SDG-related activities represent an extra 12% of resources for SIDS: 6% of additional public efforts and 6% of additional information as the measure is able to capture more granular information.**
- **Climate-related development finance to SIDS totalled 34% of total bilateral sector allocable aid in 2017-18, more than the average shown for all developing countries (26% in the same period).**

TAKING STOCK OF THE EXTERNAL FINANCING TO SIDS

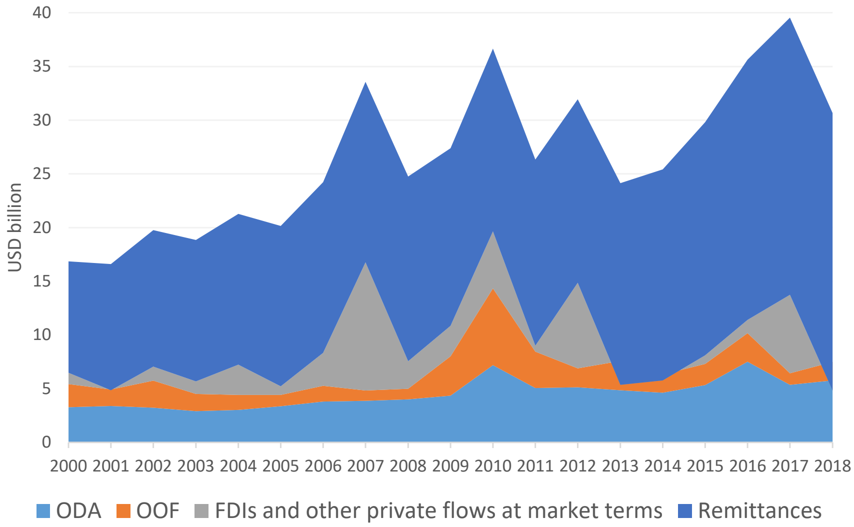
Over the period of analysis (2000-18), remittances are by far the predominant source of external financing to SIDS. The most recently available data show that in 2017-18 remittances represent on

[1] The OECD DAC identifies thirty-three countries as SIDS located across different geographic areas: the Caribbean, the Pacific Ocean, and the Atlantic, Indian Ocean, Mediterranean and South China Sea (AIMS). These are: Antigua and Barbuda, Belize, Cabo Verde, Comoros, Cuba, Dominica, Dominican Republic, Fiji, Grenada, Guinea-Bissau, Guyana, Haiti, Jamaica, Kiribati, Maldives, Marshall Islands, Mauritius, Micronesia, Montserrat, Nauru, Niue, Palau, Papua New Guinea, Saint Lucia, Saint Vincent and the Grenadines, Samoa, Sao Tome and Principe, Solomon Islands, Suriname, Timor-Leste, Tonga, Tuvalu and Vanuatu.

average about three-quarters of total external flows (or USD 28.5 billion on average per year). Furthermore, remittances grew over the period at an annual average rate of +5.2%. (See Figure 1). However, fluctuations exist across different SIDS, remittances reaching levels as high as 37.6% of GDP in Tonga and almost nil in Suriname (the median for all SIDS being 5% of GDP).

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

DAC and multilateral USD disbursements, 2000-18, 2019 prices



Source: Author's calculations based on OECD/Creditor Reporting System database (ODA, OOF flows, and private flows), World Bank, 2018, migration and remittances data, and (IMF, 2018) Balance of Payments database (FDI, portfolio investments, and long-term and short-term debt).

Concessional finance (ODA) shows a moderate but steady growth over the period 2000-18 (+3.2% on average per year) and no major fluctuations/volatility. Furthermore, even if relatively stable, ODA flows to SIDS seem responsive to occasional crises/needs of some SIDS: ODA to SIDS reached an extraordinary peak in 2010 because of Haiti's earthquake and in 2015 because of Cuba's debt relief[2].

As a result of multilateral actors' small islands exception, non-concessional finance (OOF) shows a relatively low share of the total external financing mix in SIDS[3]. Also, OOF relative to the total external financing mix has slightly declined over the 2000-18 period (OOF totaled 4% of the overall external financing mix or USD 1.4 billion on average per year in 2017-18 – vis-à-vis a median USD 1.7 billion in 2000-18).

SIDS face significant challenges in attracting stable external private financing. Over 2000-18 FDIs and other private flows at market terms show a high volatility[4], and more recently even negative figures (USD 2.6 billion of private external financing left SIDS in 2018[5]). Indeed, the 2018 negative outflows reflect

[2] Cuba saw its principal commercial partner (Venezuela) disengage and its economy suffer in consequence from a contraction. Spain then decided to forgive USD 400 million of debt to the country in order to stimulate private investment in the island. https://www.expansion.com/latinoamerica/iberoamericana-empresarial/2017/04/03/58e0f8de46163f191c8b4616.html

[3] "Considering non-concessional flows, all SIDS under-perform vis-à-vis the average– probably due to the multilateral actors' small islands exception for ODA that tips the balance in favour of this kind of financial support". (Piemonte, Cattaneo, Pincet, Morris, & Poensgen, 2019)

[4] Private inflows to SIDS in 2000-18 show share variations that range from -9% to +36% of total external financing (+8% on average in 2017-18).

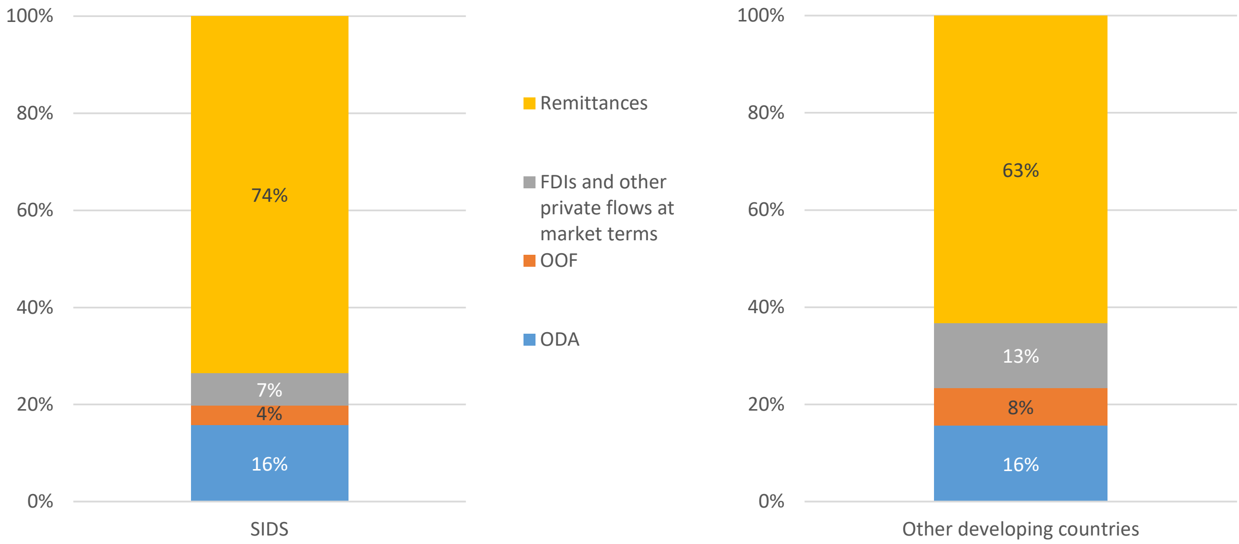
[5] Such a phenomenon also occurred over the period analysed in 2001 (-USD 0.1 billion) in 2013 (-USD 2.2 billion) and 2014 (-USD 0.6 billion).

significant repatriation of private investments from Micronesia, Mauritius and Marshall Islands[6]. And globally, it has to be noted that eight countries (from the current OECD list of 33 SIDS) are currently black or grey listed by the EU (EU list of non-co-operative jurisdictions); however, over the total period analysed (2000 to 2018) eleven additional countries were also listed (that is, over 2000-18, a total of 19 out of 33 followed a tax-haven model at least to some degree).

In 2017-18 ODA to SIDS and to 'other developing countries' reached 16% of their total external inflows. Until now, SIDS used to be more ODA-dependent[7] than 'other developing countries'[8]. However, since FDIs and other private flows at market terms have abruptly declined in recent years, ODA to SIDS and to 'other developing countries' have converged to the same level. From another perspective, OOF and private flows in SIDS are half as important as those in other developing countries. (Figure 2).

Figure 2. ODA as a share to the total external financing mix is now as significant in SIDS than in 'other developing countries'

DAC and multilateral USD disbursements, 2017-18, 2019 prices



Source: Author's calculations based on OECD/Creditor Reporting System database (ODA, OOF flows, and private flows), World Bank, 2018, migration and remittances data, and IMF, 2018, Balance of Payments database (FDI, portfolio investments, and long-term and short-term debt).

EXTERNAL FINANCING TO SIDS IN A TRANSITION FINANCE CONTEXT

Across the development continuum, SIDS struggle to leverage private flows and non-concessional funding, but tax revenues are also, on average, lower than in other developing countries at similar developmental levels (Figure 3).

Table 1 illustrates, highlighting in red, the major stages and challenges faced by SIDS compared to other developing countries and shows that: (i) even at the doorstep of ODA graduation ODA dependency remains high for SIDS (e.g., on average 27% of external financial flows to SIDS consists of ODA financing); (ii) on

[6] Currently (July 2020) none of these countries are black nor grey listed in the EU list of non-co-operative jurisdicions https://www.consilium.europa.eu/en/policies/eu-list-of-non-cooperative-jurisdictions/. However Mauritius was grey listed until 4-1—2019 and Marshall Islands alternatively black and grey listed (until 18-02-2020). https://oxfam.app.box.com/s/ttb2dbzabrbzxld8en2x5rekbgflmh34. Micronesia does not figure on such a list.

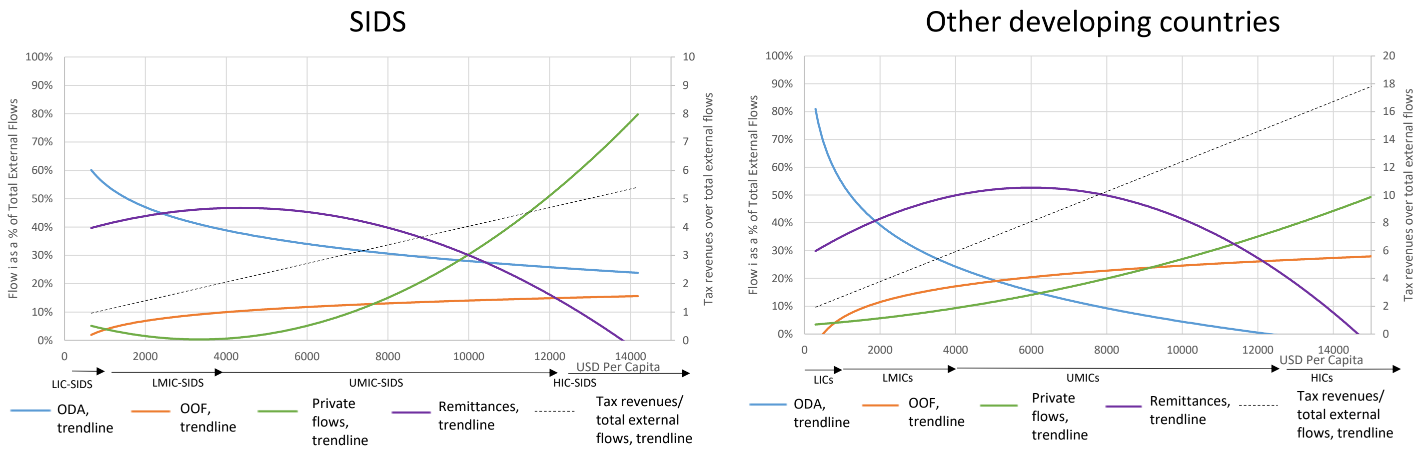
[7] Over the full period analysed, ODA to SIDS represented 17.1% of the total external mix, and 13.5% to óther developing countries'.

[8] All countries included in the DAC recipient list excluding SIDS.

average only at a UMIC level are SIDS able to attract external private flows (earlier for other developing countries); and (iii) tax revenues remain low across the entire development continuum.

Figure 3. Tax revenues are on average lower in SIDS than in other developing countries at all levels of development

DAC and multilateral agencies USD disbursements, 2014-18, 2019 prices



Source: Author's design based on OECD/Creditor Reporting System database (ODA, OOF flows, and private flows), World Bank, 2018, migration and remittances data, and IMF, 2018, Balance of Payments database (FDI, portfolio investments, and long-term and short-term debt).

Table 1. Identifying key bottlenecks in SIDS at major development stages

SIDS	ODA as a share of total external flows, % From to	OOF as a share of total external flows, % From to	Private flows as a share of total external flows, % From to	Remittances as a share of total external flows, % From to	Tax revenues as a share of total external flows, % From to
Until LMIC status	60-48	5	0	40	100
From LMIC to UMIC status	48-39	5-10	0	40-48	100-200
From UMIC status to graduation	39-27	10-17	0-56	48-12	200-490

Other developing countries	ODA as a share of total external flows, % From to	OOF as a share of total external flows, % From to	Private flows as a share of total external flows, % From to	Remittances as a share of total external flows, % From to	Tax revenues as a share of total external flows, % From to
Until LMIC status	80-55	5	5	35	300
From LMIC to UMIC status	55-25	5-18	5-10	35-50	300-600
From UMIC status to graduati	25-0	18-28	10-40	50-20	600-1500

Note: The figures in light red represent the lower capacity of SIDS to attract non-concessional flows. This is a consequence of the multilateral small islands exception.

Source: Author's calculations based on OECD/Creditor Reporting System database (ODA, OOF flows, and private flows), World Bank, 2018, migration and remittances data, and IMF, 2018, Balance of Payments database (FDI, portfolio investments, and long-term and short-term debt).

WHAT'S NEW? THE TOSSD FOCUS

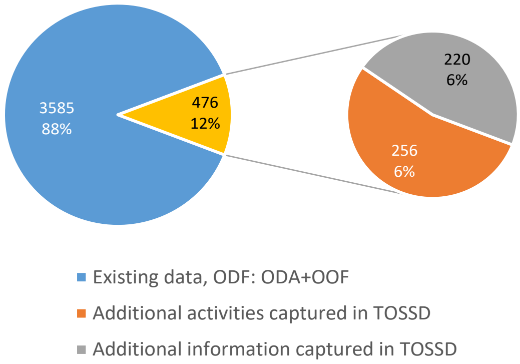
A recent data survey[9] showed that the new measure of Total Official Support for Sustainable Development (TOSSD) can capture more comprehensive and accurate data on public external resources for sustainable development in SIDS. Out of the USD 4.1 billion collected for 2017, USD 256 million (6%) corresponded to resources currently not captured by ODF figures (e.g. south-south and triangular co-operation, mainly from Brazil, Costa Rica and Indonesia) and activities not eligible to ODA but contributing to the SDGs (e.g. peace and security and capacity-building). In addition, the survey collected more granular

[9] A special survey was realised in 2019 collecting 2017 flows. See http://www.oecd.org/dac/tossd/TOSSD-Survey-Report-A4-Brochure-final-1505-spreads2.pdf. Note that not all donors responded to this survey.

data on activities earmarked to SIDS through multilateral institutions (another USD 220 million, or 6% of the total).

Figure 4. Estimates of TOSSD flows to SIDS amounted to USD 4.1 billion in 2017

TOSSD pillar I, USD disbursements, 2017



Note: Additional activities are activities not captured in ODF; additional information refers to activities carried out and reported by multilateral institutions and financed from their non-core resources (in the Creditor Reporting System, CRS, these activities are reported by provider countries which have less granular information on the actual use of the funds they contribute).
Source: TOSSD data survey.

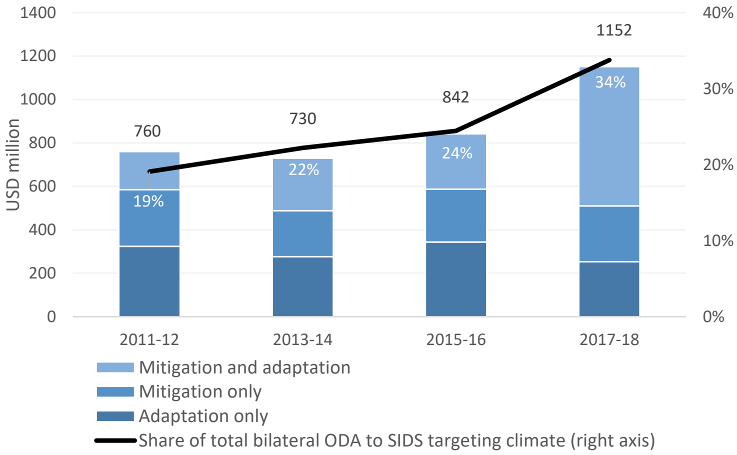
Finally, the survey showed that beyond cross-border resource flows to individual SIDS countries, TOSSD can provide data on regional and global expenditures for international public goods (TOSSD pillar II), which can directly support the sustainable development of SIDS countries. Examples include the support to the United Nations Statistical Institute for Asia and the Pacific, the Pacific Economic Cooperation Council and the Pacific Police Development Program.

CLIMATE-RELATED AID TO SIDS

Aid targeting climate-related objectives in SIDS has grown constantly in recent years to reach 34% of total bilateral sector allocable aid in 2017-18 (or USD 1.2 billion on average per year) – *vis-à-vis* 26% for all developing countries. The most recent data (2017-18) show that aid activities focusing on climate mitigation only represent 8% of the total climate-related amounts and that 7% of the funding is focused only on climate-adaptation. Aid activities targeting both adaptation and mitigation represent 19% of total sector allocable financing. (Figure 5).

Figure 5. Bilateral Climate-related funding to SIDS has risen constantly to reach 34% of total bilateral sectoral allocable aid in 2017-18

2017-18, bilateral USD commitments, 2019 prices



Source: Author's calculations based on OECD/Creditor Reporting System (CRS) database