Improving Development Impact in Small Island Developing States:

Implementing Effectiveness Principles

Acknowledgments

This guidance document has been developed by a dedicated secretariat made up of representatives of Small Island Developing States (SIDS), development partners, and multilateral organizations. The process was co-chaired by Antigua and Barbuda in its capacity as Chair of the Alliance of Small Island States (AOSIS), as well as Canada and the United Kingdom on behalf of development partners. Contributing multilateral organizations included the Organisation for Economic Co-operation and Development (OECD), the United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (UN-OHRLLS), the United Nations Department of Economic and Social Affairs (UN DESA) and the United Nations Development Program (UNDP).

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Acronyms & Abbreviations

AAAA	Addis Ababa Action Agenda
ASYCUDA	Automated System for Customs Data
COP26	United Nations Climate Change Conference: 26th yearly session of the Conference of the Parties (COP) to the 1992 UNFCCC
COVID-19	Coronavirus disease 2019
CSO	Civil Society Organisation
DAC	Development Assistance Committee (of the OECD)
DRR	Disaster Risk Reduction
DSSI	Debt Service Suspension Initiative
EDC	Effective Development Co-operation
EEZ	Exclusive Economic Zones
GBN	Global Business Network
GDP	Gross Domestic Product
GPEDC	Global Partnership for Effective Development Co-operation
IFF	Illicit Financial Flows
IMO	International Maritime Organization
INFF	Integrated National Financing Framework
IPoA	Istanbul Programme of Action for LDCs
LDC	Least Developed Country
LLDC	Landlocked Developing Country
MSMES	Micro, Small & Medium Enterprises
MVI	Multidimensional Vulnerability Index
NAP	National Adaptation Plans
NDC	Nationally Determined Contributions
NSS	National Statistical System
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
SAMOA	SIDS Accelerated Modalities of Action Pathway
SDGs	Sustainable Development Goals
SIDS	Small Island Developing States
SMART	Specific, Measurable, Achievable, Relevant, and Time-Bound
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
WTO	World Trade Organization

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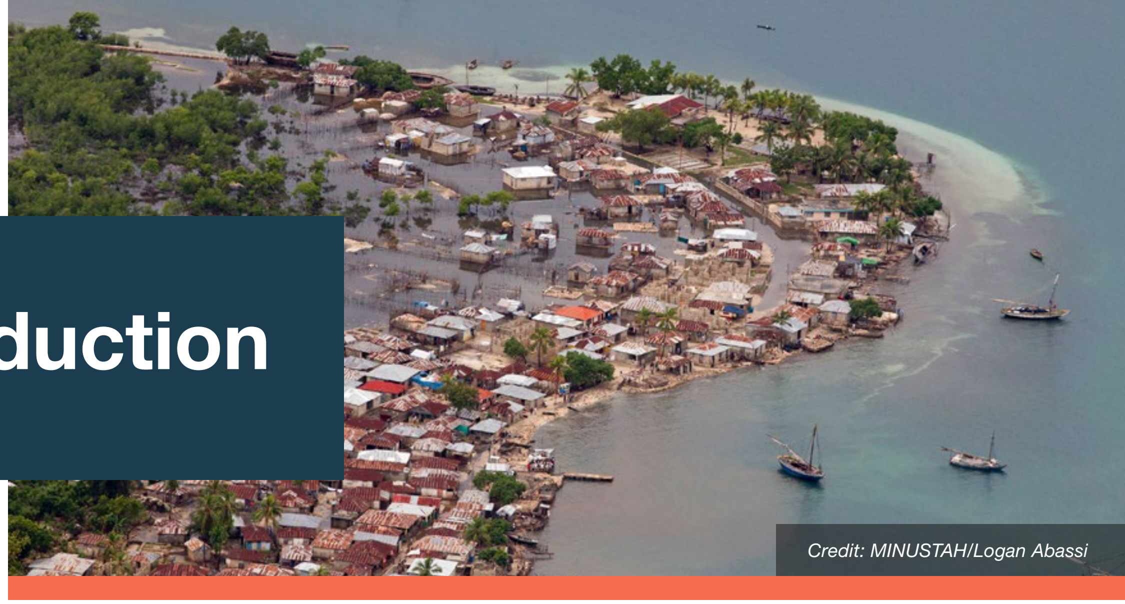
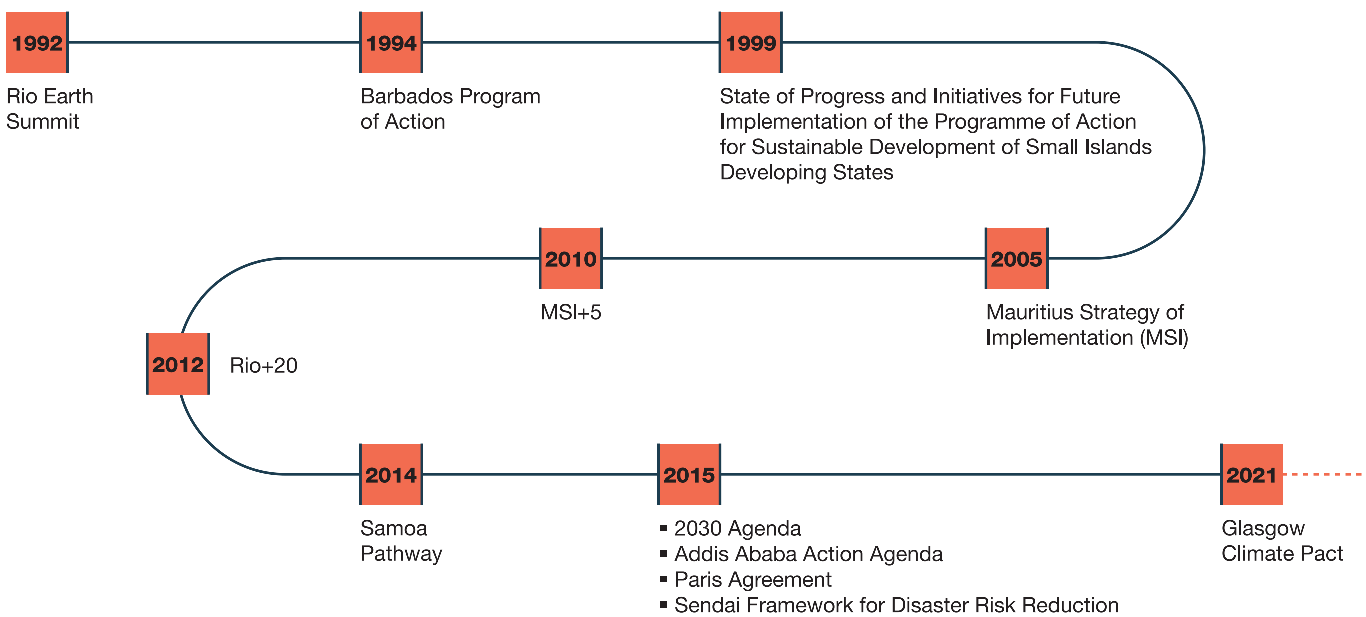
Introduction



Credit: MINUSTAH/Logan Abassi

Small island developing states (SIDS) face unique vulnerabilities and development challenges, based largely on their remote geography, small landmasses, limited populations and vulnerability to climate change and other external shocks.[1] The 1992 United Nations Conference on Environment and Development first recognised SIDS as a special case in development. Since then, a number of international agreements have called for specific action in support of SIDS.

FIGURE 1. PROGRAMMES OF ACTION IN SUPPORT OF SIDS



Most recently, the SIDS Accelerated Modalities of Action (SAMOA) Pathway, the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals (SDGs) the Addis Ababa Action Agenda (AAAA) and the Paris Agreement set out ambitious development aims for SIDS.

Objectives

While the above-mentioned agreements and frameworks recognise the situation of SIDS and offer analysis and guidance to support SIDS' development efforts, there is a need to further highlight and prioritise areas of focus for development co-operation[i] in SIDS and to articulate how the existing principles of effective development co-operation[ii] (EDC) can be applied to the SIDS context to maximise the impact of co-operation support.

Following an extensive consultation process with representatives of SIDS and with development co-operation providers, this document aims **to complement and build on existing agreements and frameworks**, by providing **concrete and actionable advice** to development stakeholders, with the aim of accelerating inclusive, green, and sustainable development in SIDS. Nothing in this document is meant to be prescriptive or binding.

Section 1 of this document identifies a number of **priority areas for intervention**. The list presented is not meant to be exhaustive but rather focuses on areas of collective action that can have an **accelerator effect** on development across sectors and regions. Section 2 of this document explores **how development co-operation can** ensure results and maximise the impact of every dollar.

Each sub-section ends with a high-level list of proposed actions. The primary audience for this document is development partners, with proposed actions attempting to highlight areas in which partners can focus their support. However, it is important to note that SIDS governments have the unique responsibility to lead whole-of-society development efforts. As such, it is expected that proposed actions will only be taken under the overall direction of SIDS and will build on ongoing country efforts.

Further, SIDS have an essential role to play in putting in place the policy and institutional arrangements that allow development efforts to succeed. This includes: ensuring strong political leadership; leading planning processes; reducing bureaucratic hurdles and clarifying government processes; creating an enabling environment for the engagement of diverse stakeholders; and ensuring coordination of all development efforts.

It is important to note that while many SIDS face common challenges, there is significant variation among these countries in terms of population size, population density, geographical makeup, and natural resources.[2] These variations call for context-specific approaches that are adapted to the needs of a particular countries. As such, the guidance provided herein may need to be adjusted to better respond to specific country needs.

i In this document, development co-operation refers to international actions and activities that: support national or international development priorities; are not driven by profit; discriminate in favour of developing countries; and are based on principles of country-ownership. Modalities used can be financial and non-financial, e.g. capacity building, technology transfer, multi-stakeholder partnerships.

ii The four internationally agreed principles of effective development co-operation are: country ownership; a focus on results; inclusive partnerships; and transparency and mutual accountability. They were adopted in 2011 as part of the Busan Partnership Agreement.

The special case of SIDS

SIDS are a distinct group—representing 28 percent of developing states at the time of writing—that face particular social, economic, and environmental vulnerabilities.[3]

As noted, these underlying vulnerabilities are related to remote geography, narrow endowment of natural resources, small populations and extreme vulnerability to external forces, including climate change and economic external shocks.[4] These unique particularities translate into SIDS often being characterised by narrow economies and a significant dependence on imports, including food dependence; limited human resources capacity, which inhibits the ability to access finance and to implement development programmes; and challenges related to connectivity that limits uptake of technological advances.[5]

These challenges have been exacerbated by the COVID-19 pandemic. In addition to the human toll of COVID-19, the pandemic has triggered a global economic crisis, with steep recessions seen in many countries.[6] SIDS, many of which rely on tourism and imports to meet various needs, closed their economies to avoid impacts on their vulnerable populations given limited health infrastructure, and were therefore disproportionately affected.[7] In 2020, the average GDP of SIDS is estimated to have dropped by 8.6% compared to drops of 1.9% in fragile contexts, 1.7% in landlocked developing countries, and just 0.5% in LDCs.[8] While GDP levels in least developed countries (LDCs), landlocked developing countries (LLDCs) and countries in fragile contexts have recovered, GDP in SIDS is not estimated to return to 2019 levels until 2023[9]. This negative growth, coupled with market informality, complicates SIDS' efforts to raise tax revenues and improve public financial management. Furthermore, Russia's large-scale aggression against Ukraine has had repercussions beyond Ukrainian borders. It has disrupted supply chains, shipping routes, the price of raw materials, food and fuel security, as well as increased debt servicing caused by monetary policy measures to control inflation in development co-operation provider countries.

As we look towards long-term recovery that accelerates achievement of the SDGs while leaving no-one behind, advocating for the consideration of the special needs of SIDS due to intersecting vulnerabilities while also actively exploring both new, as well as more effective use of existing, development finance, including climate finance, are increasingly important. This point was highlighted in the 2018 report, *Making Development Co-operation Work for SIDS*, which examined the drivers of vulnerability in SIDS and how they connect to challenges in accessing development financing.[10]

It is important to note that while the global community has a duty to support SIDS in leading their own development, in doing so, it is vital to recognise the important culture and traditions that are vibrant in these countries. Development efforts must be mindful of this heritage and ensure engagement in SIDS respects and supports the advancement of longstanding culture and traditions.

Focus on financing

As noted, this document highlights priority areas for intervention that can help to accelerate development progress broadly. With this in mind, significant emphasis is placed on issues related to financing for development in SIDS.

Realising national, regional, and global development objectives in SIDS will require the mobilisation and effective use of unprecedented levels of development financing, including climate adaptation financing. While all countries face SDG financing challenges, SIDS must overcome a number of obstacles. Specifically, SDG financing needs are highest in SIDS when measured as a proportion of national output, as compared to other country groupings. Further, climate change—to which SIDS are particularly vulnerable—requires financing to build resilience and support adaptation and address shocks as they happen, as well as to fund long-term development.

BOX 1. THE MULTIDIMENSIONAL VULNERABILITY INDEX

Many SIDS experience uneven patterns of development in which national income increases but this is not matched by equal increases in development progress. In this vein, many SIDS are classified as middle or high-income economies and are therefore ineligible for concessional financing. To address this, the United Nations (UN), in collaboration with other development actors, is working to develop a Multidimensional Vulnerability Index (MVI).[11] The MVI is a tool to assist in accurately understanding the vulnerabilities and resilience of SIDS and ensure these countries have access to vital concessional development finance.[12]

Credit: UN/UNOCHA/Mark Garten

Official development assistance (ODA) has an important role to play in supporting SIDS` development priorities. However, many SIDS are unable to access essential concessional financing (see Box 1). When SIDS are able to benefit from development assistance, the cost of delivering this aid is 4.7 times higher than in other countries due to remoteness and negative effects of scale.[13] While ODA alone will not be sufficient to address SDG financing needs in SIDS, it can play a catalytic role in building the policy and institutional arrangements that will allow SIDS to take full advantage of the broad variety of development financing options.


Credit: UN OCHA/Matteo Minasi

1 Focus Areas

The below subsections highlight priority areas for action in SIDS. These areas represent accelerators that can help to propel development across sectors.

FIGURE 2. FOCUS AREAS

Address vulnerabilities	**1.1**	Support climate action
	1.2	Promote disaster risk reduction
	1.3	Bolster resilience to economic shocks
	1.4	Strengthen maritime transportation systems
	1.5	Build the blue economy
Resource mobilisation	**1.6**	Mobilise tax revenue
	1.7	Facilitate access to concessional finance
	1.8	Facilitate access to climate finance
	1.9	De-risk and direct private investment
	1.10	Reduce remittance costs
Resource management	**1.11**	Strengthen expenditure management
	1.12	Manage debt
	1.13	Curb illicit financial flows
Cross-cutting issues	**1.14**	Improve data collection & use
	1.15	Establish integrated national financing frameworks
	1.16	Build capacity
	1.17	Promote digitalisation and internet connectivity

ADDRESS VULNERABILITIES

1.1 Support climate action

SIDS are particularly vulnerable to climate change. Without intervention, climate change will continue to disrupt the coastal environment, the availability of freshwater, agricultural production, and biodiversity. In turn, this will have far-reaching impacts on human and economic development.[14] Further, vulnerability to climate change puts SIDS at increased risk for large-scale disasters that lead to loss of life and damage to property and infrastructure that sets back development progress.[15]

SIDS are providing strong leadership in combatting climate change and moving forward to the 1.5-degree target, including through the design of nationally determined contributions (NDCs) and national adaptation plans (NAPs). However, to achieve climate goals, external support to finance and implementation of these planning documents remain essential.


Credit: Office of the President, Republic of Palau

It is particularly vital that the Paris Agreement commitment to ensure development finance is "consistent with a pathway towards low greenhouse gas emissions and climate-resilient development"[16] is applied in SIDS contexts. In this vein, in October 2021, the OECD DAC issued the "*Declaration on a new approach to align development co-operation with the goals of the Paris Agreement on Climate Change*."[17] This declaration commits DAC members to using development co-operation to support national climate action efforts.

Proposed Actions

- Support SIDS in designing country-specific climate action plans
- Provide financing for the implementation of climate action plans
- Ensure climate action is mainstreamed into all government-owned sector development plans

1.2 Promote disaster risk reduction

As noted, the geographical features of SIDS—small landmasses, remoteness—make them more susceptible to climate hazards and other external shocks. For example, climate change increases the frequency and intensity of extreme weather events[18], while at the same time degrading coastlines and reefs that would otherwise protect people and property from the worst effects of these natural disasters.[19]

Increased investment in disaster risk reduction (DRR) in SIDS is, therefore, vital. Within this, it is important to focus on the prevention of new risks and reducing existing risks, rather than the transfer of risks, as called for in the *Sendai Framework for Disaster Risk Reduction, 2015–2030*.[20] This investment in the present will ensure fewer resources are required in the future to respond to disasters.

Proposed Actions

- Support SIDS in designing and implementing disaster risk reduction (DRR) measures
- Invest in climate resilient infrastructure and systems to reduce risks
- Explore risk transfer measures as part of development co-operation, when necessary
- Build the capacity of local disaster response officials

1.3 Bolster resilience to economic shocks

SIDS are often characterised by narrow economies and a significant dependence on imports, leaving them particularly vulnerable to exogenous shocks, while blue economy opportunities are decreasing due to climate change. Further, the active industries common in SIDS (tourism, fisheries etc.) are at significant risk due to climate change and other natural disasters, creating additional vulnerability.[21] Addressing this vulnerability and ensuring economic resilience is essential to protecting past development gains and promoting future sustainable development progress.

This was highlighted by the COVID-19 pandemic. In addition to the human toll of COVID-19, the pandemic has triggered a global economic crisis, with steep recessions seen in many countries.[22] SIDS, many of which rely on tourism and imports, had to close their economies to avoid impacts on their vulnerable populations given limited health infrastructure, and were therefore disproportionately affected.[23]

BOX 2. WOMEN AND ECONOMIC SHOCKS

Credit: UN OCHA/Matteo Minasi

Gender inequality continues in many SIDS, leaving women in these countries disproportionally affected by economic shocks. When women are part of the workforce, they are more likely to work in casual or seasonal jobs in the informal economy, often in the tourism industry. This means more women lose their jobs when SIDS are affected by economic shocks and are left without safety nets given the informal nature of work. Similarly, women in many SIDS remain primarily responsible for domestic work, preventing them from taking paid positions (whether formal or informal) and again, leaving them without any social protection.[24]

In this context, key to bolstering resilience to economic shocks is diversification of SIDS' economies. However, the majority of SIDS lack the human and financial resources necessary to invest in economic diversification. There is a need to support the potential avenues of economic expansion (see section 1.5 on building the blue economy), with a focus on industries that will reduce SIDS' reliance on food and energy imports. There is also a need to support the creation of an enabling environment for private sector development, which can further promote the scaling up of new industries, while creating jobs (see section 1.9 on de-risking private investment).

Proposed Actions

- Support country-specific approaches to economic diversification
- Facilitate regional integration & economic partnerships
- Support the establishment of social safety nets

1.4 Strengthen maritime transportation systems

Maritime transport is the lifeline of SIDS, supporting key sectors, such as tourism and fisheries, and therefore contributing strongly to overall economic performance. Promoting sustainable shipping and ports that enable access to reliable and cost-effective maritime transport is a key priority in many SIDS. Enabling the energy transition of maritime transport networks and ports that service SIDS will help to address some of the challenges faced in these economies, including a high level of dependency on fossil fuel imports, as well as heightened environmental and climate change-related vulnerabilities.

1.5 Build the blue economy

SIDS' exclusive economic zones (EEZs) are, on average, more than 2000 times the size of their land masses.[26] As such, ocean-based sectors are the foundation of many SIDS' economies and investment in the blue/ocean economy can support essential economic diversification, as highlighted above. With untapped reserves of deep seabed minerals, offshore oil and gas, fish stocks, marine algae and micro-organisms, there is significant potential for SIDS to benefit from the expansion of ocean opportunities.[27]

However, these opportunities must be explored responsibly, in a way that protects the environment and promotes inclusive and sustainable growth, which has been limited in the past. For example, while deep seabed mining may provide substantial economic benefit in the short-term, the long-term social and environmental impacts must first be understood.[28]

Maritime security also plays an important role in protecting and developing the blue economy. Without adequate attention paid to maritime security issues, illegal, unreported and unregulated (IUU) fishing and illegal ocean dumping threaten marine ecosystems and negatively impact the livelihoods of local populations.[29]

Several SIDS have embarked on ambitious national and regional sustainability strategies to develop low-carbon coastal maritime transportation systems. SIDS are also actively participating in ongoing deliberations at the International Maritime Organization (IMO) on the reduction of total annual greenhouse gas emissions in shipping, to contribute their perspectives and help to shape the future regulatory regime. However, SIDS have limited resources to improve and adequately develop the necessary sustainable and resilient infrastructure and shipping services.[25]

Proposed Actions

- Conduct capacity gap assessments to identify priorities
- Facilitate maritime connectivity
- Support transition to a low-carbon maritime transport sector

Achieving a healthy and lasting ocean economy not only requires significant financing but also the *right* financing—financing that is directed towards the responsible use and governance of the ocean and its resources in sync with the focus on sustainable livelihoods and economic diversification.

Proposed Actions

- Support blue economy scoping studies, risk assessments and action plans
- Provide financial and capacity building support to harness ocean opportunities
- Explore cost-sharing mechanisms for the protection of ocean assets
- Strengthen maritime law enforcement capacity

RESOURCE MOBILISATION

1.6 Mobilise tax revenue

As foreign aid budgets shrink, it is becoming increasingly clear that domestic public resources are the most realistic and reliable source of long-term financing for sustainable development. This sentiment was echoed during the Third Annual Conference on Financing for Development, with one of the conclusions of the Addis Ababa Action Agenda (AAAA) being a commitment to working with partner country governments to mobilise resources internally.

Governments mobilise resources in a number of ways, including taxation and customs, investing public funds, generating revenue through state-owned enterprises, selling state assets, and collecting fees for use of public goods and services. SIDS face specific challenges when trying to mobilise domestic resources due to their small size and limited natural resources, these countries often have few options to expend their domestic resource base.[30, iii] In this context, increased focus on tax regimes and tax regulation in SIDS is needed.

While the tax-to-GDP ratio in SIDS is relatively high, reaching 25.1 percent in 2018[31], tax revenues in SIDS are lower relative to external financial flows, when compared to countries at similar income levels.[32] Further, tax revenues, as well as other sources of financing, are more volatile in SIDS than in other countries in similar contexts.[33]

To address these challenges, strengthened adherence to global tax and transparency standards and regulation reforms are important, alongside capacity building support to implement and maintain standards.

Credit: UN/UNOCHA/Mark Garten

iii However, tax regulation can still improve. Tax incentive schemes in some sectors that do not result in higher investment amounts and other benefits for the wider economy, while their cost in terms of lost tax revenues and an erosion of the tax base is significant. Reducing or removing tax incentives could increase revenues by broadening the tax base.

Proposed Actions

- Support studies to explore untapped tax revenue sources
- Strengthen uptake of global tax and transparency standards
- Use technology to improve tax tracking and collection
- Strengthen tax collection through ASYCUDA and eBusiness systems
- Support the formalisation of the informal economy
- Support entrepreneurs and MSMES graduation via incentives

1.7 Facilitate access to concessional finance

ODA has continued to play an important role in many SIDS, with total ODA inflows growing moderately but steadily from 2000 to 2020. In fact, SIDS are the most dependent on ODA of all country groupings when approaching ODA graduation.[34] Furthermore as approximately two-thirds of ODA-eligible SIDS are currently classified as lower-middle or upper-middle-income economies, they are at risk of becoming ineligible for concessional financing. When SIDS are still eligible for concessional finance (but closer to graduation), this increasingly comes in the form of loans, rather than grants. Because SIDS struggle to phase out from ODA, this puts pressure on other sources of finance and increases debt loads. Further, with reduced fiscal space, SIDS are unable to invest in the capacity and infrastructure needed for long-term and resilient development.

Similarly, LDC graduation poses challenges for SIDS. The Istanbul Programme of Action (IPoA) highlights graduation from LDC status as a key objective. And while graduation is an important development milestone, demonstrating good macroeconomic performance and broad social development, it also presents challenges as the specific support provided to LDCs is phased out. In particular, LDC graduation impacts trade-related support measures, including preferential market access for goods and services, special and/or differential treatment under World Trade Organization (WTO) agreements, as well as regional trade agreements and capacity building related to trade. LDC graduation also impacts co-operation programmes of development partners, as well as reducing access to financing instruments specifically related to support for LDCs.[35]

While these challenges are not unique to SIDS, the extreme vulnerability of this group to climate change and other external shocks, requires re-thinking how ODA eligibility is determined and administered. Box 1 (page 7) highlights how the MVI could be a useful option to guide future concessional financing decisions.

Proposed Actions

- Use ODA to support programmes that reduce future ODA dependency
- Simplify processes related to accessing concessional finance
- Consider use of the multidimensional vulnerability index (MVI) to guide ODA allocations

1.8 Facilitate access to climate finance

The UNFCCC, the Kyoto Protocol and the Paris Agreement all call for financial assistance for climate action in developing countries. In this vein, a number of financial mechanisms have been established. Further, in 2021, at the UN Climate Change Conference (COP26), development partners made significant new pledges to provide additional climate finance and reiterated the commitment to reach 100 billion USD per year in climate finance by 2025. Specifically, the Glasgow Climate Pact stresses the need for scaled-up financial resources to respond to the needs of countries particularly vulnerable to climate change. It encourages relevant multilateral institutions to consider how climate vulnerabilities should be reflected in the provision and mobilisation of concessional financial resources and other forms of support, including special drawing rights.[36]

Despite SIDS' vulnerability to climate change and the existence of these climate-specific financial mechanisms, these countries face barriers in fully capitalising on these resources. There are many common challenges in accessing climate finance. These include technical capacity, complex funding processes and co-financing requirements. The financial mechanisms established to support climate-related efforts each come with different policies and procedures.

Understanding and meeting funds' requirements can be a challenge, as many countries seeking to access climate finance do not have the technical capacity to design project proposals and manage project implementation.

Relatedly, because of technical capacity issues many countries are reliant on intermediaries to access climate finance. In many cases multilateral organisations serve as intermediaries, playing a role in project design and management. While this can strengthen the quality of climate finance proposals, this also creates a more complex, multi-step funding process for countries seeking to access climate finance. Further, these intermediaries collect service fees, meaning fewer resources from funding envelopes are available for country-level projects.

Finally, in many cases, countries seeking to access climate finance are asked to demonstrate co-financing. This means giving evidence of other resources (e.g., government budget lines, development assistance) that are being used to provide complementary support. While this can be valuable in promoting country ownership, this can be a challenge for countries already facing financing constraints.

Proposed Actions

- Provide technical assistance to build capacity for improved access to climate finance
- Support participation in training programmes and knowledge exchanges
- Support direct access modalities for SIDS, where applicable

1.9 De-risk and direct private investment

In addition to increasing domestic public revenue and access to development finance, there is a clear need to mobilise and effectively use more diverse resource flows, including private sector investment. However, the risks associated with investment in SIDS (both real and perceived), as well as unclear and/or overly burdensome administrative procedures, can adversely impact the willingness of the private sector to engage.

Additionally, like all development co-operation resources, it is important that private finance is used in alignment to national priorities and is focused on development results. It must also be inclusive, involving provincial and local governments, civil society organisations (CSOs) and community groups in planning and decision making. It must be transparent, with resources clearly tracked.

In this context, it is important to understand the role of SIDS governments in attracting and facilitating private investment. National governments are responsible for creating enabling policy and regulatory environments that incentivise private sector investment. As such, policies surrounding private investment may be explored. These could include: the government's vision for private investment, how the government will identify and engage with partners and coordination arrangements across line ministries and levels of government; targeted or priority sectors; how private investment will be tracked; and monitoring and evaluation arrangements.

Further, a dedicated unit or team may be established. Comprised of technical experts this team could assist in identifying projects suitable for private investment, working with line ministries to develop bankable projects, bringing together relevant partners to structure transactions, providing quality assurance on project/deal documents, ensuring risks are understood and shared equally and monitoring and reporting on results.

Of equal importance to mobilising private investment is ensuring these resources are aligned to development objectives. Support can be provided to various stakeholders on global standards and guidelines related to incorporating gender, inclusivity, and climate considerations in investment plans.

Proposed Actions

- Support the creation of enabling policy and regulatory environments for the private sector
- Support training for government officials on private sector interests and needs
- Support the development of bankable projects pipelines
- Engage private sector stakeholders in development dialogue

1.10 Reduce remittance costs

While remittances are an important source of financing across partner countries, they represent the largest source of external financing to SIDS. In 2019–2020 remittances totalled 16.7 billion USD on average per year, more than half (54 percent) of total external financing.[37] However, the high cost of sending remittances limits their potential to contribute to sustainable development. Despite the commitment to reduce the transaction costs for migrant remittances to less than 3 percent by 2030, the global average was 6.5 percent in 2020. In many SIDS, transaction costs were over 10 percent.[38]

Technological advancements can also help to reduce remittance transaction costs. The increased availability of mobile banking and fintech businesses has greatly facilitated transfer operations and reduced costs.

Proposed Actions

- Encourage the reduction of remittances fees by financial institutions
- Explore SIDS-specific requirements for remittance transactions
- Increase digital literacy and inclusion to ensure access to new remittance tools

RESOURCE MANAGEMENT

1.11 Strengthen public expenditure management

When mobilising new sources of finance, it is important to ensure that all resources are used as efficiently as possible and are directed towards activities that promise high socio-economic return. This means ensuring that public investment considers gender equality, inclusivity, environmental impacts, etc. This is particularly important in SIDS, which, due to missing economies of scale, have a higher expenditure per capita for the provision of public goods. In addition, trade liberalisation leads to the erosion of their trade tax base.[39]

In this context, increased focus on public expenditure management is vital. Strong public expenditure management goes beyond conventional government budgeting. Rather, it encompasses costing of development plans and forecasting future needs; results-based budgeting approaches and/or SDG budgeting; alignment of finance to development goals; strategic resource allocation, including ensuring the ‘right’ financing sources are used for the ‘right’ activities; and operational efficiency in the provision of public services.

Credit: UN OCHA/Matteo Minasi

In addition to supporting the capacity of SIDS to ensure strong public expenditure management, regional integration and collaboration among SIDS around shared government services could be explored in order to promote collective economies of scale.

Proposed Actions

- Support development costing and budgeting exercises
- Promote results-focused approaches to finance
- Explore shared services among SIDS
- Build capacity for public service delivery

1.12 Manage debt

The graduation of many SIDS into middle and high-income status leaves them unable to access concessional finance, one of the consequences of which is a higher reliance on borrowing to meet expenditure needs. Due to their unique vulnerabilities to external shocks, including climate change, SIDS' external debt is higher than that of other country groupings. Between 2000 and 2019, the external debt in SIDS rose by 24 percentage points of GDP, compared to a fall of 6.2 percentage points in partner countries on average.[40] The debt distress seen in SIDS prior to the COVID-19 crisis has been exacerbated by the pandemic. Clear plans are needed to resolve the debt crisis and ensure debt sustainability.

The Debt Service Suspension Initiative (DSSI)[iv] emerged to help eligible countries address the most urgent debt issues. However high-income SIDS were ineligible to access the DSSI. SIDS have continuously called for the consideration of various debt relief initiatives. These include overall debt cancellation, collective action clauses (CAS) in debt restructuring proceedings, other specific clauses (e.g., hurricane clauses) in bond agreements, debt buy-back programmes, and debt swaps.

As a result of their income status, many SIDS are excluded from traditional debt relief mechanisms. Additionally, SIDS often carry a higher share of private debt,[41] for which lenders are not required to adhere to Paris Club[v] principles and for which negotiation can be more challenging. In the same vein, SIDS have increasingly accumulated debt at close-to-market terms with non-traditional lenders[vi], which does not always follow DAC-like development co-operation practices.[42]

iv Currently, eleven out of twenty-two eligible SIDS participate in this initiative, with potential savings of 438.8 million USD. Also note that this initiative only allows to freeze debt service (it is offered on a net-present value-neutral basis). For more info, see: https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

v The Paris Club is an informal group of 22 major creditor nations meeting monthly in Paris with the aim of finding sustainable solutions to debtor nations' payment challenges. It is based on the six principles of solidarity, consensus, information sharing, case by case treatment, conditionality and comparability of treatment.

vi Called 'off-the-radar' debt, it refers to debt usually outside of the standard perimeters of public debt statistics. However, the underlying transactions still represent an obligation from the debtor country to an official entity.

Debt forgiveness, suspension, and restructuring can be considered as a way to enable SIDS to invest in development. More can be done to ensure SIDS are able to access debt relief programmes in the short and medium-term and to manage debt sustainably in the long-term.

Proposed Actions

- Support debt sustainability planning and initiatives
- Build capacity to negotiate with lenders
- Draw on the multidimensional vulnerability index (MVI) or other tools to evaluate debt relief eligibility

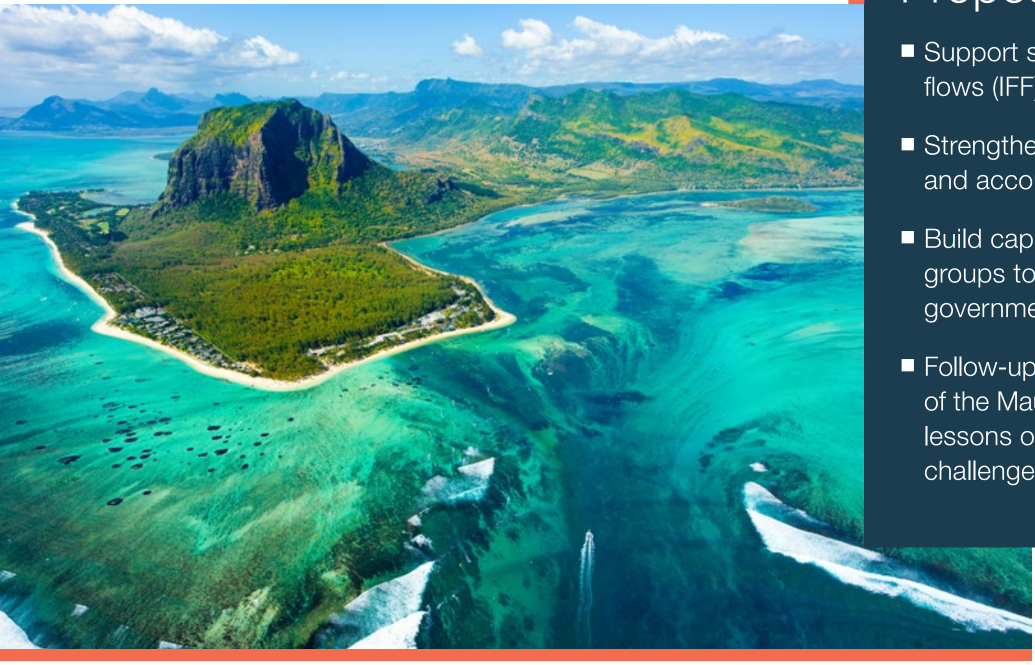
1.13 Curb illicit financial flows

Illicit financial flows (IFFs) are illegal movements of money or capital, often involving money laundering, concealment of resource flows, tax evasion, or bribery. IFFs take a substantial toll on development efforts, and the ways in which IFF vulnerabilities affect SIDS would warrant further analysis to ensure these are better understood and effectively addressed.

The Global Conference on Anti-Corruption Reform in Small Island States was organised in Mauritius in 2015. It offered approaches to reducing corruption including legislative reforms, adopting national action plans based on corruption risk assessments, and building capacity for investigators. Recommended actions included e-government systems and transparency initiatives.

Proposed Actions

- Support studies to understand illicit financial flows (IFF) risks in SIDS
- Strengthen public procurement, transparency, and accountability systems
- Build capacity of parliaments and community groups to monitor public expenditure to hold government accountable
- Follow-up on the outcomes and recommendations of the Mauritius Conference with a view to draw lessons on progress made and remaining challenges in fighting corruption and IFFs



1.14 Improve data collection & use

There is a clear recognition that data are a powerful tool for development and accountability. When underpinned by high-quality and comprehensive data, development processes are strengthened, and achievement of development results is accelerated. Despite this recognition, data are yet to be fully harnessed, with challenges around collecting, disaggregating, managing, and using data consistently highlighted as a barrier by partner countries, including SIDS. For example, in the 2018 monitoring round of the Global Partnership for Effective Development Co-operation (GPEDC), 56 percent of participating SIDS indicated that they would benefit from stronger national statistical capacity.[43]

Given persistent data challenges, there has been a proliferation of actors working to collect data for different purposes and a number of development partners supporting these efforts, making data one of the most fragmented sectors in many countries. As such, increased focus is needed in supporting the development and strengthening of SIDS' own national statistics systems (NSS). This includes investing in and using NSS to inform, monitor, and report on development co-operation efforts; using shared indicators to harmonise data collection needs and reduce the use of parallel systems; and harnessing the potential of big data and new digital tools to change the way the data are collected and shared, particularly in remote regions. There are also opportunities to explore and establish regional data collection systems that draw on capacity across neighbouring SIDS.

Proposed Actions

- Invest in and use country-owned data systems
- Build capacity to use data to inform decision making
- Use results frameworks to harmonise data needs
- Explore the use of new digital tools to collect data
- Support transfer of technology

1.15 Develop Integrated National Financing Frameworks

An integrated national financing framework (INFF) seeks to operationalise the AAAA at country level. In essence, an INFF is a tool to support the mobilisation and management of development resources, setting out how national development plans will be financed and implemented. An INFF builds on existing national systems and brings together different stakeholders and processes to more strategically manage the increasingly complex financing landscape and promote achievement of national development objectives.

The value added of an INFF includes: strengthened alignment of development finance with national development priorities, including matching financial resources with their most appropriate use to increase their impact; increased overall resource mobilisation by identifying underutilised development finance sources and providing insight on how to capitalise on these opportunities; enhanced coherence among the laws, regulations and policies that govern different development finance sources; and improved government management over an increasingly diverse development finance landscape.

Given the significant financing-related challenges articulated above, INFFs can play a particularly important role in SIDS, bringing policy coherence and increased stakeholder engagement to development dialogues. A number of SIDS have already developed or are developing an INFF.

Proposed Actions

- Support technical work related to Integrated National Financing Frameworks (INFFs)
- Support the design of financing strategies


Credit: Danielle Parry/OCHA

1.16 Build capacity

SIDS often have limited human and institutional capacity to plan and implement development initiatives. This limited capacity affects the ability of SIDS governments to mobilise diverse development financing sources; to meaningfully engage communities in decision making; to absorb and use available financing; and to build systems to ensure the sound management of resources.

As such, context-specific capacity support is essential. This includes providing embedded technical assistance, facilitating access to training programmes and knowledge exchanges, technology transfer, etc.

In addition to building government capacity to lead development efforts, development partners can also support other actors in building their capacity to engage in development planning, implementation, and monitoring. This includes civil society, parliaments, trade unions, businesses, etc. Within this, there is a need to make concerted effort to involve vulnerable and marginalised groups, including women and girls, indigenous peoples, persons with disabilities, and others at risk of being left behind.

As noted in section 1.11, pooling capacity with peers in the region may provide a solution for some government functions in SIDS. This can include peer learning, seeking supplementary capacity support, and exploring shared government systems/processes, where applicable.[44]

Proposed Actions

- Provide context-specific, sector-specific technical assistance to governments
- Build the capacity of diverse stakeholder to engage in development
- Explore pooled capacity arrangements with peers

1.17 Promote digitalisation and internet connectivity

Digitalisation and the internet are vital for accelerated and sustainable development. When considered as a cross-cutting or mainstreamed objective, digitalisation has the potential to strengthen inclusivity of development planning and implementation, provide high-quality and timely disaggregated data and ease bureaucratic processes and procedures, facilitating access to social services. However, given their remote geography, many SIDS are left with limited internet connectivity, thereby hampering their ability to use digital tools and to connect to external resources.[45]

Proposed Actions

- Invest in digital infrastructure
- Support measures to bridge the digital divide
- Build digital capacity

Credit: UN/UNOCHA/Mark Garten

2 Effective Delivery

Development challenges are increasingly pressing, complex, and interrelated. The 2030 Agenda responds to this, calling for a whole-of-society approach to development that builds on the collective actions of all stakeholders to deliver long-lasting solutions for people and planet, while leaving no one behind. In this vein, it is necessary not only to mobilise new partners and new sources of finance, but also to ensure that all development resources are used as effectively as possible. This is highlighted in the AAAA, which calls for continued efforts to improve the quality, effectiveness, and impact of development co-operation.[46]

The four internationally agreed principles of effective development co-operation aim to ensure maximum development impact. To deliver tangible, measurable impact in the priority areas highlighted in Section 1, alignment with these principles is essential. The below subsections highlight how the principles of effective development co-operation can be applied in SIDS.

FIGURE 4. EFFECTIVE DELIVERY

Country ownership	**2.1**	Align to national priorities
	2.2	Scale to context and simplify processes
	2.3	Coordinate and collaborate
	2.4	Use country systems
	2.5	Untie aid
Focus on results	**2.6**	Use results-focused approaches
	2.7	Draw on the SDG framework
Inclusive partnerships	**2.8**	Leverage partnerships
Transparency & mutual accountability	**2.9**	Share information
	2.10	Strengthen accountability mechanisms

COUNTRY OWNERSHIP

2.1 Align to national priorities

Fundamental to country ownership is ensuring that development co-operation is aligned to national development priorities, ensuring that development partners' efforts respond to individual country needs. This requires strong national development strategies that highlight and prioritise development objectives and serve as a rallying point for development partners.

Development partner reluctance to fully align to partner country priorities mechanisms can be caused by both internal and external factors. External factors may relate to the governance of partner countries, with development partners seeking to maintain tighter control over development co-operation resources in situations where there is less trust in the ability of partner country governments to adequately plan and allocate resources. Internal factors that contribute to challenges in this area may relate to politics and public perception. Particularly in the case of bilateral development partners, there may be a domestic push to provide co-operation to particular areas or in a particular way.

Proposed Actions

- Support evidence-based and inclusive development planning processes
- Support the design of country-owned results frameworks
- Draw on national plans to design country co-operation strategies

Credit: UNDP/Silke Von Brockhausen

2.2 Scale to context and simplify processes

Successful development programming in SIDS often demands a willingness on the part of development partners to accept the higher transaction costs of operating at a smaller scale that matches government capacity and systems. In this vein, context-specific programmes and projects can be designed in a way that fully consider partner country absorptive and implementation capacity.

In the same vein, development partners can work together to avoid over-burdening country-level counterparts, while maintaining accountability and learning processes. By undertaking more joint programming, harmonising communication with government and reducing individual reporting needs, more time and space is available for implementation of initiatives.

Proposed Actions

- Conduct joint assessments of capacity gaps
- Adapt programme/project design to capacity realities
- Accept higher transaction costs
- Explore joint programming
- Harmonise communication and reporting


Credit: Danielle Parry/OCHA

2.3 Coordinate and collaborate

Alignment to partner country development priorities is best coupled with strong country-level coordination. Coordination among partners reduces the fragmentation of co-operation, diminishing the duplication of efforts and facilitating collective action on priority areas to accelerate achievement of results. Further, good coordination reduces transaction costs for partner country governments and development partners by eliminating parallel systems and processes.

A country's development co-operation architecture supports multi-stakeholder coordination efforts. Such an architecture is made up of a series of laws, policies, oversight bodies, and institutional mechanisms that support the effective management of development co-operation.

Sound management of development co-operation is particularly important in SIDS. Limited government systems can be overloaded by multiple and unconnected channels of development partner support. At the same time, the geographical remoteness, lack of connectivity, and other logistical issues in SIDS can limit the ability of diverse development partners to connect regularly.

Proposed Actions

- Strengthen national development co-operation architecture
- Actively engage in government-led coordination efforts
- Support the participation of diverse stakeholders in in-person meetings
- Support the adoption of digital tools to strengthen coordination

2.4 Use country systems

Use of country systems is a fundamental driver of country ownership and is essential to ensure the sustainability of results. These systems include development partners' use of country results frameworks, national statistical systems, and the involvement of SIDS in programme evaluation. It also includes the use of country public financial management and procurement systems when support is provided to or through government. By using and developing capacity within SIDS' country systems for budget execution, financial reporting, auditing and procurement, they can be further strengthened.

However, despite commitments to use country systems, evidence shows that development partners' use of SIDS' country systems has declined in recent years.[47] Results also suggest that quality of a partner country's systems is often not indicative of development partners' use of these systems. As such, external factors for non-use may be connected to political issues.

Proposed Actions

- Uphold commitments to use country systems
- Hold focused dialogue on requirements for use of country systems
- Support strengthening of country systems
- Build public financial management capacity

2.5 Untie aid

Untied aid—ODA that does not have geographical constraints and is not bound by legal and regulatory barriers that limit or restrict competition—is another important lever of country ownership. By giving SIDS as the recipient of funds the freedom to procure goods and services from anywhere in the world, including from domestic stakeholders, it increases their effective use in terms of value for money and promotes partner country ownership. Development partners have committed to accelerate the untying of aid and to promote development co-operation that supports local businesses throughout the supply chain. While there is a general positive trend of increasingly untied aid, for some SIDS the proportion of untied ODA that they receive decreased according to the data analysed.[48]

Proposed Action

- Uphold commitments to untie aid

FOCUS ON RESULTS

2.6 Use results-focused approaches

Development co-operation is only as good as the tangible impact it has on improving the lives of people in developing countries. A focus on results is vital to achieving such impact. Results-focused approaches in development co-operation underpin effectiveness efforts, acting as the anchor for better development planning, financing, implementation, and monitoring.

Results-focused approaches are particularly important in the SIDS context, where capacity gaps and critical financing challenges require concentrated co-ordination on development priorities to accelerate progress and optimise the used of limited resources.

In practice, results-focused approaches in SIDS begin with designing country results frameworks that set out how impact will be achieved. These frameworks can then be used by development partners to align support to national priorities and to co-ordinate efforts with government and among other partners. Strong gender-responsive results frameworks can aid in costing and budgeting for development and guiding resource allocations.

In addition to strengthening planning and financing processes, results-focused approaches can support national data and statistics systems and ease reporting burden. SIDS are often overwhelmed by international and donor monitoring and reporting requirements. Project-based support tends to have data-specific needs, which then determine the data collection method (e.g., a one-off survey at the beginning and end of a project). Drawing on SIDS results indicators can harmonise data needs and streamline monitoring and evaluation processes. This also helps to strengthen national data and statistics capacity, which allows for more evidence-based development planning.

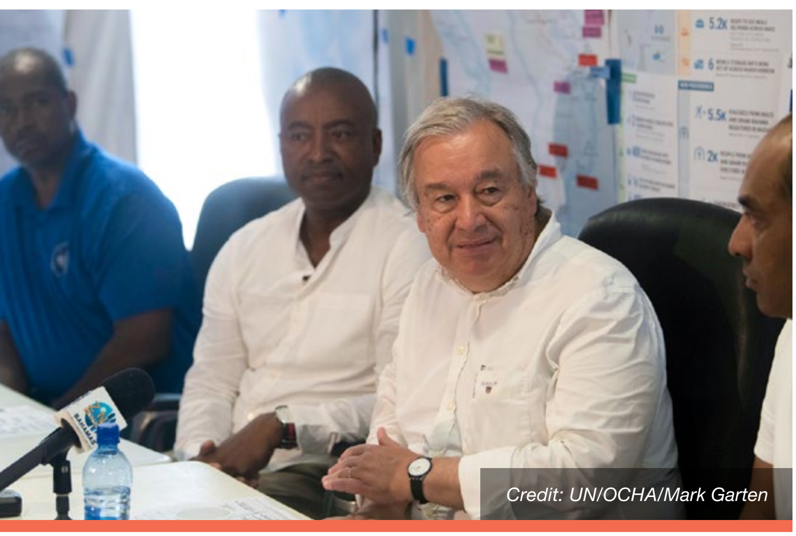
Proposed Actions

- Use shared results frameworks, including indicators and targets
- Use results frameworks as the basis for costing of development plans
- Harmonise data collection and reporting efforts

2.7 Draw on the SDG framework

The SDGs are more that an ambition—they provide development actors with a common roadmap that can help navigate the complexity of development challenges and promote more effective development co-operation. Integration of the SDGs into development co-operation plans, programmes, and projects offers concrete benefits that can accelerate achievement of SDG results.

Benefits include strengthened alignment to partner country priorities. Using the SDGs as a shared roadmap for development ensures that the efforts of all stakeholders working at country level are geared towards common aspirations. Embedding the SDGs into development plans, programmes, and projects improves coordination and coherence of development efforts. This will help maximise synergies and reduce the current levels of duplication and fragmentation of development co-operation. It is not just cost-effective; it maximises development impact.


Credit: UN/OCHA/Mark Garten

When all stakeholders work together towards agreed SDG results, data quality and use are enhanced. This allows development stakeholders to fully harness data as a powerful tool to track development progress and guide future action. Mainstreaming the SDGs promotes alignment of finance to sustainable development objectives. This is key to ensuring that increasingly diverse sources of development finance are used as effectively as possible, for maximum impact.

Proposed Action

- Mainstream SDGs into development plans and results frameworks

INCLUSIVE PARTNERSHIPS

2.8 Leverage partnerships

The scale and complexity of the challenges faced by SIDS call for the collective efforts of diverse stakeholders. In this vein, the SAMOA Pathway called for the establishment of SIDS Partnership Framework to monitor existing partnerships and to build new ones.[49]

The SIDS Partnership Framework provides the structure to facilitate regional approaches; rethink donor–recipient relationships, south–south and triangular co-operation; and monitor the implementation of partnership pledges and commitments. It provides a SIDS–specific structure for the evaluation of effective partnerships through the development of the S.M.A.R.T. partnerships evaluation framework and provides a SIDS Partnerships reporting template, a database of which is maintained by the United Nations.[50] Complementary to the SIDS Partnerships Framework, the SIDS Global Business Network (GBN) provides the platform and resource hub to share best practices and lessons learned in support of private sector partnerships with SIDS.

GBN convenes forums for the private sector, governments, the UN system, and other stakeholders to exchange best practices and lessons learned in forging private sector partnerships. The network forges collaboration among SIDS regional private sector organisations and works towards strengthening inter-regional business alliances, encouraging international businesses to focus on SIDS as potential market opportunities and vice versa.[51]

Additionally, the potential of civil society partnerships could be better harnessed for effective delivery in SIDS, including in implementing and monitoring the SDGs. Partner country civil society has a unique value-added due to their understanding of the local context-specific sensitivities and priorities of affected communities[52]. They can intervene as first and last responders providing immediate assistance in crisis situations[53], such as those faced by SIDS due to climate change. Thus, development partners could ensure that SIDS' civil society have access and support to finance, leadership, and ownership in development co-operation and humanitarian assistance[54].

Proposed Actions

- Implement the SAMOA Pathway and successor agreements
- Build the capacity of diverse stakeholders to engage in development processes
- Support SIDS engagement in global and regional partnership efforts

Credit: UN OCHA/Matteo Minasi

TRANSPARENCY & MUTUAL ACCOUNTABILITY

2.9 Share information

Transparent, high-quality, and timely information on development co-operation allows governments to plan and manage resources for results, enables the wide range of development actors to co-ordinate their support and thus avoid fragmentation and duplication of efforts, and empowers development actors and stakeholders to hold officials and institutions accountable for their performance and how they use development resources.

To improve transparency in SIDS, development partners need to increase the availability of timely, comprehensive, and forward-looking information on development co-operation. This includes improving annual and medium-term predictability for SIDS. Predictability and forward-looking information on resources are necessary for improving the proportion of development co-operation funding subject to parliamentary oversight, which in turn is critical to public accountability, national planning, and therefore country ownership. Such predictability is particularly crucial in SIDS who are—compared to all other developing country groupings at all income levels—the most dependent on ODA, within the mix of external financial flows.

Transparent and timely information that is made available at country level is also important for ensuring that existing local capacity is not overburdened by complex processes, which can complicate the navigation of global processes and data sets for relevant country-level information on development co-operation. In parallel, SIDS need to improve the quality of their information management systems that track development co-operation to ensure that these systems are well-functioning and can be used to inform policy and reporting.

Proposed Actions

- Support the strengthening of aid information management systems
- Participate in reporting to country systems
- Provide forward-looking expenditure plans

Credit: UN OCHA/Matteo Minasi

2.10 Strengthen accountability mechanisms

The concept of mutual accountability in development co-operation refers to development stakeholders, under government leadership, holding each other accountable for agreed commitments. Accountability in development co-operation—between governments and diverse development partners, as well as towards citizens, civil society, and other development stakeholders—is vital to ensuring efficiency and effectiveness in development activities and thereby maximising impact.[55]

This can be achieved through the use of mutual accountability frameworks that set and track progress against country-level development co-operation targets. Mutual accountability frameworks are made up of multiple, reinforcing components: a development co-operation policy; country-specific targets for effective development co-operation; regular assessments of progress on targets; inclusivity of assessments; and transparent sharing of assessment results.[56] A mutual accountability framework is a common element of a country's development co-operation architecture and is often included as part of the country's national development co-operation policy.[57]

SIDS may benefit from establishing or strengthening their mutual accountability mechanisms and ensuring that they reflect the current diversity of the development co-operation landscape.

Proposed Action

- Engage actively in accountability mechanisms

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