

From Addis to the Pacific: financing for development in Small Island Developing States



by Ewen McDonald and Jonathan Kings

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The [Third International Conference on Financing for Development](#) is over. Life has returned to normal in Addis Ababa. Roads have re-opened, building sites are once again frenetically reshaping the Addis skyline, and the rain has washed away any remaining footprints of the more than 6,000 delegates who came to Addis to make history. But what remains from the months of negotiation and an intensive week in mid-July, and what the wet season will not wash away, is an exciting and irreversible leap forward for developing countries.

The emerging commentary on the [Addis Ababa Action Agenda](#) is optimistic. There is broad agreement that it represents an ambitious step forward from previous agreements reached in [Doha](#) and [Monterrey](#). The Addis Agenda reaffirms the importance of Official Development Assistance – this is helpful and important. But what is equally exciting and forward-looking is the recognition that all sources of development finance, including domestic resources, private investment and philanthropic flows, are needed for sustainable development. It lays out a strong policy platform to source and fuse all these types of finance to reduce poverty and enhance shared prosperity.

The Addis Agenda makes connections between good governance, public financial management and the provision of social services. It highlights key sectors including health, education and infrastructure as providing the baseline from which lives are improved, communities flourish and economies thrive. It mainstreams gender in unprecedented ways by connecting legal empowerment with decision making and finance outcomes. It recognises the importance of finance linked to technology and innovation, and smart partnerships. Importantly for vulnerable small island developing states (SIDS), it calls for a more integrated approach to climate and disaster resilience financing.

Every tweet and blog, like every report from negotiators to their capitals, will caveat that optimism with a wish for more. We would have also liked to see more. But any

agreement forged between 193 countries will require some compromise for the sake of consensus. And in the end [we share the optimism](#) of the Chair of the OECD's Development Committee, Erik Solheim – Addis will be a turning point for development and for small island developing states (SIDS) in particular.

For SIDS in the Pacific and elsewhere, there are many reasons to celebrate the Addis Agenda. The visibility and recognition of the development challenges of SIDS has never been stronger globally. The needs of SIDS are now enshrined in a global agreement on development finance. For example, the unique development needs of SIDS are referred to 31 times in the document, compared with just 4 references in Doha and 7 in Monterrey. This visibility and recognition sends a powerful message to citizens of SIDS – the international community recognises that without affordable and sustainable finance, these states cannot overcome the unique constraints they face in achieving sustainable development outcomes. Elevating the standing of SIDS in the Addis Agenda is a fitting follow-on from last year's [conference on SIDS in Samoa](#).

But the Addis Agenda goes even further. It puts a spotlight on *exactly how* SIDS are unique. The following story emerges from those references, which occur throughout the text [1]:

We, the international community, acknowledge that small island developing states are a special development case given their size, vulnerability and narrow economic base. They face major challenges building resilience to natural disasters, bear especially large burdens from the incidence of non-communicable diseases, and are susceptible to extreme climatic events. Many of these states have not benefitted from the growing volume of cross-border trade, face major challenges accessing financial markets, and will progressively lose access to concessional finance. They remain highly vulnerable to debt distress as a result of their constant exposure to economic, social, and natural shocks.

Visitors to this blog may feel unexcited by this description; it is one that SIDS are intimately familiar with. But this description is then backed by the following commitment:

We will meet these challenges. We will find new ways to help small island development states finance their development needs in an affordable and sustainable way. We will use successful approaches like the World Bank's small island states exception to find new concessional finance pathways for these states. We will work with international financial markets to develop more innovative financing mechanisms, and to develop better debt instruments that limit debt distress when economic, social, and natural shocks strike. We will develop better risk management frameworks, and help improve access to resources from climate-linked finance mechanisms as a way of investing in more resilient infrastructure. We will provide more of our aid for trade, and help small states integrate more effectively with global markets. We will help these states invest in knowledge and capacity to maintain their rich marine biodiversity.

This is an impressive narrative from an international community that previously struggled to find a place for SIDS in global development finance architecture. Rather than existing at the fringe of the international development finance discussions, the SIDS story is now embedded within the Addis Agenda. As [Martin Sandbu](#) suggests:

"History's most consequential changes often come not so much in the form of specific legal commitments or conscious policy goals as in the subtle evolution of the implicit assumptions behind decision-making: which questions are raised and what is taken for granted."

As in the case of Monterrey and Doha, much will depend on the translation of the words in the Addis Agenda into actions. These actions must have meaning to countries like Palau, a small, upper middle income island state with ambitious development aspirations, but no market access and extremely limited recourse to concessional funds. They must also have meaning for countries like Vanuatu, where 64 per cent of its GDP and countless livelihoods were wiped out in an instant, when

Cyclone Pam hit.

The unique development financing needs of SIDS is no longer a point of debate; it is accepted. The strength of the words and global goodwill that the Addis Agenda has generated for SIDS renews our optimism that we will find better financing solutions that support their development and the implementation of the Sustainable Development Goals (SDGs). We are confident that the next decade will bring a transformation in the architecture of development finance for small island developing states. We welcome the Addis Agenda, and look forward to doing our part in turning its powerful words into meaningful actions for SIDS to achieve the global goal of 'leaving no one behind' in the collective pursuit of eradicating poverty and creating shared prosperity.

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Note [1]: Paragraphs 8, 32, 34, 46, 65, 72, 76, 82, 102, 121

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