FINANCING the RESILIENCE of SIDS

in collaboration with

Government of Antigua and Barbuda
Belgium
UNDP initiative
Strengthening International Financial Architecture for SIDS: Financing the Resilience of Pacific SIDS

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The Pacific Islands
The Pacific Economy

• Large-ocean States
  o Blue Economy:
    # Fisheries – Tuna (# PNA Countries)
    # Deep Sea Mining (Potential # All PICs Except Nauru)
    # Coastal (Tourism # Fiji, Van., Palau, Ck. Is.)
    # Marine Protected Zones (# Palau)

• Larger PICs (Land based Natural Resources)
  • # PNG # Fiji # Solomon Islands # Nauru

• ODA significant for a number of FICs

• Most Important – Its People, Culture & Tradition
  # Remittances (Samoa | Tonga)
  # Culture & Dev. Financing
  # Traditional Social Safety Nets
The Pacific Economy – Finance

Build-up of domestic sources of finance;

- taxes and non-tax revenues;
- mobilising domestic savings for investment (Provident/Superannuation Fund) – currently – large part of this invested in national Government Bonds and abroad;
- private sector credit, guarantees for SMEs and financing (#Capital Markets – Fiji & PNG);

Supplemented by international public and private funds

- Tourism and Remittances (global income value chain/sharing)
- Foreign Investment (Direct/portfolio)
- ODA (in-kind and Cash – Budget Support + Sector/thematic Programmes)
- Licenses fee (Fisheries, Offshore Financial Sector, Shipping registration, Internet Domain)
- Inter-temporal transfer of potential economic growth through Sovereign Wealth Fund (SWF) or Trust Fund (TF)

# Compact TF (Palau | FSM | RMI)       # Kiribati RERF
# Tuvalu TF (+New Tuvalu Survival Fund) # PNG Central/Provincial SWF

- International Bonds
  # Fiji (International + Green Bond)       # PNG (International Private Borrowing)
The Pacific Economy – Resilience

FICs: Box Plot of Nominal & Real GDP Growth Rate(%) 1997-2016

Nominal GDP Growth
Real GDP Growth

excludes outside values
The Pacific Economy – Resilience

Kernel Density of Real GDP Rate (%) 2004-2015

- Minimising Dispersion is Resilience
- Level of Economic Growth

Dispersion

Density

-16 -12 -8 -4 0 4 8 12 16 20

COOK_IS Kernel  FSM Kernel  PALAU Kernel  RMI Kernel  SOL_IS_ Kernel  TUVALU Kernel  FIJI Kernel  KIRIBATI Kernel  PNG Kernel  SAMOA Kernel  TONGA Kernel  VAN_ Kernel
The Pacific Economy – Resilience

Current Account Deficit (% of GDP)

External Positions are weak to absorb shocks

- Current Account Deficit % of GDP (Avg. 2001-2014)
  - Fiji
  - FSM
  - Kiribati
  - Palau
  - PNG
  - RMI
  - Samoa
  - Sol. Is.
  - Tonga
  - Tuvalu
  - Vanuatu
Context: Global Financing Architecture

Fractal Nature of Global Financial Architecture

FfD
SIDS
MDBs

AAA+
FfD
COP
SENDAI

Rev.
Fiscal Space
DRM
Exp.
MDBs
Capacity

Special Circumstances
Finance

Global Financing Architecture
SIDS
MDBs
DRM

Fiscal Space
Expenditure
Revenue
Context: Global Financing Architecture

Financing for Development =

\( \text{Addis Ababa} = f(\text{Public Finance} + \text{ODA} + \text{Private (Local} + \text{International) financial Flows} + \text{Trade}) \)

+ \( \text{Sendai Agenda} = f(\text{Disaster Preparedness} + \text{Management} + \text{Risk transfer}) \)

+ \( \text{COP Agenda} = f(\text{Climate Change Adaptation and Mitigation}) \)

+ \( \text{Oceans Agenda} = f(\text{Producttive Sector Finance} + \text{Conservation Finance}) \)

MDBs Finance =

\( \text{Finance} = f(\text{Loans (Concessional} + \text{Non} – \text{Concessional)} + \text{Grants} + \text{Blend} (\text{Co} – \text{finance} + \text{Leverage})) \)

+ \( \text{Capacity} = f(\text{Technical Assistance}) \)

+ \( \text{Special Circumstances} = f(\text{Vulnerability (DSA)} + \text{Fragility} + \text{Emergency Finance}) \)

Domestic Resource Mobilisation =

\( \text{Revenue} = f(Tax(f(GDP)) + \text{Non} – \text{Tax} + \text{Grants}) \)

+ \( \text{Expenditure} = f(\text{Revenue} + \text{Additonal Finance} (\text{if} \text{Exp} > \text{Rev})) \)

+ \( \text{Fiscal Space} = f(\text{Fiscal Balance} + \text{Ability to Raise Finance (Space between Current or Future Debt vs. Optimal Debt)}) \)
Challenges: P-SIDS Financing Priorities & Means

Priorities:

• Domestic Resource Mobilisation
  • Tax + Non-Tax Revenues
  • Expenditures + Exemptions
  • Fiscal Space – Financing Options → Debt

• Climate Change Adaptation Finance
  • Financing adaptation to slow on-set events
  • Loss & Damage – Climate Insurance/Trust Fund

• Disaster Finance
  • Investment in Preparedness
  • Risk Transfer to financial markets
  • Long-term recovery Finance

• Oceans (Blue Economy) Finance
  • Rehabilitation coral reefs & Sustainable livelihoods – coastal fisheries/tourism
  • Increasing returns from the blue economy – fisheries

• Green Economy Finance
  • Financing of renewable energy/ waste management, etc.

• Vulnerability & Fragility – Existential Threat
  • Linking V&F to development Finace (defining it is of no use if not linked to Finance)

Means:

• Private Sector Participation & Partnership
  • CC Projects + Risk Sharing

• Economic Empowerment of Women
  • Untapped potential > 50%

• Social Safety nets
  • Cultural/traditional Safety Nets;
  • Community resilience, eg. micro-insurance/pension

• Promote Global Income Sharing
  • Trade, Tourism, Other Services (ICT)
  • Remittances (addressing De-risking issues)
  • Labour mobility

• Financial Innovation & Integration
  • Financial Resilience
  • Limiting pressure on fiscal space
  • Reducing macroeconomic volatility

• Global Collaboration of SIDS
Solutions: P-SIDS Action – FEMM

Pacific Economic and Finance Ministers met in Koror, Palau (25-27 April 2018) approved a number of gaming changing initiatives:

• Pacific Resilience Facility:
  • Seeks to invest in ex-ante preparedness to better manage imminent risks from the impacts of climate change and disasters in the region;

• Pacific Islands Climate Change Insurance Facility:
  • Seeks to address the ex-post effects of a variety of slow onset and extreme weather events that are currently not covered in the Pacific region by insurance or other mechanisms;

• Co-Investment initiative:
  • Proposal to mobilise regional savings (US$50bn) for regional investment;
  • Regional super- and provident funds to fill the infrastructure financing gap;

• Climate-induced Vulnerability and Fragility of Pacific SIDS:
  • Increasing access to grant and concessional financing for all Pacific Developing Member Countries, especially the non-ADF/non-IDA Pacific SIDS;
  • Fiji’s Proposal to advance a trigger based mechanism if the impact of shocks & Stressors are beyond a certain threshold (e.g. >10% of GDP)
FICs: Cost of Natural Disasters by Country (US)

...costs of natural disaster are increasing over time...

Fiji: Loss ~ US$1bn
Resilience Costs of US$142m would have saved US$1bn

Vanuatu: Loss ~ US$450m
Resilience Costs of US$64m would have saved US$450m

FICs: Frequency and Cost of Natural Disasters (USD millions)

...tail events with high impact...

Solutions: P-SIDS Action – Pacific Resilience Facility
Solutions: P-SIDS Action – Pacific Resilience Facility

Objectives & Gaps

Fit for Purpose Governance

Functions & Financial Products

Financial scenarios & sustainability

Regional ownership

Affordable & contextualised Financing

Guiding Principles

Additionality & Complementarity

Investment in preparedness
Minimum capitalisation of the proposed PRF:

US$300 million to US$500 million (target of ~US$1.5bn)

- Equivalent to 1% to 1.7% of the Regional Nominal GDP
- Periodic replenishment needed
- Sustainability of the proposed Facility is linked to the financing structure and products

Operational Framework & Financing Products:

- Government – Concessional Loans or Grants or Combination of Loans/Grants
- Private Sector – Concessional Loans
- Communities – Grants
Recommendations

Aligning the UN Agenda with MDBs and Country Needs
• FfD – IATF – More detailed analyses on SIDS
• Global versus Regional Standards – Tax information sharing/EU Black-/Greylist
• Negotiations needs to be accompanied by focus on country capacity to implement

Defining Climate Induced Vulnerability and Fragility → linking it to Concessional Finance
• Defining metrics to measure this across all SIDS
• Vertical Funds for SIDS or Trigger Based Mechanism or New Vulnerable Sub-Group

Supporting the Regional Mechanism to Build Resilience
• Varying levels of development and speed of implementation
• Support regional platforms at International level

Inter-regional Collaboration
• On all SIDS issues across different institutions
• Scope for Inter-regional Financing Options – Risk Sharing & Mobilisation of Funds
• Opportunities – SIS Forum @ WBG (Fiji – Chair) + V20 (Marshall Is. – Chair) | AOSIS
• Better collaboration between Finance Ministers, Foreign Affairs Ministers and Ambassadors in NY

5/30/2018

“Financing the Resilience of SIDS” – Antigua, May 21/22
Thank You.