



## Commonwealth Conference on Financing for Development in Small States

Christ Church, Barbados, 25-26 March, 2015

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### Outcome Document

#### Introduction

Commonwealth small states and representatives from regional and international organisations met in Barbados on 25-26 March, 2015 to discuss the issue of financing for development (FFD), particularly as it relates to the design of the UN Post-2015 FFD framework.

Small states shared their perspectives on the emerging UN FFD outcome document and debated its implications. Specifically, they reflected on the challenges observed in the areas of domestic resource mobilization and unlocking adequate international financing and assistance. Small states discussed the road to the UN's upcoming Third International Conference on Financing for Development in Addis Ababa, where particular emphasis was placed on understanding countries' collective view on the concrete actions that they would like to see undertaken, post-2015.

#### The Addis Approach

Small states reviewed the current approach to the Addis agenda, comparing it to that previously agreed in Monterrey (2002) and in Doha (2008). Representatives observed the similarities but also highlighted several key differences between the three conferences, such as the higher level of ambition for Addis; a sharper focus on financing for *sustainable* development (e.g.. climate change financing); the move away from a north-south FFD orientation; and the current focus on actionable initiatives.

Small states drew attention to the short lead time to Addis and the consequent importance of acting swiftly, and in a coordinated manner, to substantively influence the emerging agenda. In this vein, they called for further clarity on the linkages between the FFD process and existing mechanisms for financing climate change, as well as the linkages between the FFD process and the September conference on the Sustainable Development Goals. Small states recognised the need to build on the work of other related processes such as the SAMOA Pathway.

#### Major Challenges and Key Options

##### Domestic Financing Potential

Small states highlighted the various hurdles which continue to hinder the mobilizing of sufficient domestic resources. Countries spoke of common small state challenges such as narrow tax bases, high debt, large trade deficits, underdeveloped domestic financial markets, small private sectors, fragile banking systems, the need for institutional and legislative reforms and inadequate IT infrastructure.

Small states discussed the efforts being made domestically to address these challenges in terms of tax reforms, the introduction of VAT, wider public sector reforms, legislative and IT improvements, and economic diversification. They also called for assistance in utilising savings as a tool for mobilising domestic resources - citing the example of diaspora bonds. Small states appealed for a more inclusive development process with greater private sector investment. Other ideas, such as wider use of public-private partnerships (PPPs); debt reduction measures (e.g. debt buyback operations and debt swaps); innovative investment initiatives (e.g. citizenship by investment programmes); tax enforcement and strengthening (compliance and reducing tax concessions); tax consolidation (regional revenue authorities) and tax incentive initiatives (a regional code of conduct), were touted.

However, countries generally held the view that even with these measures, they will not achieve the level of domestic resources expected by the international community and will be unable to make up the shortfall in the financing of development goals.

### Unlocking International Development Finance

With respect to unlocking international development resources, small states denounced the lack of necessary concessional finance to address their inherent vulnerabilities, linked mainly to the continued use of a GDP per capita criterion for determining their eligibility. Small states reiterated the hurdles involved in maximising the effectiveness of existing resources and the dire need for international assistance with building institutional capacity, mainly towards absorption and efficient tax administration.

Small states highlighted the risks around overemphasizing the role of private financing, which can add to already high and unsustainable debt burdens. They argued that it should not be a substitute for ODA. Moreover, while recognising that climate change must be included in the discussion on FFD to ensure sustainable outcomes, countries reiterated their position that climate financing should not also be counted as ODA.

Taking note of the political challenges, small states supported the use of a wider approach to determining eligibility for grants and concessional financing beyond GDP per capita, including vulnerability. They called for greater coordination in promoting other sources of financing, including FDI, PPPs and de-risking mechanisms. Further, they requested assistance in effectively using remittances to contribute to sustainable development goals.

## The Way Forward: Road to Addis

### Small State Priorities for the FFD Framework

Small states identified 4 key priorities that need to be reflected in the Addis Ababa outcome document.

- Debt sustainability - High debt burdens is an ongoing problem for many small states, which is made worse by the need to respond to economic and environmental shocks. The FFD framework should reflect the impact these debt burdens have on small states and their ability to attract investment and other finance.
- Climate change financing - Greater synergies between aid and climate finance are necessary to present a more coherent framework. Small states called for a better balance between finance for mitigation and adaptation. Furthermore, they emphasized that the private sector must be brought into the conversation and incentivised to contribute to adaptation. The architecture of climate finance needs to be simplified and more attention should be placed on shocks and the volatility of small states.

- International acknowledgement of the vulnerability of small states - Small states acknowledged that while many of them are middle income countries, they are significantly different from larger middle income countries by virtue of their disproportionate vulnerability to shocks. Both vulnerability and capacity for resilience must be considered in criteria for accessing concessional resources. Small states asserted that a vulnerability index should be used to complement the existing per capita GDP criteria. They also called for special financing provisions earmarked for addressing exogenous shocks.
- Capacity building - Recognizing their capacity gaps, small states called for initiatives targeted towards infrastructure development (including energy, water, transport and sanitation) and risk management. They also argued for support for policy and institutional development (such as domestic policy and institutional environment, tax administration system, debt management, climate finance, PPP, and blended finance) to help bolster economic growth.

### Strengthening the Draft FFD Process

Participants acknowledged that while the zero draft outcome document achieves its broad objectives, the current draft falls short as it fails to identify specific approaches for addressing development challenges. Small states argued that there is need for stronger language to give special attention to SIDS, including increased concessionality, with a view to enable them to increase their resilience to any external, economic and environmental shocks.

Small states advised that the UN's outcome document should give proper consideration to country capacity, data availability and quality as it pertains to the FFD framework and its implementation. Under the section related to domestic public finance, the document should give greater consideration to the fact that SIDS struggle to mobilise their domestic resources and are facing lower growth. Furthermore, participants advised that the FFD framework should support the development of effective policies on financial inclusion, allowing easier access to finance by small businesses.

Small states acknowledged that they need to organise around their agreed priorities and coordinate an approach to disseminating information to various missions involved in the international negotiation process. Their messages about small states should build on past efforts including the SAMOA Pathway and Rio +20.

Leveraging the partnerships with key regional and intergovernmental organisations is critical in supporting advocacy around small states' priorities. In this regard, small states held the view that AOSIS can take a leading role in coordinating advocacy activities at the UN.

Other strategic partners including The Commonwealth can provide practical support. Small states proposed that The Commonwealth offer technical assistance by stocktaking available concessional funding, providing policy support for ICT improvement, and supplying briefings, knowledge products and platforms for information sharing and advocacy. They also welcomed the ongoing efforts of the Commonwealth Secretariat to support their development particularly with regard to the establishment of the Small States Trade Financing Facility, the Small States Centre of Excellence, and the Commonwealth Climate Finance Skills Hub. Small states called for continued information sharing on these initiatives. In terms of the next steps, The Commonwealth advised that further support will be provided through its FFD briefings to be held with UN country representatives in New York on 10<sup>th</sup> April, 2015.