Global Small Island Developing States (SIDS) Debt Sustainability Support Service: a new financial compact for resilient prosperity
About the author

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Foreword by His Excellency President Dr Mohamed Muizzu of the Republic of Maldives

Co-chair of the Strategic Advisory Group

Small Island Developing States (SIDS) are facing treacherous conditions every day as we try to thrive in a world where we are among the worst affected by external shocks, including climate change and conflicts — despite contributing the least to them. We are a special case for development, with unique geographical and economic circumstances. We are faced with a lack of access to adequate and concessional finance.

The Fourth International Conference on Small Island Developing States (SIDS4) represents a pivotal moment in our collective journey towards a more resilient and sustainable future for SIDS. It is a moment for us to come together and reflect on what we are trying to achieve and what the international community can do for SIDS. We firmly believe that the overall goal of the Conference and its outcome must be to make SIDS more resilient and instil confidence that they can navigate the perils of development.

The Antigua and Barbuda Agenda for SIDS (ABAS) calls for sustainable debt management by "considering the establishment of a dedicated SIDS Debt Sustainability Support Service to enable sound debt management and devise effective solutions for SIDS in relation to debt vulnerability in the immediate term and debt sustainability in the long term, building on and avoiding duplication with relevant dedicated initiatives". I acknowledge the assessment and the report by the International Institute for Environment and Development, which was compiled after deliberations by the Strategic Advisory Group. This could be a potential modality which we could capitalise on.

As we embark on such a process, we must commit to upholding the principles of collaboration, transparency, inclusivity and innovation. For the SIDS Debt Sustainability Support Service to be truly successful, a consensus of all SIDS is needed. SIDS may not be the masters of their fate. But our small size and geography will not dictate our destiny. The Service must be SIDS-led and SIDS-owned. It must serve as a symbol of hope for sustainable development and economic growth. We must build on this foundation and ensure we harness the power of our collective resolve to chart a path towards resilient prosperity.

His Excellency President Dr Mohamed Muizzu of the Republic of Maldives
Foreword by His Excellency Prime Minister Gaston Browne of Antigua and Barbuda

Co-chair of the Strategic Advisory Group

As nations on the frontline of climate change, Small Island Developing States (SIDS) have long faced the monumental task of overcoming vulnerabilities that disproportionately affect our environmental, social and economic stability. The Global SIDS Debt Sustainability Support Service was conceived during COP28 and subsequently endorsed by the United Nations General Assembly through the Antigua and Barbuda Agenda for SIDS. The Global SIDS Debt Sustainability Support Service stands as a crucial initiative in our ongoing struggle to build resilience against these relentless challenges. This Service is a clarion call to action, uniting SIDS around a common strategy for prosperity and resilience in the face of adversity.

As co-chair of the Strategic Advisory Group, I have witnessed first-hand the commitment and collaborative spirit that have characterised the design of the Global SIDS Debt Sustainability Support Service. Our deliberations have been rich with diversity and ambition, driven by the shared experiences of SIDS across the globe. As we launch the Global SIDS Debt Sustainability Support Service at the SIDS4 Conference in Antigua and Barbuda, it is essential to acknowledge this support service as a transformative platform designed to catalyse change and empower our nations. The Global SIDS Debt Sustainability Support Service is not merely a response to our current fiscal and environmental crises — it is a proactive strategy aimed at ensuring the long-term sustainability and self-sufficiency of SIDS. This support service integrates crucial aspects of debt management, economic protection, investment in resilience and strategic advisory support into a cohesive framework. By addressing these elements collectively, the Global SIDS Debt Sustainability Support Service enables us to move beyond survival towards thriving in an increasingly complex global landscape.

The journey to this point has been one of intense effort and purposeful dialogue involving stakeholders from various sectors and regions. Our goal has been clear — to create a mechanism that is not only responsive but also reflective of the real needs and aspirations of each Small Island Developing State. As we look forward to the operational phase, our focus must remain on the principles of equity, engagement and effectiveness that have guided our discussions. Let us embrace the Global SIDS Debt Sustainability Support Service with the resolve to enhance our collective resilience and drive our nations towards a future where sustainability and prosperity are within reach for all. Together, we are forging a new path forward, one marked by cooperation and fortified by the shared resolve to secure the wellbeing of our people and our planet.

His Excellency Prime Minister Gaston Browne of Antigua and Barbuda
Small Island Developing States (SIDS) are a widely varied group of countries spread across three major geographical regions — the Caribbean, the Pacific, and the Atlantic, Indian Ocean and South China Sea (AIS). While diverse in many respects, they share a complex set of social, environmental and economic challenges. These include their small sizes, widely dispersed populations, limited resource bases, remoteness and poor infrastructure.

In addition, SIDS are profoundly affected by climate change — despite contributing the least to global greenhouse gas emissions. Their geography makes them especially vulnerable to climate disasters and slow-onset climate impacts.

Increasingly frequent climate-related disasters are having devastating economic consequences for SIDS. SIDS constitute two-thirds of countries experiencing the highest relative annual losses from such events, with disaster-related damage as a percentage of gross domestic product (GDP) surging by nearly 90%.

The financial stability of SIDS is further compromised by escalating debt. More than 40% of SIDS are nearing or already in debt distress, and an alarming 70% surpass the debt-to-GDP sustainability threshold of 40%.

This debt crisis limits investment in social services, social protection and resilience building by diverting funds to debt servicing.

For the SIDS, breaking free from this vicious cycle is a question of survival.

The 4th UN International Conference on SIDS (SIDS4) in Antigua and Barbuda in May 2024 will see SIDS adopt the Antigua and Barbuda Accord for SIDS (ABAS), a ten-year plan for delivering a resilient future for SIDS. A central component of the Accord is creating a Global SIDS Debt Sustainability Support Service.

A Strategic Advisory Group (SAG) under the co-chairmanship of H.E. Prime Minister Gaston Browne of Antigua and Barbuda and H.E. President Dr Mohamed Muizzu of the Maldives, has worked with a wide range of stakeholders to develop this design document for the Support Service.

The Global Debt Sustainability Support Service will have four interconnected elements

(i) A layered approach to debt sustainability: this will involve designing multi-layered debt sustainability strategies

The Service design proposes a multi-layered, comprehensive approach to tackling existing debt to create the much-needed fiscal space for investment in resilience building. This approach involves a strategic layering of various existing debt relief measures, enabling SIDS to benefit from a combination of short-term relief and long-term structural adjustments to debt. This design would free up resources, allowing SIDS to invest in infrastructure development, longer-term climate resilience and socio-economic betterment, ensuring a more sustainable and resilient future.

(ii) Future protection measures

SIDS have repeatedly faced devastating economic setbacks due to climate-related disasters. The damages inflicted by some events have surpassed the affected nation’s annual GDP. These shocks have strained states’ financial capacities, limiting their ability to respond and rebound. The Support Service will work towards protecting SIDS against future climate-induced financial shocks via insurance and other protective measures. An integrated approach will combine insurance with other funding mechanisms that can help cover the losses from events, including those beyond insurable limits, through a guarantee or coverage against economic losses beyond a predetermined threshold.

(iii) Resilience investment

Investments in infrastructure, development and community-level resilience building efforts can protect SIDS for the future. This component of the Support Service will examine opportunities for issuing resilience bonds, blue or green bonds aimed at funding climate resilience initiatives, while also exploring new solidarity-based resilience finance mechanisms.
From an investment perspective, introducing these bonds would diversify the financing toolkit available to SIDS, offering an alternative to traditional loans or aid. The Support Service will combine introducing resilience bonds with existing measures to support access to climate finance.

(iv) Advisory and legal support

Many SIDS have limited capacity when it comes to navigating the complex mechanisms of debt restructuring, credit agency negotiations and the broader financial ecosystem. The Support Service’s fourth element will offer SIDS specialised legal and commercial negotiation support. It will also focus on building long-term legal and commercial capabilities within SIDS and regional hubs, equipping them with the skills and knowledge they need to navigate intricate legal and commercial issues.

The principle of SIDS leadership will be central to the governance model of the Support Service. Ensuring equitable access for all SIDS with transparency and accountability will be vital to its success. The proposed governance structure features regional Centres of Excellence in the Caribbean, the Pacific and AIS regions, coordinated through a central Secretariat and working under the supervision of a Strategic and Operational Oversight Board.

The SIDS Debt Sustainability Support Service will be officially launched at the SIDS4 conference, together with a call for international institutions, partners and stakeholders to commit to supporting the initiative. The SAG plans to create an implementation group following SIDS4 to help operationalise the Support Service.

Looking forward, the Global SIDS Debt Sustainability Support Service will help the SIDS achieve a resilient, prosperous future.
1. Small Island Developing States face unique challenges

SIDs across the Caribbean, the Pacific, and the Atlantic, Indian Ocean and South China Sea (AIS) regions face a unique set of challenges that are not fully captured by traditional income-based measurements. These countries, many of which are classified as middle- or high-income, grapple with significant vulnerabilities due to their small size, geographic isolation, large distance from international markets and lack of structural resilience that exposes them to environmental and economic shocks.

For example, despite their economic status, a Multidimensional Vulnerability Index (MVI) assessment reveals that SIDS have a similar vulnerability level to Least Developed Countries (LDCs), with scores around 56.64 for SIDS and 55.70 for LDCs, illustrating their susceptibility to shocks compared to other developing and developed countries.1

Despite contributing less than 1% to global greenhouse gas emissions, SIDS are disproportionately affected by climate change. Their geographical characteristics make them especially susceptible to disasters, the frequency and impact of which have escalated dramatically. IIED’s most recent research, ‘Sinking islands, rising debts (2023),’ shows that from 2011 to 2022, the population affected by disasters in SIDS increased by around 120% and deaths per million rose by about 60%. These climate disasters have devastating economic consequences. SIDS constitute two-thirds of countries experiencing the highest relative annual losses from such events, with disaster-related damage as a percentage of GDP surging by nearly 90% from 2011 to 2022. IIED analysis shows that the financial stability of SIDS is further compromised by escalating debt levels due to climate impacts. More than 40% are nearing or already in debt distress, and an alarming 70% surpass the debt-to-GDP sustainability threshold of 40%.

This debt crisis impacts more than just finances. It limits investment in social services, social protection and resilience building, exacerbating poverty and inequality. Furthermore, it hampers progress towards the Sustainable Development Goals (SDGs) by diverting funds to debt servicing. The role of climate finance is also in question, as much of the support to SIDS comes in the form of loans, adding to the debt burden.

2. A way forward: building fiscal resilience in the face of the climate crisis

For the SIDS, breaking free from this vicious cycle is not just an economic imperative but a question of survival. The interconnected challenges of climate change and debt require a concerted, multifaceted response. The United Nations General Assembly, through a new 10-year programme of action for SIDS entitled the Antigua and Barbuda Agenda for SIDS, endorsed the creation of a Global SIDS Debt Sustainability Support Service with the goal of supporting SIDS in executing a new financial compact for resilient prosperity. The Debt Sustainability Support Service will have four interconnected elements (see Figure 1):

(i) A layered approach to debt sustainability. This will involve designing multi-layered debt sustainability strategies that combine contingent clauses, parametric insurance, debt restructuring and debt swaps. The approach will be tested through simulation models to assess its impact on debt servicing and overall debt stock with the view to creating fiscal space for resilience investment. It can build on existing efforts to improve debt management and data availability in SIDS, as well as efforts to change the way debt sustainability analysis is structured and applied.

(ii) Future protection measures. Ensuring future protection for SIDS is important so that they do not fall into the cycle of debt distress again. By instituting robust safeguards, such as insurance products that limit economic losses from climate-related disasters, countries can gain a shield against climate uncertainty. These safeguards would include designing insurance products and alternative funding mechanisms that offer fiscal breathing space and guard against future crises or shocks, including those from climate-related events that cause economic losses.

(iii) Resilience investment. Investments in infrastructure, development and community-level resilience building efforts can fortify SIDS against future challenges, ensuring they not only survive but thrive in the face of global challenges. These would involve identifying opportunities for issuing resilience, sustainable and thematic bonds including blue or green bonds aimed at funding climate resilience initiatives while also exploring new solidarity-based resilience finance mechanisms. This can also be combined with existing measures to support SIDS’ access to climate finance and build on the impact of the MVI in offering SIDS improved terms.

(iv) Advisory and legal support. This component will aim to offer specialised legal and commercial negotiation support to SIDS. Designing resilience investment bonds/deals requires specialised legal guidance to attract private sector investment and support debt management. This assistance will empower SIDS to make informed decisions and engage in dialogues while protecting their interests and promoting their aspirations. It will also focus on building long-term legal and commercial capabilities within SIDS and regional hubs, equipping them with the skills and knowledge needed to navigate legal and commercial issues.

Figure 1 Four interconnected components of the Global SIDS Debt Sustainability Support Service

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This Service will directly respond to the needs expressed by SIDS at the Cabo Verde Interregional Preparatory Meeting for the 4th SIDS Conference (30 August–1 September 2023) and the Alliance of Small Island States (AOSIS) Leaders’ Declaration (22 September 2023), which calls for the establishment of a dedicated debt treatment mechanism and ex-ante financing for systemic resilience building.

Box 1. The design process

The design process of the SIDS Debt Sustainability Support Service was launched in December 2023 at COP28. To steer and guide the design process, a Strategic Advisory Group (SAG) under the co-chairmanship of H.E. Prime Minister Gaston Browne of Antigua and Barbuda and H.E. President Dr Mohamed Muizzu of the Maldives was established with the aim of launching the Support Service at the SIDS4 Conference in May 2024, and integrating it with the agreement and implementation of the Antigua and Barbuda Accord for SIDS (2024–2034). Details of the SAG are provided in Annex 1.

Working under the guidance of SAG members, three deliberative dialogue sessions were held in April 2024.

The first session focused on getting input for the design of services for supporting debt sustainability, future protection and resilience investment. The second session focused on designing the advisory and legal support services for SIDS, and the third session focused on the governance mechanism and operational structure. The inputs from these dialogue sessions informed the design of the Support Service.

The SIDS Debt Sustainability Support Service will be officially launched at the SIDS4 conference. An implementation group will be created under the guidance of the SAG after the SIDS4 conference to help operationalise the Support Service.

Figure 2 Proposed timeline for design and operationalisation of the SIDS Debt Sustainability Support Service


4 Alliance of Small Island States (September 22, 2023) 2023 AOSIS Leaders Declaration. www.aosis.org/2023-aosis-leaders-declaration-2

5 The fourth International Conference of Small Island Developing States (SIDS4) will be held from 27 to 30 May 2024 in St John’s, Antigua and Barbuda, under the overarching theme of ‘Charting the course toward resilient prosperity’. The Antigua and Barbuda Accord (2024–2034) will be announced at the SIDS4 conference. The Accord is expected to be a vital 10-year roadmap that will replace the SAMOA Pathway (the previous 10-year agenda) and guide global efforts to enhance the resilience and prosperity of SIDS.
3. Support service under each component

The rationale for a multifaceted and comprehensive service like the SIDS Debt Sustainability Support Service lies in its ability to offer cohesive support that addresses the complex, interwoven challenges confronting SIDS in the face of climate change and other economic crises caused by external factors.

By providing a holistic support framework, this initiative aims to empower SIDS to navigate their unique challenges, enhancing their capacity to adapt, thrive, and contribute to the global effort towards sustainable development and climate resilience.

Box 2. The rationale for a layered approach to debt sustainability

When a country is hit by a climate disaster, different types of funding support are needed to help it recover from both climate and debt crises. Funding needs can typically be divided into three phases: immediate relief and support, medium-term recovery and longer-term resilience building. Lack of support in any of these phases can negatively impact the population and the economy, undermine their capacity for coping with such disasters in future and push countries into downward spirals of debt. SIDS need financial assistance in all three phases of post-disaster recovery to allow them to adequately prepare for, cope with and recover from recurring climate shocks.

To date, no existing debt relief measures have adequately met these needs and helped countries get their economies back on track after being hit by a disaster or series of disasters. Therefore, a combination of debt relief packages would work best in restoring solvency and covering their recovery needs over the short, medium and long term. The impact of such a layering approach of debt relief measures on the debt servicing for SIDS is presented in Figure 3 below.

Layering could reduce the cumulative debt servicing of US$394.78 billion for SIDS (based on data of 33 SIDS) from 1990–2021 to US$223.64 billion. This could translate into a reduction of annual debt servicing of SIDS from US$12.34 billion to US$9.49 billion. Simulation of the probability of growth rate occurrence due to different debt stock reduction options shows that layering can increase the average GDP growth rate of SIDS from 5.94% to 8.91%. Moreover, the GDP growth trajectory would enhance investor confidence, further stimulating resilience investment.

![Figure 3](https://www.iied.org/21606iied)  
1 and 2: the debt servicing reduction is provided only in disaster-hit years.

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Accordingly, the SIDS Debt Sustainability Support Service aims to provide the following support:

3.1 Creating fiscal space through a layered approach to debt sustainability

The Service design proposes a multi-layered, comprehensive approach to tackling existing debt in order to create the much needed fiscal space for investment in resilience building. This involves a strategic layering of various existing debt relief measures, which would enable SIDS to benefit from a combination of short-term relief and long-term structural adjustments to debt. This would free up resources, allowing SIDS to invest in infrastructure development, longer-term climate resilience and socio-economic betterment, ensuring a more sustainable and resilient future.

The proposed services (see Figure 4) delivered as part of this component will aim to enhance debt sustainability and fiscal resilience, as follows:

**Figure 4** Proposed support service for creating fiscal space

1. Debt sustainability assessment and credit enhancement

The Support Service will assess the debt situation, evaluating the ability of SIDS to manage debt obligations while maintaining fiscal health. This will include examining factors like debt-to-GDP ratios, payment schedules and revenue-generating capacity. The Service will also assess the impact of climate disasters on economic stability and debt servicing, tailoring debt relief and innovative financing measures to suit each country’s unique circumstances.

The support service would also explore credit enhancement options that could enable SIDS to have access to climate finance and reduce the cost of borrowing, which will contribute towards debt sustainability.
2. Assessment of financial implications
The Support Service will analyse the financial implications of various debt relief strategies, and explore the costs and benefits of different relief options, both individually and in combination, to identify the most efficient paths to creating fiscal space. The analysis will include assessments of potential savings, the impact on fiscal space and the viability of securing favourable borrowing terms in the future. The analysis will also consider additional financial supports, such as climate finance and humanitarian aid, to ensure a comprehensive financial strategy.

3. Assessing policy coherence
The Support Service will focus on aligning debt relief efforts with national climate adaptation and mitigation strategies, as well as broader sustainable development goals. This will entail integrating debt relief measures with existing policies, assessing regulatory and legal frameworks to support implementation, and evaluating the socio-economic and environmental impacts of these measures to ensure they contribute positively to the country’s developmental and climate goals.

4. Stakeholder engagement and coordination
The Support Service is designed to focus on facilitating stakeholder engagement and coordination to ensure the effectiveness, transparency and legitimacy of the debt relief process. This will involve working closely with government agencies, financial institutions, civil society and other relevant parties to gather diverse perspectives and foster a collaborative approach to developing viable debt relief and financing solutions. The Support Service is also intended to include assessing and building institutional capacities to ensure efficient implementation and management of debt relief measures.

5. Assessment of legal and contractual implications
The SIDS’ accumulated debt portfolio is governed by a series of contracts, each with a set of terms, conditions and legal provisions. Navigating through these obligations would not only be a financial exercise but also a legal one. Contracts would require careful re-negotiation to ensure they do not lead to legal disputes or financial penalties. The Support Service is designed to undertake a review of these agreements, consulting with legal experts to ensure that the debt alleviation process carefully considers and manages any potential consequences for SIDS.

6. Developing the case for investment in social protection, the SDGs and climate resilience
With the alleviation of debt, there would be an opportunity for SIDS to channel investments into building resilience against climate threats. The Support Service will provide strategic guidance and advice on these investments, for example, investing in community resilience, disaster preparedness or promoting climate-resistant crops to ensure longer-term food security.
Box 3. The rationale for the future protection measures

By establishing such a protective mechanism, SIDS could ensure a cap on potential economic damages, introducing a layer of financial predictability amidst the uncertainties of climate change. Beyond this immediate safeguard, the benefits of such an insurance and funding mechanism would extend to reinforcing their economic self-reliance. Post-disaster payouts through insurance and other protection mechanisms would ensure that the economic growth of SIDS is not constrained and they are not pushed into debt due to financial recovery efforts. Moreover, this protective measure would instil confidence, both for potential investors and the community. It will act as a safety net to foster a sense of security and stability, crucial for the future socio-economic wellbeing of SIDS.

Figure 5 shows the cost of parametric insurance to cover SIDS’ annual disaster losses at 5% and 20% Loss Exceedance Probability (LEP) to cover 20%, 50% and 100% of the loss and damage value. This analysis is based on the loss and damage to GDP suffered by SIDS in the last 30 years.\(^7\)

The benefit of covering the cost of providing protection against such losses would far outweigh the debt default and the costs of debt restructuring that would need to be undertaken later if such support is not provided. IIED analysis shows that the benefit-cost ratio of parametric insurance to cover the losses caused by disasters at 5% LEP is 2.5, and 1.09 for 20% LEP.

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3.2 Future protection measures

The increasing frequency and intensity of climate-related events pose a continuous threat to the economies and livelihoods of SIDS. SIDS have repeatedly faced devastating economic setbacks due to climate-related disasters. The damages inflicted by a single extreme event have, in some cases, surpassed the affected nation’s annual GDP. These shocks have not only reversed developmental gains but also strained their financial capacities, limiting their ability to rebound effectively. Without a more long-term protective measure in place, SIDS will remain precariously exposed.

So, along with support for creating fiscal breathing space after such disasters through debt relief, the Support Service will work towards immunising SIDS against future climate-induced financial shocks through insurance and other protective measures. This is designed to be achieved through an integrated approach that combines insurance with other funding mechanisms that help cover the losses from events, including those that are beyond insurable limits, through a guarantee or coverage against economic losses beyond a predetermined threshold.

Figure 6 Proposed support service for future protection measures

The support (see Figure 6) to be provided as part of the future protection component will aim to enhance the resilience and financial stability of SIDS in the face of climate-related risks. The services under this component are designed to provide a systematic approach to risk management, insurance coverage and stakeholder engagement, as follows:

1. Facilitate risk pooling and premium structure assessment

The Support Service proposes to aggregate climate-related risks across SIDS to distribute potential financial burdens more evenly, making insurance premiums more affordable and sustainable. Some of the other countries and SIDS regions have already established insurance risk pools. In many cases, these programmes have been established to provide affordable insurance coverage for ‘uninsurable’ risks through private markets. In other cases, they promote solidarity by establishing regional risk pools to spread out the impact of losses. The Caribbean, Pacific Islands and African Union, for example, have set up the Caribbean Catastrophe Risk Insurance Facility, the Pacific Catastrophe Risk Assessment and Financing Initiative, and the African Risk Capacity Insurance Programme, respectively. The Support Service is designed to build on and bring together some of these existing pools with a view to creating a global risk pool.
By aggregating the climate-related risks of various SIDS, the initiative could distribute the potential financial burdens of climate disasters more evenly. This would mean that the occasional heavy payout to an individual Small Island Developing State due to a catastrophic event could be balanced out by periods with minimal or no payouts. This would help reduce the insurance premiums and cover events that are deemed as uninsurable. Over time, pooling could reduce the unpredictability of insurance payouts, leading to a more sustainable and affordable system. Such a system would become crucial, especially when considering that some SIDS might experience severe impacts infrequently but with devastating consequences when they do occur.

2. Define payout triggers

The agility of the insurance mechanism is determined by its payout triggers. The Support Service proposes the use of indexed triggers based on objective data, such as storm intensity or sea level rise, to initiate insurance payouts automatically. This approach ensures timely and predictable financial support after a disaster. A mechanism based on objective data would be more efficient to implement than relying on post-event assessments, which can be time-consuming.

3. Define coverage scope

Countries will need insurance protection against a full range of events. To provide this, insurance products will need to change how they consider climate modelling outputs. The Support Service will aim to refine insurance products to ensure comprehensive coverage against a wide range of climate events. The Support Service will aim to work with insurance providers and other stakeholders to move beyond average climate model outputs and provide insurance coverage that better reflects the range of potential impacts, including less likely but more catastrophic events. Similarly, the higher frequency of smaller disasters may also require coverage to help countries rebuild — because recurring moderate events can cause significant damage. This approach would acknowledge the varied nature of climate risks and seek to provide tailored financial protection.

4. Advocate for facilitating premium payments

Recognising the challenges faced by SIDS due to climate change despite contributing minimally to global emissions, the idea is for these premiums to be borne by international climate finance mechanisms or a dedicated global fund. The Support Service will advocate for getting funding commitments from international climate funds, philanthropies and the private sector, ensuring that SIDS are not unduly burdened. When pooling resources, the Support Service will explore the following: (i) what conditions would be attractive to insurers and reinsurers to keep premiums as low as possible? (ii) How can the risk pool work for a diversified portfolio of countries, given that some will be at higher risk than others and may need access to insurance support more often than others? (iii) What conditions would allow international climate finance to support risk pooling at scale? And (iv) how can the non-insurability of some events be addressed?

5. Support comprehensive risk modelling and data analytics

To support the pricing of insurance products and the design of effective coverage, risk analytics and modelling tools will be needed. However, the input data for such models are often unavailable or incomplete. Incomplete knowledge of hazard events and their impact means more uncertainty for insurance pricing. To address these needs and reduce uncertainties, the Support Service will focus on collecting and modelling hazard, exposure and vulnerability data. The data collection and models could be developed in collaboration with national meteorological and climate modelling experts. These could include academics, national meteorological, hydrological and geological services, and other government and non-governmental agencies that collect and maintain sectoral data, such as national bureaus of statistics. Such a process would help build capacity to promote sustainable maintenance of the risk data. Further, engaging in-country stakeholders would ensure that SIDS government needs and requirements are considered in the design of the triggers and thresholds. Finally, an inclusive approach will help ensure transparency regarding the source and analysis of risk parameters.

6. Establish collaboration between multiple stakeholders

Collective buy-in would be crucial to make future protection work. The Support Service will seek to engage SIDS governments, international financial institutions, the insurance industry, technical agencies and non-governmental organisations (NGOs). By fostering collective buy-in and cooperation, the Service aims to design insurance products and risk-pooling arrangements that offer optimum coverage and reflect the needs and vulnerabilities of SIDS.
3.3 Resilience investment

For SIDS, the challenge of climate adaptation and resilience is existential, and is exacerbated by the need to manage economic and natural disaster shocks. Investments in infrastructure, development and community-level resilience building efforts can fortify SIDS against future challenges, ensuring they not only survive but thrive in the face of global challenges. These investments would involve identifying opportunities for issuing resilience bonds, blue or green bonds aimed at funding climate resilience initiatives, while also exploring new solidarity-based resilience finance mechanisms.

At their core, these bonds offer direct financing for initiatives aimed at bolstering resilience to climate-induced impacts. This ranges from funding the establishment of robust infrastructure, such as storm-resistant housing and sea walls, to backing sustainable endeavours like renewable energy projects, reforestation efforts or biodiversity conservation. Resilience-building investments like these can help SIDS manage the immediate impacts of climate change and also pave the way for sustainable economic growth.

From an investment perspective, introducing these bonds would diversify the financing toolkit available to SIDS, offering an alternative to traditional loans or aid. This can alleviate some pressure from their already strained budgets. Introducing resilience bonds will be combined with existing measures to support access to climate finance for SIDS and build on the impact of the MVI in offering SIDS improved terms.

Some of the key services that will be provided under this component are shown in Figure 7 below.

![Proposed support service for promoting resilience investment](image)

1. Supporting strategic planning and assessing project viability

Any resilience, blue or green bond initiative for SIDS will need a robust strategic plan anchored in clear objectives. This would involve ensuring that bond proceeds are earmarked exclusively for resilience building or environmentally friendly projects.

The Support Service will provide strategic advice and also help build the capacity of SIDS to carry out feasibility studies for the design of resilience and adaptation projects, including assessment of project viability, associated costs, timelines and anticipated outcomes, along with comprehensive risk assessment.
2. Supporting the design of transparency, accountability and certification in investment products

Transparency and accountability are the bedrock of any bond’s success. Investors need assurance that their capital is being utilised ethically and effectively. The Support Service is intended to help SIDS integrate mechanisms that facilitate regular reporting, third party audits and ongoing monitoring of bond proceeds along with certifications from reputable entities to bolster investor confidence.

3. Providing legal advice on the design of investment products

Creating a conducive legal and regulatory environment will be essential. The Support Service will provide legal advice to SIDS to safeguard their interests. This would cover considerations such as the challenges of currency denomination choice and exchange rate fluctuations. These issues can significantly influence a bond’s appeal to both domestic and foreign investors. Other aspects to be considered will be bond pricing and bond duration with a view to striking a balance, making it attractive for investors and feasible for SIDS in the context of investment needs.

4. Supporting capacity building and market engagement

The global bond market is intricate and for SIDS there is a steep learning curve. The Support Service design envisages capacity building initiatives embedded within the Support Service to empower SIDS and deepen their understanding of market dynamics, financial nuances and the effective management of bond proceeds. At the same time, there is a need for proactive market engagement. The Support Service will engage in raising awareness among potential investors about the particular challenges faced by SIDS and the multifaceted benefits of these bonds, which could help drive demand and foster a larger investor base.

5. Providing advice on post-issuance management and utilisation

Issuing a bond is only half the journey: the real challenge lies in post-issuance management. Efficient utilisation of funds and channelling them into designated projects are tasks that require proper oversight. The Support Service is intended to provide support to SIDS in designing a rigorous project management approach, with regional centres of excellence (see section 4) ensuring that SIDS are able to report on tangible development and resilience building outcomes.

6. Advocacy for climate finance

The Support Service will undertake targeted advocacy campaigns on climate finance to help SIDS access different climate finance windows. The focus would be particularly on the Green Climate Fund and the newly created UN Loss and Damage Fund for Developing Countries. The purpose would be to facilitate access to grant funds for resilience building and, where possible, use these funds to leverage additional concessional finance for SIDS.

3.4 Expert advisory and legal support

In the rapidly evolving global finance landscape, SIDS may find themselves at the intersection of vulnerability and opportunity. Many SIDS have limited capacity when it comes to navigating the intricate world of debt restructuring, credit agency negotiations and the broader financial ecosystem, which puts them in a disadvantageous position. The intricacies of international finance and debt negotiations, compounded by the nuanced economic and environmental challenges facing SIDS, often tilt the balance against them, resulting in less favourable terms or missed opportunities.

Increasingly, SIDS are also engaging with private creditors, who now hold a significant portion of SIDS debt. Private creditors often employ intricate loan agreements, which may contain terms that may not be immediately clear or favourable to the nations involved. For many SIDS, the fine print and long-term implications of such contracts are hard to decipher, given their limited expertise in this field.

This component will aim to offer specialised legal and commercial negotiation support to SIDS. It will also focus on building long-term legal and commercial capabilities within SIDS and regional hubs, equipping them with the skills and knowledge needed to navigate legal and commercial issues. The proposed support (see Figure 8) includes the following:
1. Undertaking assessments for efficient debt management

The vulnerability of SIDS to climate impacts may be perceived as a high economic risk by creditors and they may accordingly reduce their credit scores. This can increase borrowing costs for SIDS. While some SIDS might have the expertise for negotiations with creditors to ensure they are not unduly penalised with poor ratings due to climate risk exposure, others may need support. The Support Service will offer advice, ensuring SIDS can secure favourable lending terms or debt relief agreements. The aim is to create a comprehensive database of all SIDS that can support data analytics, bringing in geopolitical insights and technical expertise to develop comprehensive strategies that resonate with the various challenges and the need for investment in resilience.

2. Examining credit rating nuances

The impacts of climate change and other risks on credit rating can be challenging to grasp. The Support Service would create a dedicated advisory platform for SIDS to serve as a bridge between SIDS and credit rating agencies, ensuring that the rating methodologies holistically capture the particular challenges facing SIDS using the MVI, instead of applying generic criteria that might overlook nuances.

3. Harnessing resilience bonds and insurance markets

The financing avenues of resilience bonds and insurance products, though beneficial, can be laden with complexities, such as the pricing of the products/premiums and risk assessment. The Support Service will provide comprehensive guidance on leveraging these financial instruments tailored to the particular requirements of SIDS.

4. Supporting capacity building

The Support Service is designed to provide gradual capacity building for SIDS by enabling knowledge transfer, upskilling government negotiators, and providing mentorship through local legal teams, NGOs and advocacy organisations on topics such as debt management and investment negotiations, thereby fostering a self-reliant, sustainable ecosystem of expertise within SIDS.

5. Leveraging collective political strength

By unifying the collective interests of all SIDS, the Support Service will offer a consolidated voice and strategy in international negotiations, securing terms that truly resonate with SIDS’ needs and aspirations.
Box 4. How will the proposed approach take SIDS towards resilient prosperity?

The Global SIDS Debt Sustainability Support Service design envisages an interconnected approach that addresses the multi-layered nature of SIDS challenges. By harmonising capacity building, financial strategy, policy coherence and stakeholder collaboration, as shown in the theory of change (Figure 9), the Support Service will not only improve protection for SIDS from the immediate impacts of climate change but will also steer them towards a future defined by resilient prosperity.

At the core of this approach is enhancing capacity, which comprises the development of technology and skills, and the provision of tools and guidance to SIDS. This foundational element directly links to the Support Service’s commitment to fostering fiscal resilience through a layered debt strategy. By enhancing technological capabilities, SIDS can implement more efficient data management and financial planning. Skills development ensures that local professionals are equipped to handle complex financial instruments and legal challenges. Tools and guidance are important in applying these skills and technologies effectively, ensuring that policies and investments are well-informed and targeted.

This approach also underscores the importance of strong institutions and robust policy frameworks. Institutions will benefit from the Support Service’s advisory and legal support components, bolstering their ability to manage debt and investments effectively. This reinforces the role of policy coherence, ensuring that SIDS can align their debt management strategies with their climate adaptation and mitigation goals. As these institutions strengthen and policies become more integrative, SIDS can better access and utilise finance options tailored to their needs, such as the suggested resilience bonds and risk-pooling insurance measures. The financial strategies developed through the Support Service will help SIDS manage and recover from climate impacts, preventing catastrophic economic losses and promoting sustainable growth.

Partnerships and governance structures, as depicted in the theory of change, are vital in linking the Support Service’s aims with tangible outcomes. Stakeholder engagement and coordination enhance the collective efficacy of resilience measures. By advocating for equitable premium payments and utilising innovative risk modelling, the proposed approach aligns with the principles of shared responsibility and mutual benefit, which are key to resilient prosperity. Finally, research and development facilitated through the Support Service ensures that SIDS can make evidence-based decisions, fostering an environment where climate resilience is continuously improved through innovation and learning.

![Figure 9](image.png) Theory of change for taking SIDS towards resilient prosperity
Given the diversity among SIDS — each with its unique set of resources, vulnerabilities and developmental goals — a one-size-fits-all solution cannot effectively address the varied challenges and needs of different countries. Accordingly, we propose a flexible, tailored approach to the governance and delivery of the Support Service so that it is adaptive and capable of being customised to meet the specific needs and aspirations of diverse SIDS, and ensures that every nation can access the support needed to help them meet their targets for resilience and prosperity. We propose the following governance arrangements and service structure.

4.1 Governance structure and approach

The governance structure and approach for the Global SIDS Debt Sustainability Support Service will be designed to embody the core principles of inclusivity, transparency, adaptability and collaboration (see Figure 10), ensuring that SIDS retain leadership and ownership over initiatives that influence their future. By promoting broad participation and integrating the unique perspectives and needs of SIDS into decision making, the approach aims to establish a dynamic and adaptable governance structure that can effectively respond to regional challenges.

Central to implementing this governance framework will be the creation of a Secretariat, complemented by regional mechanisms tailored specifically for the three SIDS regions — the Caribbean, the Pacific, and the AIS. Recognising that each region has distinct vulnerabilities and capacities, the governance arrangements will be developed during the operational phase by the SAG. The SAG will engage in comprehensive consultations with representatives from the three distinct SIDS regions. This consultative approach will ensure that the governance model integrates diverse regional insights and needs effectively. The engagement will not be limited to regional representatives but will also include a variety of stakeholders such as finance ministries, civil society and the private sector, fostering a broad-based, inclusive approach to decision making.

In addition to leveraging regional input, the Support Service is designed to build on the strengths of existing regional institutions and organisations that have a proven track record in aiding SIDS. By forming strategic partnerships with notable global institutions, the service aims to position its Secretariat as a powerful advocate for SIDS on the international stage. These partnerships are crucial for securing the necessary resources and support, thereby enhancing the Service’s global impact. Such collaborations will not only extend a global network of support but also ensure that the initiatives remain firmly rooted in local realities and needs, promoting tailored and effective solutions that resonate with the unique circumstances of each SIDS region. This dual focus on local and global collaboration will amplify the impact and reach of the governance model, fostering sustainable development and enhancing the resilience of SIDS.

| Inclusivity and participation | Multistakeholder engagement and ensuring all SIDS have equal voice in governance and decision making |
| Adaptable and flexibility | Respond swiftly to emerging challenges, adjust strategies based on changing conditions and embrace innovative approaches |
| Collaboration and partnership | Work with IFIs, MDBs, private sector, insurance providers, legal institutions, and local and regional institutions |
| Transparency and accountability | Clear reporting mechanisms, open communication channels, and regular updates on progress, challenges and financial management |

Figure 10 Proposed governance approach

IFIs: International Finance Institutions  
MDBs: Multilateral Development Banks
4.2 Service structure

A comprehensive approach to ensure accessibility, equitable support distribution and high quality service will be crucial. The Support Service structure will draw on global best practices and lessons from successful initiatives, such as the African Legal Support Facility, to create a model that is both inclusive and impactful. Equitable access will be guaranteed by creating a regional mechanism to offer support services across different regions. This will include providing materials in multiple languages and offering various application methods to access the Support Service to accommodate varying levels of digital infrastructure in different countries. The quality of these services will be ensured through a comprehensive quality assurance framework, which will emphasise regular evaluations, capacity building and stakeholder feedback.

5. The future pathway to resilience

The Global SIDS Debt Sustainability Support Service is designed to play an important role in addressing the unique challenges faced by SIDS. This initiative’s multifaceted operational strategy, emphasising capacity building, knowledge exchange and partnership development, is designed to equip SIDS with the tools and resources necessary to navigate the complexities of their economic and environmental landscapes. By drawing on global best practices and fostering collaborations with international financial institutions, the private sector, legal experts and insurance providers, the Support Service aims to build a robust support network that can empower SIDS to achieve their resilience goals while maintaining their self-reliance and environmental integrity.

Central to the success of the Global SIDS Debt Sustainability Support Service will be the commitment to ensuring equitable access to all SIDS, promoting transparency and accountability in service delivery, and maintaining the highest standards of quality in all interventions. With the continued support and engagement of SIDS communities, global partners and stakeholders across various sectors, the Global SIDS Debt Sustainability Support Service is expected to catalyse transformative change, driving progress towards a more resilient and prosperous future for SIDS.
Annex 1: members of the Strategic Advisory Group

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H.E. Gaston Alphonso Browne, Prime Minister, Antigua and Barbuda

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Hyginus Gene Leon, President of the Caribbean Development Bank (CDB)

Baran Han, Senior Economist, Operations Policy and Country Services and Zehra Aslam, Economist, Development Finance at the World Bank

Noelle O’Brien, Director, Climate Change, Asian Development Bank (or her nominee)

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Small Island Developing States (SIDS) are experiencing increasingly frequent climate-related disasters with severe consequent economic impacts. These nations’ financial stability is further compromised by escalating debt: more than 40% of SIDS are nearing or already in debt distress.

This document sets out the design for a Global SIDS Debt Sustainability Support Service, which will feature a layered approach to debt sustainability, future protection measures, resilience investment, and advisory and legal support.

The Support Service is a central component of the Antigua and Barbuda Accord for SIDS (ABAS), a ten-year plan for delivering a resilient future for SIDS.