



Disclaimer

The views expressed in this Presentation are those of the author and should not necessarily be considered as reflecting the views or carrying the endorsement of the United Nations.

The Presentation describes preliminary research in by the author and is provided at this Working Group to elicit comments and to further discussion.

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Currently adviser to the NSW Government focussed on new & innovative programs for procurement. My team manages a business accelerator focused on the social sector.

Director to various technology start-ups (drones, coworking, fintech).

Management experience with international environmental commodities and stock exchanges in the USA, South Africa, Netherlands and Australia.

Previously Chief Investment Officer for Australia's fastest growing solar installer and managed a portfolio of Clean Development Mechanism projects.

Formerly Legal Counsel to the Australian Securities Exchange(ASX). Lawyer and Economist by education.

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Focus

This session will inform a draft paper that will highlight current resource mobilization issues, challenges and opportunities for Small Island Developing States (SIDS) in the Pacific. Proposing a few key areas of cooperation and policy options for the regional and international community to consider.

My professional experience has focused on innovative financing whether it be:

- Market Mechanisms (renewables, carbon, energy efficiency, biodiversity, water)
- Equity market developments (South Africa and Australia)
- Outcomes based models (youth unemployment)
- Social Impact Bonds and Green Bonds
- Competitions, Prizes and Incubation to encourage technological innovation

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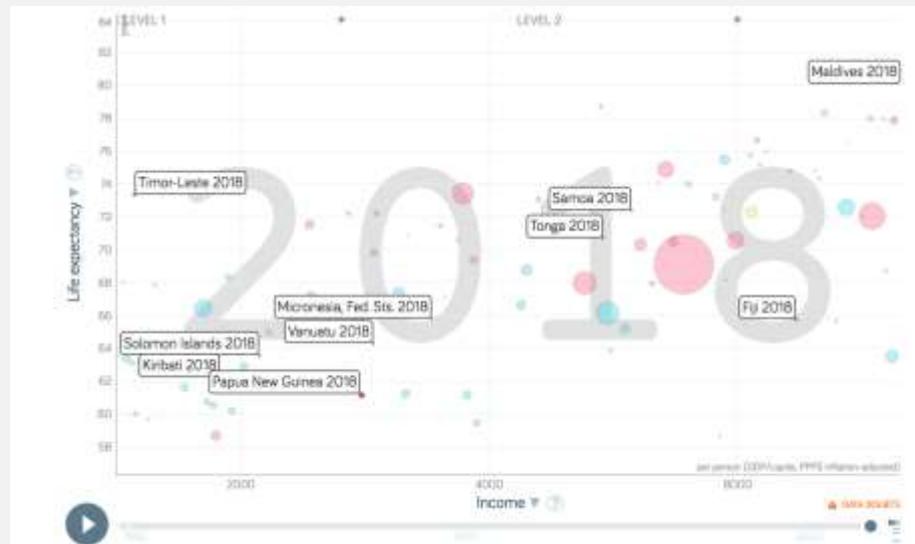
Context

1. Brief commentary on the economies of Small Islands Developing States in the Pacific
2. Climate finance & natural disasters
3. Potential sources of economic growth in the Pacific
4. Options for resource mobilization led by nation govts
5. Case Studies
6. Alternate pathways (innovative ways to mobilize resources)

<https://data.worldbank.org/indicator/YS.BUS.EASE.XD>

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Economic: Income and Life Expectancy



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Fiscal Volatility

Major employer is the Govt.

In Kiribati and Tuvalu the level of government expenditure averaged about 100% of total GDP between 2007 and 2016.

Although the amount was less in Marshall Islands, the Federated States of Micronesia, Nauru, Palau and Solomon Islands, government expenditure averaged between 40 and 80% of GDP during the same period.

Grants and aid is another cause of fiscal volatility particularly following natural disasters, this also has an impact on economic growth during the rebuilding.

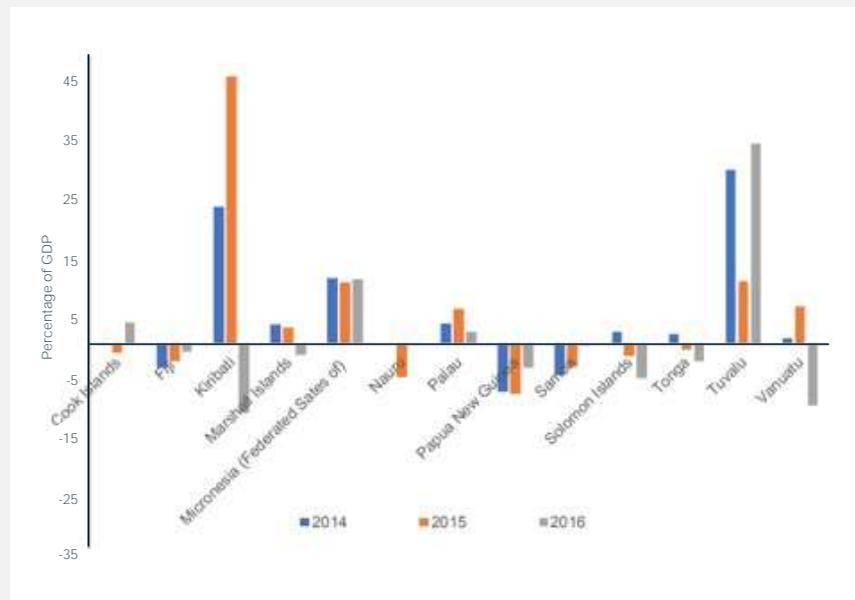
Volatile revenue flows, including from aid and natural resource rents, combined with rigid recurrent expenditure commitments and the impossibility to benefit from economies of scale in the provision of public services contribute to underpin fiscal volatility.

As a result, predictability of funding and the capacity to fund national development plans, including basic services and infrastructure, are compromised.

This makes it difficult for Pacific island developing countries to engage in sustainable development projects in the medium-to-long run.

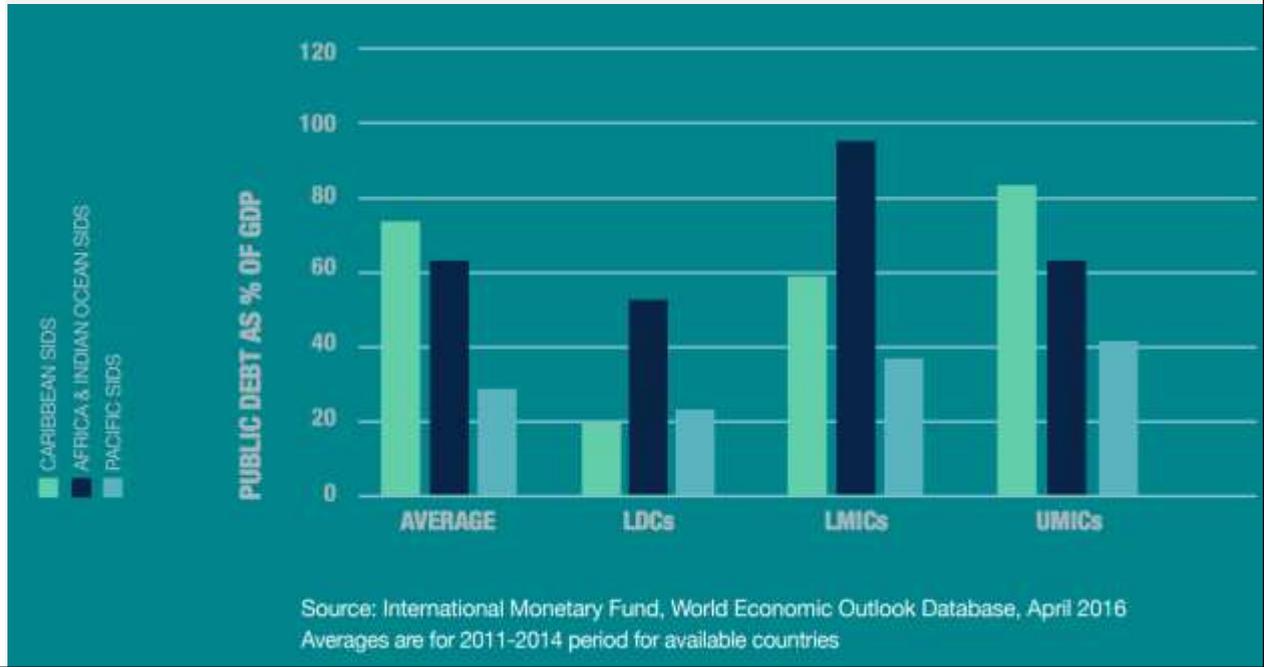
https://www.unescap.org/sites/default/files/MPPF%20Policy%20Brief%2075_Managing%20fiscal%20volatility%20in%20the%20Pacific_1.pdf

Fiscal expenditure (% of GDP)



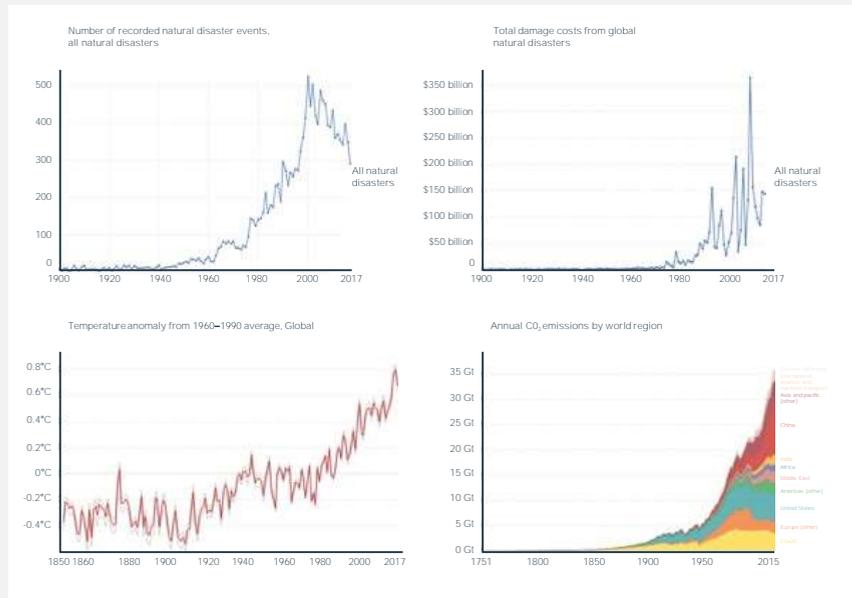
https://www.unescap.org/sites/default/files/MPPF%20Policy%20Brief%2075_Managing%20fiscal%20volatility%20in%20the%20Pacific_1.pdf

Govt Gross Debt as % of GDP in SIDS



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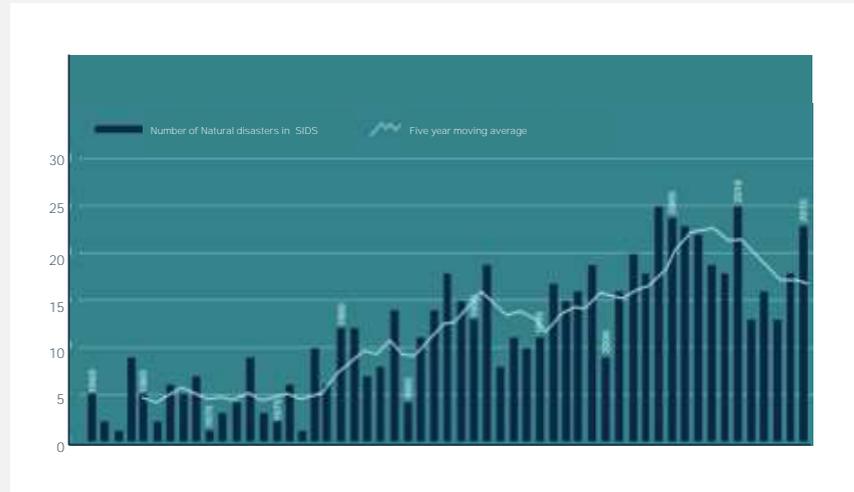
Climate: Risk of Natural Disasters



<https://ourworldindata.org/>

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Climate: Natural Disasters in SIDS



Source:
https://www.gfdrr.org/sites/default/files/publication/Final_CDREFinSIDS_20170208_webversion.pdf

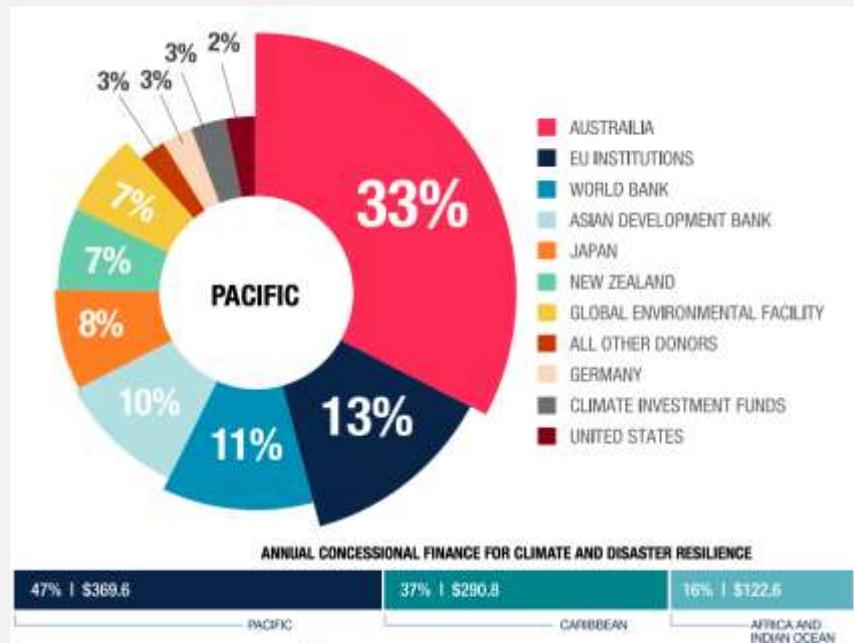
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Climate Finance: Resilience and Adaptation

- Investing in schools, hospital energy, water, sanitation and telecommunications.
- Resilient infrastructure not to avoid climatic disasters but to get back on your feet faster.
- A few reports recognise more funding is needed into ecosystems and land use management (note Germany the largest donor to this area – 23% in 2014)
- Providing resilient infrastructure and having capital ready for deployment. This already occurs and SIDS providing an uplift in economic activity post disasters.

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Donors to SIDS by economic region— Climate and disaster resilience financing



Source:
https://www.gfdrr.org/sites/default/files/publication/Final_CDRCFinSIDS_20170208_webversion.pdf

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Sources of Economic Growth

OCEANS

- Fishing—An emerging source of revenue is the windfall fishing revenues in recent years for six of the eight Parties to the Nauru Agreement.
- For Kiribati, Marshall Islands, the Federated States of Micronesia, Nauru, Palau and Tuvalu, estimates show a twofold increase in average fishing license revenues across these economies between 2012 and 2015.
- But intrinsically volatile.

FOREIGN INVESTMENT – IT APPEARS TO BE COMING

- It is likely more funding will be available.
- Commentary on recent activity from the Chinese, Australian, USA, Japanese. All are increasing their aid and strategic focus on the region:
 - China will more likely to direct loans for infrastructure projects
 - Australia and others may be moving into a new period of structured finance

https://www.unescap.org/sites/default/files/MFFD%20Policy%20Brief%2075_Managing%20risca%20volatility%20in%20the%20Pacific_1.pdf

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Tourism on the rise particularly in Asia Pacific



Source: United Nations World Tourism Organisation (UNWTO) (2017)

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Options for resource mobilization

Capital Markets

Foreign Direct Investment

Capital Markets for Infrastructure

Other sources

<https://data.worldbank.org/indicator/IC.BUS.EASE.XD>

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Foreign Direct Investment

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- Given rich marine biodiversity, FDI flows into the SIDS over the years have been largely concentrated in the tourism and fishing sectors & more recently telecommunications.

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- The SIDS face considerable structural headwinds in attracting stronger FDI flows. The small market size of these economies prevents gains from economies of scale, leading to higher production costs. This is compounded by remoteness from international markets, inadequate infrastructure and high transport costs

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- Long-term risk factors such as the exposure associated with increased cost of climate change and increased risk of natural disasters have been exacerbated by weaker economic performance of SIDS since the global financial crisis.

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But it looks like the tide is turning!

- Important to keep the medias spot light on the region
- Positive stories about the Pacific for readers in developed world
- Increase tourism and increase FDI

https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/WE-SP-2018_Full_Web-1.pdf

Capital Markets

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Capital markets may complement bank financing and provide an alternative intermediation mechanism between investors and project developers.

Across the globe low interest rates has made banks a particularly attractive source of project financing, for example Japan which has seen bank finance grow from 66% (2005) to 90.7% (2015) the same in Filipino Banks.

These markets could connect investors seeking for higher yield investments to infrastructure projects in emerging countries.

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Capital markets might assist in channelling abundant savings available in Asia.

Superannuation and pension schemes from (ANZ) within the region instead of having these resources flowing to more mature economies.

SIDS in the Pacific have particularly underdeveloped capital markets with many of them having neither a bond market nor a stock exchange.

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Capital Market for Infrastructure

Infrastructure Financing:

• Maturity mismatch occurs when a bank funds long-term assets (such as fixed rate mortgages) through its short-term liabilities (such as deposits). Capital markets can better align private sector financing with longer term infrastructure assets. Bank loans to infrastructure projects often need refinancing after 10-15 years, imposing a risk on the developer.

• Credit Limits also contain investment from banks that often impose lending limits on single counterparties. Bonds on the other hand spread risk over a larger diverse pool of investors.

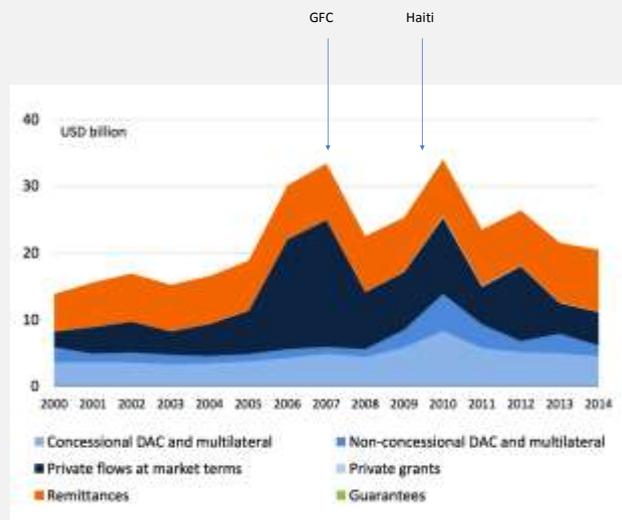
• Liquidity for investors that can trade the underlying security facilitating transfers before maturity.

• Hybrids may de-risk institutional risk appetite through government underwriting a portion of the loan to encourage greater investment and stimulate investment. For example—impact bonds with a risk free return underwritten by govt; note issue with govt credit worthiness.

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Other areas for consideration

- China and Australia spotlight - Increased funding to the Pacific Area
- Remittances



2014 External Finances in SIDS - OECD

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Examples of opportunities

Solomon Islands

Fiji

Impact Investing

Something new??
Competitions &
Digital Govt

https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/WE-SP-2018_Full_Web-1.pdf

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Credit Markets— Solomon Islands

• Lack of Credit Markets—compared to larger developing countries with similar incomes per capita SIDS struggle to access international financial markets. Most Pacific SIDS are not sufficiently credit worthy to raise funds in capital markets; only Fiji, Solomon Islands and PNG have credit ratings from the major international credit rating agencies. Support for fiscal reforms, public financial management and investment are necessary to mobilise international private capital.

• Example: Prudent fiscal management (surplus since 2009) and **Australia's** sustainable aid assisted the Solomon Islands obtain a **Moody's** B3 credit rating in 2015. In 2017 government issued the first Domestic Development Bond Agreement which raised USD\$150M.

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Green Bonds —FIJI

- Fiji became the first emerging market to issue a sovereign green bond, raising US\$50 million, to support climate change mitigation and adaption
- As part of a broader strategy IFC are aiming to stimulate private sector investment, promote sustainable economic growth and reduce poverty in the Pacific.
- At the request of Fiji's Reserve Bank, the World Bank and the International Finance Corporation (IFC) provided technical assistance to assist the government in issuing a sovereign green bond.
- The global green bond market is expected to reach US\$134.9 billion in 2017.
- Coupon: 5 years: 4.00%; 13 years: 6.30%

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Impact Investing— Outcomes and Social Bonds

Outcomes Based Funding Agreements

- Incentivization based on outcomes rather than service delivery, enabling service providers to be nimble and reactive to opportunities aligned with meeting pre-determined policy targets rather than restrictive in the delivery of service models
- \$70M youth unemployment policy in NSW – Smart Skilled and Hired

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Innovation through technology and science competition

Competition—Xprize

- Water Abundance XPRIZE USD 1.75 million - extract, cost-effective water
- Wendy Schmidt Ocean Health XPRIZE USD 2 million - accurately measure water chemistry

Funded by Australian Aid, Tata Group and ANA (Japan), Wendy Schmidt and NOA and ACT

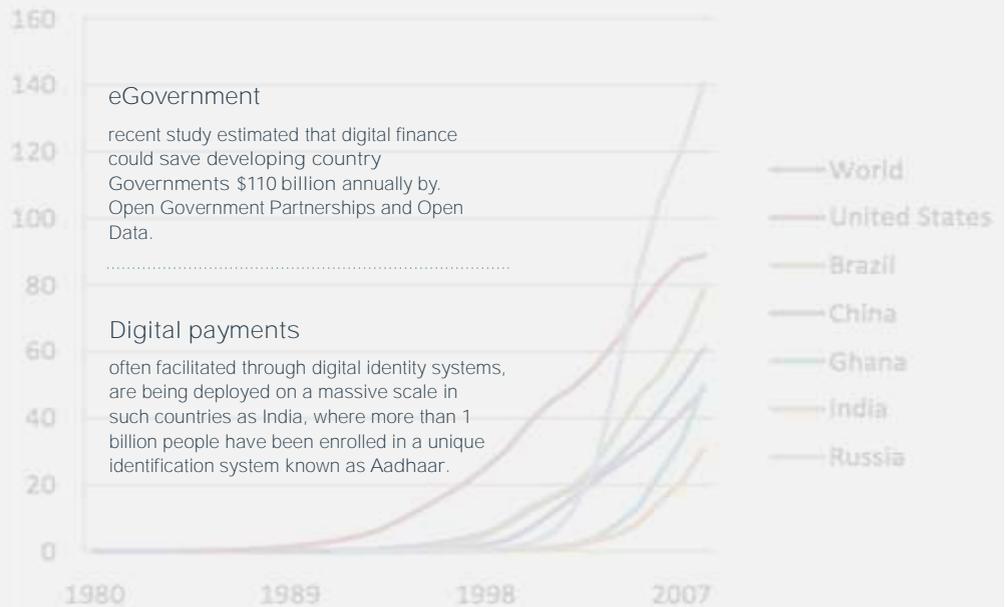
<https://water.xprize.org/prizes/water-abundance/sponsors>

Competition - NSW Innovation Challenges targeting:

- Reducing domestic violence
- Youth unemployment
- Smart Cities

26 companies funded with \$13M by the NSW Government

Digital Govt



https://www.unescap.org/sites/default/files/MPFD%20Policy%20Brief%206_Tech%20in%20Fiscal%20Mgmt.pdf

Reflection: Policy considerations

- Leadership and Governance, improve transparency of decisions making investment, risks and project outcomes.
- Experiment and evaluation
- Partnerships—Engage and promote across boundaries, share lessons. Collective bargaining.
- Private Sector Financing products for development—corporations in particular global technology firms are increasingly competitive on CSR outcomes, India has enacted a CSR
- Promoting micro, small and medium-sized enterprises. Youth and entrepreneurs.
- Divert capital for sustainable development towards social and environmental (market mechanism or tax)
- Government Procurement—can unlock shared value by requiring social and environmental outcomes to be considered alongside economic values, examples include the Mauritius Greening Economy initiatives and Australian Government focus on indigenous businesses.
- Innovative public sector funding for Science, technology and Innovation
- Create a roadmap for investing—so there is an infrastructure plan that aligns with the needs of the country

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Reflection: Policy considerations

- Resource Based Taxes—The imposition of various levies and taxes on tourism activity in Fiji and Palau, and application of duties on prescribed volumes of mineral water extracted in Fiji provide some other examples
- Manage fiscal volatility through Sovereign Wealth Fund - Recent sharp increases in fisheries license revenues have enabled recipient countries to increase savings in public trust funds, including the Tuvalu Trust Fund
- Insurance to share risk of natural disasters— Notably, a risk-sharing mechanism called the Pacific Catastrophe Risk Insurance Company, provides limited insurance cover for five Pacific island economies, namely Cook Islands, Marshall Islands, Samoa, Tonga and Vanuatu. Another example of an innovative contingent financing product worth \$25 million recently provided to Cook Islands, Samoa, Tonga and Tuvalu by the Asian Development Bank will provide a source of near-immediate financing for early recovery activities from disaster events. However ESCAP considers assisting with insurance premiums may be another avenue for international support.
- Use market mechanisms to promote diverse energy mix—for example renewable energy and energy efficiency or fuel switching, but not necessarily a carbon tax which can be a relatively difficult and ineffective mechanism for mitigation activities

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Thank You

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Addendum: SID Country Overview

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Fiji

Surface Area: 18,270 sq k

Population: 885,000 (2017)

Unemployment: 4.5%

GDP: 5.4 USD billion

GDP Per Capita:

\$6120.40 USD

Economic Growth: 3.5%

Current Account Balance: 0.3

US billion (-5.2%)

Inflation: 3.3%



Image by Paul Harris / Getty Images

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Kiribati

Surface Area: 810 sq km

Population: 115,000 (2017)

Unemployment: n/a GDP:
0.2 USD billion

GDP Per Capita:
\$1,804.60 USD

Economic Growth: 2.3%

Current Account Balance:
36 US million (17%)

Inflation: 2.5%



PHOTO BY JOSH HANER/NEW YORK TIMES/REDUX PICTURES

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Maldives

Surface Area: 330 sq km

Population: 360,000 (2017)

Unemployment: n/a GDP:
4.8 USD billion

GDP Per Capita:
\$13,196.70 USD

Economic Growth: 5%

Current Account Balance:
-0.9 US billion (-18%)

Inflation: 1.5%



Getty Images/Stockphoto

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Marshall Islands

Surface Area: 180 sq km

Population: 55,000 (2017)

Unemployment: n/a GDP:

0.2 USD billion

GDP Per Capita: \$3,664 USD

Economic Growth: 1.8%

Current Account Balance:

9 US million (4.5%)

Inflation: 1.1%



Majuro, Marshall Islands. Photo: Giff Johnson

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Federate State of Micronesia

Surface Area: 770 sq km

Population: 102,000 (2017)

Unemployment: n/a

GDP: 0.3 USD billion

GDP Per Capita: \$3,274.70 USD

Economic Growth: 1.4%

Current Account Balance:

11 US million (3.2%)

Inflation: 2%



Photo by Charter World

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Mauritius

Surface Area: 2,030 sq km

Population: 1.3 million (2017)

Unemployment: 6.6%

GDP: 13.3 USD billion

GDP Per Capita:

\$10,437.10 USD

Economic Growth: 3.9%

Current Account Balance:

-1 US billion (-7.4%)

Inflation: 5.1%



Photo by Estonian World

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Nauru

Surface Area: 21 sq km

Population: 13,000 (2017)

Unemployment: n/a GDP:

0.1 USD billion

GDP Per Capita:

\$8,799.80 USD

Economic Growth: -3%

Current Account Balance:

-1 US million (-0.7%)

Inflation: 2%



Photo by Govt of Republic of Nauru

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Palau

Surface Area: 460 sq km

Population: 18,000 (2017)

Unemployment: n/a

GDP: 0.3 USD billion

GDP Per Capita:

\$17,438.20 USD

Economic Growth: 1%

Current Account Balance:

-42 US million (-13.4%)

Inflation: 2%



Photo by Blue Martin

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Papua New Guinea

Surface Area: 452,860 sq km

Population: 8.3 million (2017)

Unemployment: n/a

GDP: 26.3 USD billion

GDP Per Capita:

\$3,122.80 USD

Economic Growth: 2.9%

Current Account Balance:

5.3 US billion (20.2%)

Inflation: 2.9%



Photo by indopacificimages

41

Samoa

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Surface Area: 2,830 sq km

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Population: 198,000 (2017)

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Unemployment: n/a

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GDP: 0.9 USD billion

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GDP Per Capita:

\$4,420.40 USD

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Economic Growth: 2.5%

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Current Account Balance:

-16 US million (-1.8%)

.....
Inflation: 2.9%



Image: Michael Runkel/Robert Harding

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Timor-Leste

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Surface Area: 14,870 sq km

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Population: 1.2 million (2017)

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Unemployment: n/a

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GDP: 2.7 USD billion

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GDP Per Capita:

\$2,158.80 USD

.....
Economic Growth: 2.8%

.....
Current Account Balance:

-0.6 US billion (-22.6%)

.....
Inflation: 1.8%



Photo by EMTV Online

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Tonga

Surface Area: 720 sq km

Population: 105,000 (2017)

Unemployment: n/a

GDP: 0.4 USD billion

GDP Per Capita:

\$4,125.90 USD

Economic Growth: 3.2%

Current Account Balance:

-52 US million (-12.1%)

Inflation: 3%



Photo by Getty Images

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Tuvalu

Surface Area: 30 sq km

Population: 11,000 (2017)

Unemployment: n/a

GDP: 43 USD million

GDP Per Capita:

\$3,917.10 USD

Economic Growth: 3.5%

Current Account Balance:

-9 US million (-20.5%)

Inflation: 2.7%



Photo by Tuvalu / INABA Tomoaki

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Vanuatu

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Surface Area: 12,190 sq km

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Population: 281,000 (2017)

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Unemployment: n/a

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GDP: 1.0 USD billion

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GDP Per Capita:

\$3,327.70 USD

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Economic Growth: 3.8%

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Current Account Balance:

-88 US million (-9.2%)

.....
Inflation: 4.8%



Photo by Jolene Eymont

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Thank You

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