Proceedings Report

Summary outcomes of the Roundtable on Macroeconomic Resilience in Small States: Fiscal & Monetary Policy Design for Sustainable Development and Climate Action

24 June 2025
Marlborough House, London

The Commonwealth auctusESG

Introduction

Small states are on the frontlines of the climate crisis, facing existential threats from rising sea levels, intensified storms, prolonged droughts, and ecosystem degradation. These escalating environmental pressures jeopardise lives, infrastructure, and livelihoods across vulnerable regions. For climate-vulnerable small states in the Pacific, Caribbean, and Indian Ocean, the stakes are particularly high, given that they could face future losses equivalent to 50–100% of their annual GDP due to extreme climate events. The scale of these risks is underscored by examples such as Dominica, that lost 253% of its GDP as a result of Hurricane Maria in 2017.

The high vulnerability of small states stems from compounding challenges such as their geographic location, the disproportionate impact of natural disasters on small states, high dependence on trade and the lack of access to development or climate finance. Additionally, many small states face rising levels of external debt, which limits fiscal space and reduces their adaptive capacities. Although SIDS[1] require US $5.1 billion annually for adaptation, they receive only US $1.4 billion, highlighting a significant financing gap that is critical to address.

Small states remain acutely exposed to the escalating impacts of climate change, from intensifying weather events to long-term environmental stress. The ability to respond to the crisis is severely constrained by narrow fiscal space, heavy debt burdens, and limited access to concessional finance. Small states are not just victims of climate change; they are also pioneers of financial innovation. This engagement calls for systemic, coordinated reform to help them shift from vulnerability to long-term resilience and prosperity.

Against this backdrop, the Commonwealth Secretariat and auctusESG organised a roundtable,[2] on 24th June 2025 at Marlborough House in London. The roundtable had participation from member state ministries, practitioners and industry leaders, academics, development partners and consultants to discuss and deliberate on how fiscal and monetary tools can drive macroeconomic resilience in small states. This report captures the insights from the roundtable that explored how to efficiently leverage governments and central banks' policies to scale funding for climate resilience and adaptation in Commonwealth small states. Discussions on fiscal policy highlighted the strategic use of government spending, taxation, and public financial management to enhance economic resilience, mobilise sustainable finance, and protect vulnerable populations, all while managing debt sustainability. In parallel, the roundtable also examined the evolving role of monetary policy and financial regulation in supporting access to affordable finance for climate-resilient sectors, mitigating macro-financial risks, and maintaining economic stability amid increasingly frequent climate shocks.

Session 1: Fiscal policy initiatives

Fiscal policy is a critical lever for small states to mobilise sustainable finance. Among the most climate-vulnerable are SIDS, with over 70% of the nation's exceeding the 40% debt-to-GDP threshold, and 14.5% of revenue in low-income states going to external debt servicing, leaving little room for climate investment. The cumulative result is a vicious cycle with climate shocks driving up private borrowing costs by 117 basis points and forcing governments to divert spending from long-term resilience to short-term recovery with an uneven tax performance. Instruments such as green taxes, climate-focused subsidies, and public investment in resilient infrastructure help align domestic resources with national climate priorities. They also signal policy credibility and co-financing commitment which can improve debt sustainability and enhance access to international climate finance.

Fiscal resilience in small states is constrained by a combination of high debt burdens, limited domestic revenue bases, and inadequate access to concessional finance. Domestic revenue mobilisation is particularly challenging due to narrow tax bases and structural vulnerabilities. In Caribbean SIDS, tax revenues fall by up to 5.3% after an average hurricane, while public spending on relief remains elevated for years. Yet, many vulnerable small states such as Barbados and Bahamas are classified as middle or high-income countries, making them ineligible for concessional financing despite their vulnerabilities. While international climate finance has grown, with US $2.3 billion approved for 437 SIDS projects by 2021, disbursement remains slow, and funding levels are well short of actual needs. At the same time, current frameworks for debt restructuring too are largely seen as slow, discouraging, and misaligned with climate vulnerability. The consequence is defaulting on both, debt and development, and on the ability to fund long-term adaptation or meet basic service delivery needs.

[1] Many statistics cited in this report refer to SIDS due to limited data availability specific to Commonwealth small states

[2] Some insights in this report draw on discussions held during the roundtable

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There is a growing need for targeted debt relief linked to climate outcomes, alongside concessional instruments that align better with the pace and scale of climate threats. Initiatives are emerging to embed resilience in fiscal systems. Grenada's hurricane-linked debt-suspension clause introduced in 2015 allowed the deferral of US $17.5 million in debt payments after Hurricane Beryl in 2024, freeing up critical recovery funds. Similarly, Barbados' debt-for-climate resilience swap (2024) refinanced US $293 million of high-interest debt, unlocking US $125 million for water security and marine protection projects, including a major water reclamation facility. These approaches demonstrate how innovative debt mechanisms can create fiscal space while addressing climate vulnerabilities.

Insights and recommendations

1. **Integrate climate risk into fiscal and debt planning:** Shift national budgets from reactive spending to proactive investment in sustainable development by embedding climate risk into fiscal frameworks. Leverage tools such as sustainability-linked bonds, debt-for-nature swaps, and concessional finance tied to vulnerability to create fiscal space while aligning policies with resilience and ecological goals. There was also a consensus on the need for structural reforms in the country-level financial systems to build economic resilience in Commonwealth small states
2. **Scale innovative financing instruments and private sector engagement:** Multilateral institutions should reorient support to small states by easing access to development finance through catalytic capital, capacity building, and technical assistance. Expanding green, blue, and thematic bonds, and leveraging blended finance with risk-sharing can further attract private investment
3. **Develop inclusive financing models**: Strengthen national trust funds, governance policies, and conservation finance mechanisms to ensure inclusivity and local ownership. Promote regional approaches such as pooled procurement to reduce costs and improve access to critical resources
4. **Country-level engagement for policy innovation**: Work directly with countries and their financial institutions and regulators to conduct landscape analyses and design actionable policy frameworks. Use pilots to inform broader advocacy with **multilateral institutions** for simplified access to finance, catalytic capital, and technical assistance, shifting focus from short-term resilience to long-term prosperity
5. **Establish inclusive multi-stakeholder partnerships:** This is for co-designing and implementing climate-aligned fiscal policies—such as green budgeting, carbon pricing, and sustainable public investment—leveraging shared expertise, blended finance, and joint accountability to accelerate progress on Sustainable Development and Climate Action goals.

Session 2: Monetary policy initiatives

The monetary landscape of small states is shaped by persistent inflation volatility, shallow financial markets, and heavy external dependencies. While headline inflation has eased from 11.1% in 2023 to 5.5% in 2024, pockets of double-digit inflation persist in countries such as Mauritius, Samoa, and Tonga. Import dependence remains acute, with food and fuel imports accounting for one-sixth of GDP, and fuel prices in the Pacific more than double those in developing Asia. As climate change intensifies, it is increasingly recognised as a material risk to macroeconomic and financial stability, posing challenges to inflation, output, fiscal space, and financial systems. In response, central banks, globally, are looking to expand their toolkits to incorporate climate resilience, recognising the role monetary policy can play in supporting adaptation and risk mitigation.

That said, small states face a fundamental challenge given that capital maybe available, but it remains largely unaffordable. Shallow financial markets, limited access to long-term capital, and high transaction costs undermine the flow of green finance and lead investors to perceive small states as 'poor investment'. Narrow central bank mandates and limited technical capacity further delay climate risk integration, while recurring climate shocks force a focus on short-term stabilisation over long-term resilience. Their exposure to external shocks such as climate disasters, commodity price swings, and global financial volatility also weakens the effectiveness of conventional monetary tools. Dollarisation and currency pegs, with over 60% of deposits in USD in some Caribbean nations, restrict monetary autonomy and the ability to deploy green refinancing or differentiated interest rates. Institutional capacity to absorb and deploy climate finance is often weak, and many central banks lack the tools or mandates to fully integrate climate risk into financial supervision or lending frameworks.

Despite these constraints, maintaining price and financial stability remains essential, especially as climate shocks grow more frequent. Integrating climate and disaster risks into monetary and financial supervision can help redirect credit toward resilience-building sectors. Regulatory reforms and targeted incentives can reduce capital costs and attract private investment. Innovative tools such as green refinancing, state- contingent instruments, and resource-backed loans

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can link debt management with climate goals. For example, the Reserve Bank of Fiji's Import Substitution and Export Finance Facility (ISEFF) illustrates how small-state central banks can align finance with climate and development, providing concessional loans to commercial banks at 0.25% for on-lending to priority sectors such as agriculture, renewable energy, and export-oriented industries at a capped rate of 3.99%. ISEFF has financed over 315 businesses with US $747.1 million since its launch, including 14.4% of loans directed to renewable energy and efficiency projects, supporting emissions reduction and resilience to climate shocks. Adjustments to collateral frameworks can also grant better access to central bank facilities for institutions pledging green assets.

Insights and recommendations

1. **Strengthen institutional capacity align financial ecosystem:** Develop and deliver training modules for central banks, regulators, and financial institutions, focusing on climate risk integration, alignment of incentives across finance value chains, and enabling proactive roles in market development and innovation. Central banks in small states need to be empowered to go beyond traditional mandates and lead on sustainable finance and innovation
2. **Pilot tailored financial instruments & frameworks**: Support the design and piloting of tailored financial instruments (hedging tools, guarantee funds, climate-aligned funds) and embed de-risking mechanisms early across sectors. Operationalise sustainable finance frameworks and align fiscal and monetary policies to attract institutional capital
3. **Mobilise partner support for scaling:** Engage development partners and MDBs to underwrite early risks, improve capital affordability, and create replicable models for broader regional application. Shift development finance from isolated interventions to structural support that enables replication and scaling of successful models. Encourage regional collaboration such as pooled market access to increase investment viability across small economies
4. **Landscape analysis & stakeholder consultations:** Conduct comprehensive landscape analysis of financial ecosystems and stakeholder needs. Use these insights to co-design integrated, whole-of-system approaches rather than fragmented, project-level interventions

Initiatives by the Commonwealth Secretariat and the auctusESG for supporting countries with Fiscal and Monetary Policy Designs for Sustainable Development and Climate Action:

Commonwealth Secretariat

- Commonwealth member countries can leverage the Secretariat's macroeconomic resilience and climate finance tools for small states such as the Climate Finance Access Hub, CommonSensing, COMPASS, the UN-Commonwealth Advocacy Strategy for Small States, and the *Meridian* public debt management system. **These** offer finance mobilization, geospatial data leveraging, knowledge exchange, advocacy, and regional capacity building to deliver climate-aligned, shock-resilient growth in Small Island Developing States and other vulnerable Commonwealth members.
  For more information, contact Mr Zeeshan Ali, Adviser, Economic Policy and Small States: z.ali@commonwealth.int

auctusESG

- auctusESG is a global advisory firm focused on sustainable finance, climate transition, ESG, and climate risk management. Led by senior banking experts, it has delivered 29 impactful projects across 18 geographies, working with clients such as UK FCDO, India; UNDP, UNESCO, UN Women; DFIs like AFD, ADB, and organisations including the World Bank Rabo Foundation. The firm has trained over 1,500 banking officers across India, Latin America, Central Asia, and APAC on climate risk management and has offices in the UK and India. Its work has been recognised with multiple awards, including "Best Global Sustainable Finance & Investments Advisory Firm 2023-India" (Wealth & Finance International) and the Ministry of Women & Child Development's Women Achiever National Award (Environment, 2022). auctusESG can support small states to integrate climate risks and resilience into fiscal and monetary policies. It can assist financial systems by building capacity, designing innovative financial instruments, embedding de-risking mechanisms, and mobilising blended finance to enable long-term climate-aligned growth.
  For more information, contact Ms Cymroan Vikas, Senior Manager, Market Intelligence, auctusESG: cymroan.vikas@auctusesg.com

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