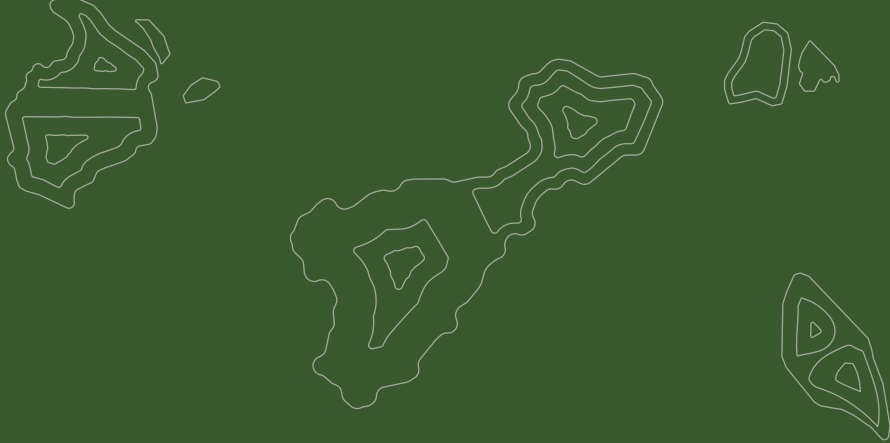




MAKING AN EXCEPTION

Maintaining ODA eligibility for Small Island Developing States

Vikrant Panwar, Gail Hurley, Emily Wilkinson, Aditi Solanki and Johari Weaver

Key messages

- The special circumstances of Small Island Developing States (SIDS) are not formerly recognised in the graduation framework of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD DAC). SIDS' structural vulnerabilities limit their ability to generate sustained growth and mobilise sufficient tax revenues, while their exposure to frequent extreme weather events and severe climate change impacts results in escalating losses and fiscal stress.
- Historically, SIDS that are no longer eligible for official development assistance (ODA) have seen dramatic reductions in concessional finance, they have borrowed at much higher rates to recover from disasters and build resilience, and they have quickly faced debt distress.
- ODA graduation assumes lower need for development assistance – but this does not stand for SIDS. Representing half of all countries set to graduate in the next 10 years, SIDS clearly need special consideration within ODA eligibility frameworks.
- The existing income-based graduation framework could be adjusted in three ways: 1) a 'GNI plus' framework based on income per capita plus multidimensional vulnerability, 2) an ODA climate finance exception for SIDS, and 3) a contingency safeguard.
- Analysis of the fiscal impacts on SIDS of ODA withdrawal and climate shocks versus the costs to donors of continuing ODA, of applying an ODA climate finance exception, and/or of reinstating ODA eligibility when a disaster occurs, suggests these mechanisms could produce outsized benefits to SIDS.



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Acronyms and abbreviations

CCRIF	Caribbean Catastrophe Risk Insurance Facility
DAC	Development Assistance Committee
DROM	Départements et Régions d'Outre-Mer
EIB	European Investment Bank
EU	European Union
GDP	gross domestic product
GFN	gross financing needs
GNI	gross national income
LDC	Least Developed Country
MVI	Multidimensional Vulnerability Index
OCTs	Overseas Countries and Territories
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
SIDS	Small Island Developing States
UAE	United Arab Emirates
UKOTs	UK Overseas Territories
UN	United Nations
UNDP	United Nations Development Programme

1 Introduction

1.1 SIDS' special development situation

The idea of a SIDS 'special case' for sustainable development has long rested on the recognition that smallness and islandness generate structural development constraints that are qualitatively and quantitatively distinct from those experienced by larger states. SIDS face disproportionately high exposure to climate change, diseconomies of scale, limited opportunities for economic diversification, high import dependency and geographical remoteness – all of which mean they suffer from (a) high levels of disaster losses and (b) high costs of development. For instance:

- a) SIDS comprise two-thirds of the nations that experience the highest relative annual losses from disasters (Bharadwaj et al., 2023). One single event in a small island nation can wipe out more than a years' gross domestic product (GDP); something that never happens in larger countries.
- b) Public service delivery costs in SIDS are also about 8% higher than in other emerging economies due to the challenge of diseconomies of scale (Quak, 2019; Hurley, 2015).

Le Morne, Mauritius. Photo: SourabhAdhya/Unsplash.



These vulnerabilities and costs are largely inescapable, meaning that, in reality, higher gross national income (GNI) per capita often reflects ‘phantom wealth’ in SIDS ([Bishop et al., 2021](#)).

The special circumstances of SIDS were first formally recognised in 1992 by the United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro:

‘Small Island Developing States, and islands supporting small communities are a special case both for environment and development. They are ecologically fragile and vulnerable. Their small size, limited resources, geographic dispersion and isolation from markets, place them at a disadvantage economically and prevent economies of scale’ ([UN, 1992](#): ch.17, section G).

The UN Framework Convention on Climate Change (UNFCCC) and the 2015 Paris Agreement also explicitly recognise SIDS’ special circumstances, while the Paris Agreement specifies that developed countries should scale up financial resources to SIDS to tackle climate change ([UN, 2015](#); [RESI, 2026](#)).

Recognition of SIDS’ special circumstances is important for concessional development assistance where eligibility is linked to per capita income levels. Many SIDS have high GNI per capita compared to other emerging economies and developing countries, and therefore they have very limited access to concessional finance. In response, some development finance partners and institutions have extended special financial treatment to SIDS, albeit unevenly. This includes:

- the Small Island Economies Exception of the World Bank, through which some SIDS are offered support via the International Development Association (IDA) despite exceeding the GNI per capita cut off (\$1,325 in 2026).¹
- the concessional terms offered by the Asian Development Bank (ADB) to all SIDS developing member countries.²
- the vertical climate funds under the UNFCCC that treat SIDS and Least Developed Countries (LDCs) as priority recipients ([RESI, 2026](#)). The Green Climate Fund (GCF), for example, has a legally binding mandate to prioritise SIDS alongside LDCs and African states, so higher-income SIDS such as Barbados and the Seychelles are eligible ([GCF, 2011](#)).

1 Small island exception IDA-only countries: Guinea-Bissau. Blend countries (IDA-eligible but also eligible for some International Bank for Reconstruction and Development (IBRD) borrowing): Belize, Cabo Verde, Comoros, Dominica, Fiji, Grenada, Kiribati, Maldives, Marshall Islands, Papua New Guinea, Samoa, São Tomé & Príncipe, St. Lucia, St. Vincent and the Grenadines, Suriname, Timor-Leste, Tonga, Tuvalu, Vanuatu. IBRD countries: Antigua and Barbuda, Belize, Cuba, Dominican Republic, Jamaica, Seychelles.

2 ADB concessional-only SIDS: Federated States of Micronesia, Kiribati, Maldives, Marshall Islands, Nauru, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu. SIDS blend countries: Cook Islands, Fiji, Niue, Papua New Guinea, Palau, Timor-Leste.



Bilateral flows to SIDS also provide critical sources of development and climate finance, but many more SIDS are set to graduate out of ODA in the coming years as income levels rise. This could have multiple negative consequences for these vulnerable nations and their populations, including higher levels of debt and under-investment in critical infrastructure and climate resilience.

This working paper looks specifically at how soon-to-graduate SIDS might be affected by a reduction in bilateral development assistance, and the implications of different potential reforms to ODA eligibility and graduation that could ameliorate these negative impacts.

1.2 SIDS' ODA graduation history and future outlook

Many island nations and territories have attained high levels of GDP per capita and historically they represent 44% of all countries (8 of 48) and territories (13 of 48) that have graduated from the OECD DAC list of eligible countries since 1961 (see Table 1).³ Looking ahead, 11 of the 22 countries projected to graduate from ODA eligibility over the next 10 years are SIDS (i.e. half) (see Table 2).

³ Overseas Countries and Territories (OCTs) are islands and territories that maintain special constitutional links with European Union (EU) Member States (France, the Netherlands and Denmark) or the United Kingdom (UK Overseas Territories – UKOTs). DROM refers to Départements et Régions d'Outre-Mer, regions of France that are outside the main territory. These are also islands.

Table 1 Countries and territories that have graduated from the OECD DAC list since 1963

Year	Graduated countries/territories
1983	Spain
1991	Portugal
1992	Guadeloupe (DROM), Martinique (DROM), Réunion (DROM), Saint Pierre and Miquelon (OCT)
1995	Greece
1996	Bahamas (SIDS), Brunei, Kuwait, Qatar, Singapore (SIDS), United Arab Emirates (UAE)
1997	Bermuda (OCT), Cayman Islands (OCT), Chinese Taipei (Taiwan), Cyprus, Falkland Islands (OCT), Hong Kong (China), Israel
2000	Aruba (OCT), French Polynesia (OCT), Gibraltar (OCT), Korea (Republic of), Libya,* Macao (China), Netherlands Antilles (OCT), New Caledonia (OCT), Northern Mariana Islands (OCT), Virgin Islands (British) (OCT)
2003	Malta, Slovenia
2005	Bahrain
2008	Saudi Arabia, Turks and Caicos Islands (OCT)
2011	Barbados (SIDS), Croatia, Mayotte (OCT), Oman, Trinidad and Tobago (SIDS)
2014	Anguilla (OCT), St. Kitts and Nevis (SIDS)
2018	Chile, Seychelles (SIDS), Uruguay
2020	Cook Islands (SIDS)
2022	Antigua and Barbuda (SIDS)

Note: *Libya was briefly removed but later reinstated.

Source: Author elaboration based on OECD (n.d.-c) (unpublished).

Table 2 Countries and territories projected to graduate in the next 10 years

Graduating country	Year forecast to exceed high-income threshold for three consecutive years	Year of DAC triennial review when country would be eligible to graduate
Niue (SIDS)	2014	2026
Panama	2023	
Costa Rica	2025	
Guyana (SIDS)	2025	
Palau (SIDS)	2025	
China	2028	2029
Mauritius (SIDS)	2029	2032
Cuba (SIDS)	2030	
Kazakhstan	2030	
Montenegro	2030	
St. Lucia (SIDS)	2030	
Serbia	2030	
Türkiye	2030	
Argentina	2031	
Malaysia	2031	
Maldives (SIDS)	2032	2035
Suriname (SIDS)	2032	
St. Vincent and Grenadines (SIDS)	2033	
Dominican Republic (SIDS)	2034	
Marshall Islands (SIDS)	2034	
Moldova	2034	
Turkmenistan	2034	

Source: OECD (n.d.-c) (unpublished).

1.3 How is graduation from ODA eligibility determined?

The current OECD DAC process for ODA graduation operates as a linear, income-based pathway. In practice, the starting point is the World Bank's income classification system, which the DAC uses to identify which countries are eligible to receive ODA. Countries on the list are low- and middle-income,⁴ and they enter the graduation track when they reach high-income status.

- 1 Step 1, crossing the high-income threshold:** A country is first flagged when its GNI per capita, measured using the World Bank Atlas method, rises above the World Bank's high-income threshold (approximately \$13,935 GNI per capita in 2026). This threshold is updated annually by the World Bank and serves as the core reference point for DAC eligibility decisions.
- 2 Step 2, sustaining high-income status:** Crossing the threshold once is not enough to trigger immediate graduation. Under DAC practice, a country must remain above the high-income threshold for three consecutive years before it is automatically proposed for graduation from the DAC list.
- 3 Step 3, review through the DAC triennial process:** Once the three-year condition is met, a case is taken up in the DAC's triennial review of the list of ODA recipients. At that stage, the DAC may formally propose a country's removal from the list. This means the graduation decision is linked to the DAC's periodic review cycle and to income data.
- 4 Step 4, transition before graduation takes effect:** After a country is proposed for graduation, there is usually a small transition period before removal becomes effective.

Under the current graduation system, the DAC reviews its list of ODA recipients every three years based on the most recent figures for GNI per capita issued by the World Bank. However, the exact timing can vary and the DAC has, in some cases, considered exceptional circumstances. Once graduation takes effect, development finance flows can no longer be counted as ODA. The immediate institutional consequence is therefore not that all development finance stops, but that such flows cease to count as ODA under DAC rules. In practice, therefore, graduation reduces access to concessional instruments and weakens donor incentives to continue support on the same terms.⁵

4 The DAC list of ODA recipients includes all low- and middle-income countries (as defined by the World Bank Atlas method, based on GNI per capita) except members of the G8 or EU (including countries with a firm accession date for EU membership). In addition, the list separately includes all LDCs as defined by the UN.

5 See [OECD \(n.d.a\)](#) for ODA eligibility and conditions.

2 SIDS and ODA eligibility in practice

2.1 Accounting for SIDS' special circumstances in ODA graduation

Over the years, OECD DAC members have extended various accommodations and flexibility to SIDS, indicating a sensitivity to SIDS' heightened economic and environmental vulnerabilities. However, this does not constitute formal recognition of their special circumstances.

2.1.1 Reinstatement and temporary exceptions

On a number of occasions, countries graduating (or set to graduate) from the ODA eligibility list have fallen below the high-income threshold due to sudden-onset crises – most notably during the COVID-19 pandemic. For these countries, the OECD DAC has simplified and expedited the process of reinstatement. This measure was introduced specifically in response to SIDS' concerns over the economy-wide impacts of large shocks and disasters ([OECD, 2024a](#)).



Aerial view of the Koror-Babeldaob Bridge in Palau. Palau graduated in 2021 but was reinstated in 2022. Photo: Luka Peternel/Wikimedia Commons.

- In 1997, the OECD DAC agreed that Monserrat (UKOT), which was trending towards graduation due to its per capita income level, should remain ODA-eligible following a catastrophic volcanic eruption (OECD, 1997). OECD DAC members recognised that income-based criteria alone did not adequately reflect Montserrat's development circumstances.⁶
- Antigua and Barbuda was scheduled to graduate from the DAC list in 2020 but this date was pushed back to 2022 due to the economic impacts of the COVID-19 pandemic.
- Palau graduated in 2021 but was reinstated in 2022 after newly published World Bank data showed that its GNI per capita had fallen below the high-income threshold. This was also due to the economic impact of the COVID-19 pandemic (OECD, 2023).

The OECD DAC has also offered temporary exceptions to a few countries and territories based on data insufficiencies:

- The Cook Islands, Nauru and Monserrat were all granted an extension for between two and three years to allow time to submit reliable GNI per capita data to the OECD DAC (OECD, 2024a).

2.1.2 Transition support

Recently, OECD DAC introduced stepped-up support for 'smoother transitions' through measures such as longer pre-graduation notification periods (extending from two to nine years) and provision of graduation strategies for countries that request them (OECD, 2024 a). These measures are based on studies of ODA flows within a country's broader financing landscape (including tax revenues, debt dynamics etc.), vulnerabilities and development priorities. This analysis identifies financing gaps, transition risks and areas that warrant particular attention from development partners during the transition period.

Independent smooth transition studies are currently underway for Costa Rica, Palau and Panama, with all three countries projected to graduate in 2028. Donors will be encouraged to take the results into consideration, adapt their development cooperation support, and develop transition and 'beyond ODA' partnerships accordingly.⁷

It should be noted, however, that these initiatives are ad hoc and voluntary.

6 The UK, in particular, argued that strict adherence to GNI thresholds would be absurd in the face of a total natural disaster. By ensuring Montserrat was ODA-eligible, the UK government could count its massive reconstruction spending (which exceeded £400 million over the following decade) towards its international 0.7% ODA/GNI target. Without this vote, the UK's support would have been 'unreportable' as aid, despite it being humanitarian and developmental in nature.

7 OECD, pers. comm., May 2026.

2.1.3 Other options

Other solutions and recommendations to the graduation problem have been put forward.⁸ This includes proposals for a ‘GNI plus’ model, which would see GNI per capita combined with additional metrics (e.g. market access, debt levels, exposure to climate change and domestic resource mobilisation capacities) to provide a more holistic picture of a country’s readiness for ODA graduation (OECD, unpublished). An earlier version of this model was also proposed by the UN Development Programme (UNDP) in 2015 entitled ‘from graduation to gradation’, whereby income per capita would be complemented with a ‘basket of indicators’ spanning domestic resource mobilisation capacities, access to external finance, type of programme being funded, and a country’s score under the UN’s Human Asset Index and Economic Vulnerability Index (Hurley, 2015). A composite score would then determine the most appropriate ‘mix’ of financing.

Arguably, the most prominent idea to emerge in recent years is implementation of the UN’s Multidimensional Vulnerability Index (MVI). The 2024 report of the UN High-Level Panel on the MVI explicitly recognises that GNI per capita fails to capture structural vulnerabilities and recommends complementing income metrics with a vulnerability benchmark to determine eligibility for concessional finance (UN, 2024). These recommendations were picked up in the 2024 Antigua and Barbuda Agenda for SIDS (ABAS) (UN-OHRLS, 2024) and in the 2025 Sevilla Commitment on Financing for Development (UN, 2025). A first iteration of the MVI produced scores for 142 countries, with 70% of SIDS scoring above the median, indicating significant structural vulnerability and a lack of structural resilience (UN, 2024). This is an important finding, given that per capita income is high for the very vulnerable SIDS.

Arguably, the most prominent idea to emerge in recent years is implementation of the UN’s Multidimensional Vulnerability Index (MVI).

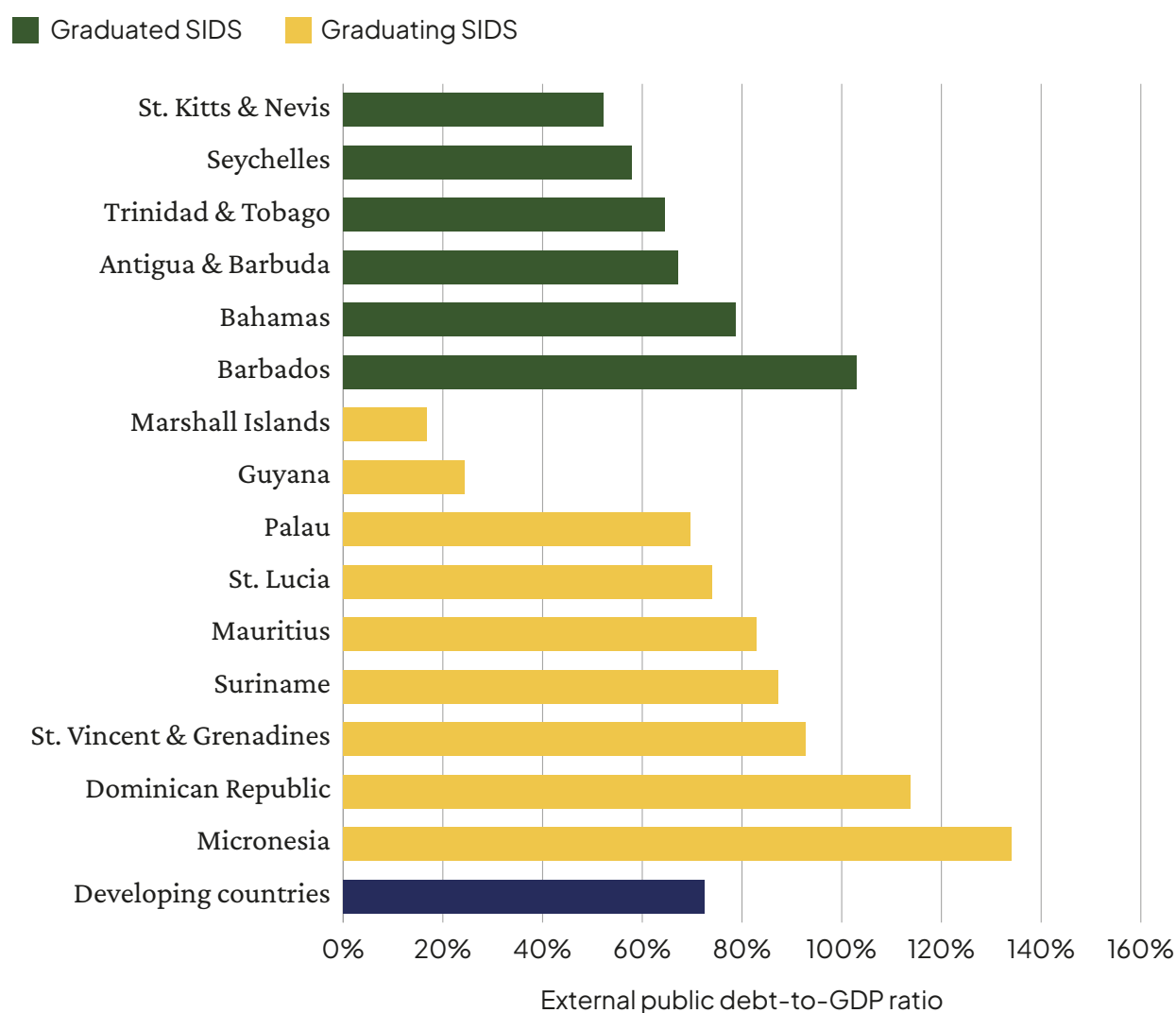
2.2 Why does this matter for SIDS?

The OECD DAC operates on the overall premise that countries will – and should – graduate from ODA eligibility at some point. In turn, graduation assumes declining need for development assistance. However, this underlying assumption is problematic for SIDS. They are much more reliant on ODA at the point of graduation than other groups of countries, with ODA constituting 38% of external finance flows on average for SIDS, compared to just 2% for non-SIDS (OECD, 2024a).

8 See, for example, OECD (2024a).

Graduation from ODA has led to more borrowing and higher interest rates for graduated SIDS. Furthermore, SIDS have particularly high debt risks, with around half at high risk of, or already in, debt distress (Hurley et al., 2024). Those that are ineligible for ODA have some of the highest debt problems historically, including Antigua and Barbuda, the Seychelles and St. Kitts and Nevis (ibid.). Only 4 of the 14 graduated and soon-to-be graduating SIDS have debt-to-GDP ratios lower than 60% (a widely used debt sustainability risk benchmark for developing countries) (see Figure 1) (IMF, 2011), and three have public debt in excess of 100% GDP. St. Kitts and Nevis and the Seychelles have lower levels of external public debt than many of their peers currently, but both have been forced to restructure their debt, and St. Kitts and Nevis more than once.

Figure 1 External public debt-to-GDP ratios in graduated and graduating SIDS



Source: Authors elaboration based on UNCTAD data (2026) (<https://unctad.org/publication/world-of-debt>).

Part of the problem faced by graduating SIDS is that private capital, such as foreign direct investment, is not filling the gap left by lost aid. Graduation often leads to a ‘cliff-edge’ effect where a country is too wealthy for aid, but too small or vulnerable to attract significant private investment (Quak, 2019; OECD, 2024 b). Many SIDS also struggle to substantially increase domestic resources. At the point of graduation, SIDS’ tax revenues are only double their external finance inflows, whereas non-SIDS’ tax revenues are nine times higher than their external inflows (OECD, 2024a). Moreover, SIDS have higher per capita costs of service delivery due to their structural characteristics (such as the need to provide services to small, remote and highly dispersed populations and high import needs and costs). This means measures of domestic revenue provide only a partial picture of SIDS’ abilities to be more self-sufficient (Hurley et al., 2024).

SIDS also suffer disproportionately from climate shocks, with economic loss and damage from extreme weather events over the past 25 years having reached a staggering US\$57 billion. This is equivalent to 2.5% of GDP annually in low- and lower-middle-income SIDS, and it is five times higher than for non-SIDS, with single events often exceeding 100% of GDP (WMO, 2023; Wilkinson and Panwar, 2026). These costs are set to rise with temperature increases over the next 25 years.

At the same time, SIDS struggle to access much-needed climate finance to prepare for and adapt to such challenges. Climate adaptation, such as flood control, water management and disaster risk management, is especially important in SIDS but private investment is scarce because adaptation is unlikely to be ‘profitable’. The transaction costs associated with accessing climate finance for smaller climate-related projects are often as high as applying for very large projects, meaning that the administration and overhead costs are disproportionately high for SIDS (Visconti et al., 2024).

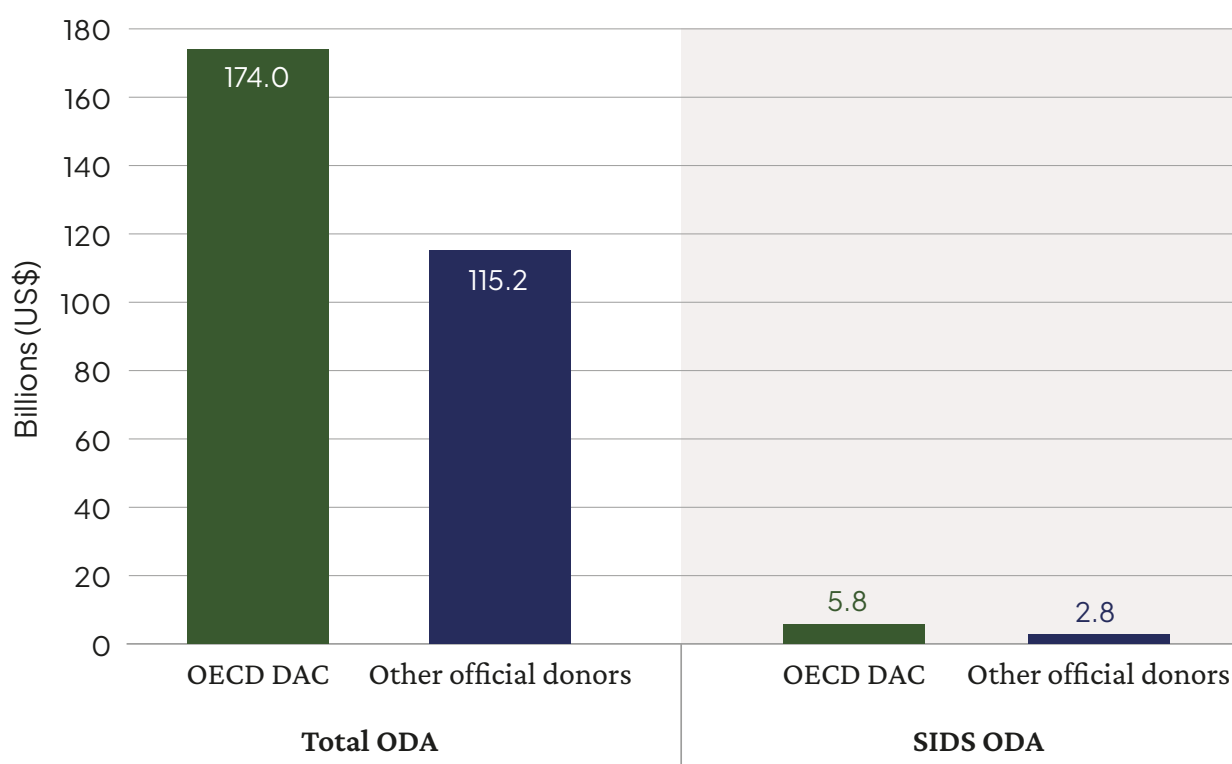
SIDS suffer disproportionately from climate shocks, with economic loss and damage from extreme weather events over the past 25 years having reached a staggering US\$57 billion.

These factors underscore the continued important role of ODA for resilience and development in SIDS. Moreover, if the official purpose of ODA is to ‘leave no one behind’ and help the most vulnerable, then removing support from a country simply because its GNI has crossed an arbitrary line – even if that country is about to be underwater due to sea-level rise – is both a moral and logical failure (Bishop et al., 2021).

2.3 How much ODA do SIDS receive?

In 2024, SIDS received US\$5.8 billion in ODA from OECD DAC members, out of a total ODA envelope of US\$174 billion (Figure 2). If non-DAC official bilateral donors are included, overall aid flows to SIDS rise to US\$8.6 billion (OECD, 2026). Over the last decade, only 2.57% of total annual ODA disbursements on average have gone to SIDS (Hurley et al., 2025).

Figure 2 ODA flows to SIDS (2024, US\$b)

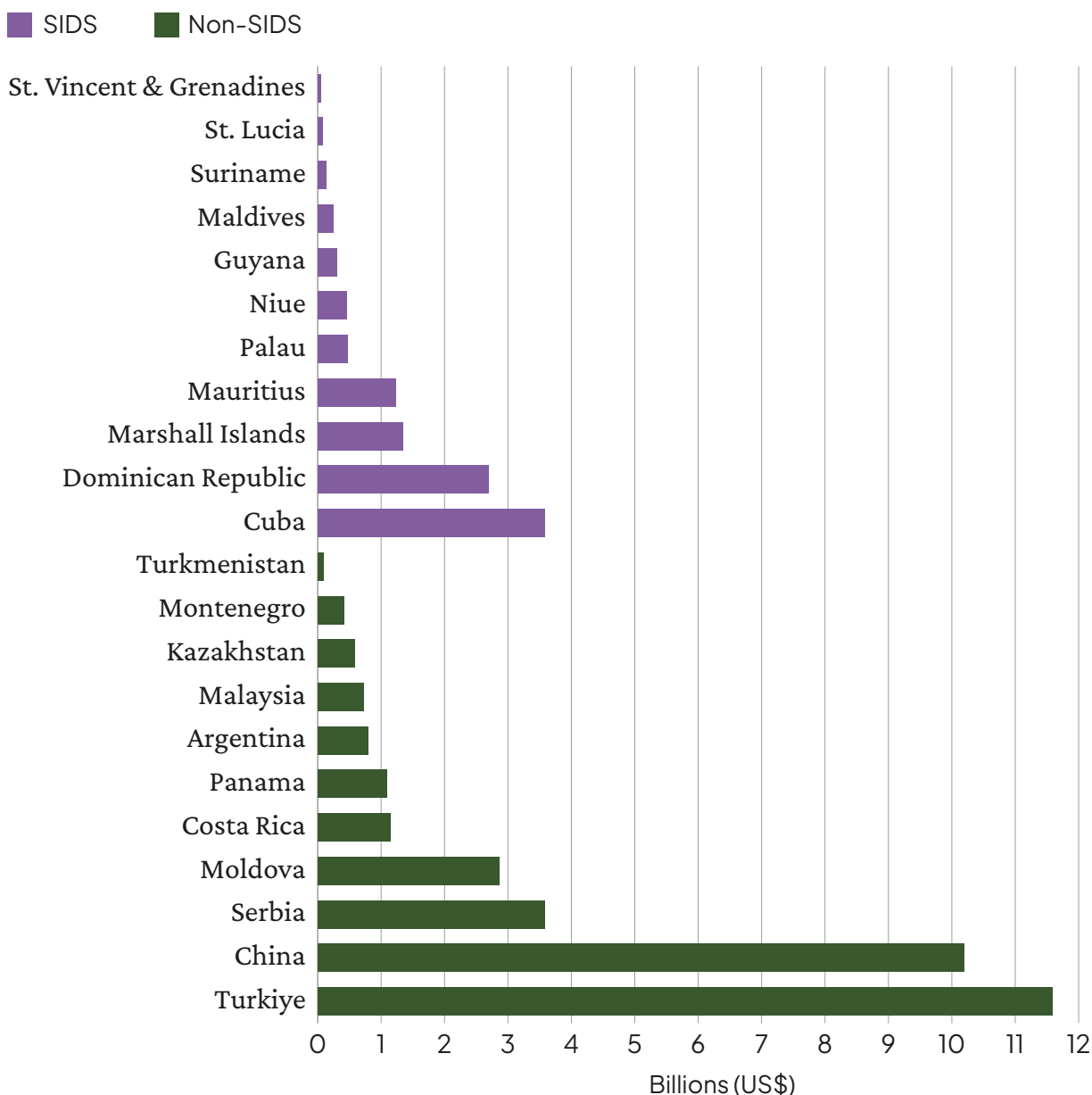


Note: Figures in current prices.

Source: Authors elaboration based on OECD DAC data (<https://data-explorer.oecd.org/>, accessed May 2026).

Aid flows to those SIDS that are set to graduate have been even smaller. Over 2015–2024, the 11 SIDS that are set to graduate received a total of US\$10.5 billion in ODA from OECD DAC donors, compared to US\$33 billion for the other 11 non-SIDS graduating countries (see Figure 3). ODA to graduating SIDS over that period constituted just 0.1% of total aid flows from DAC members.⁹

⁹ Author calculations based on data extracted from OECD (<https://data-explorer.oecd.org/>, accessed May 2026). Figures in current prices.

Figure 3 ODA to SIDS and non-SIDS graduating countries (2015–2024)

Note: Figures in current prices.

Source: Authors elaboration based on OECD DAC data (<https://data-explorer.oecd.org/>, accessed May 2026).

ODA volumes are reducing at the same time that needs are growing across many developing countries. Therefore, the results presented in Figures 2 and 3 are important for three reasons: 1) very low volumes of aid are going to SIDS that will graduate soon; 2) these nations face a particularly challenging cliff edge when they graduate; and 3) their economies are especially vulnerable to external shocks. This suggests that a financially viable mechanism is needed within the OECD DAC graduation process to ease the impact on SIDS. Options and scenarios for achieving this are discussed in the next section.

3 Alternative graduation scenarios and exceptions for SIDS

OECD DAC members are not necessarily clear or aligned on how the current graduation framework could be reformed, despite recognising the challenges of graduation, especially for SIDS. Rightly so, there are concerns over the challenges and added value of using more complex indices to measure development progress and thresholds for development assistance that could complement GNI per capita. There are particular concerns regarding substantial data gaps.¹⁰ Any approach to graduation reform will therefore need to be simple to administer, it must respond to recognised challenges faced by SIDS and other graduating countries, and it must feed into ongoing OECD DAC conversations on reforms to the ODA graduation process.

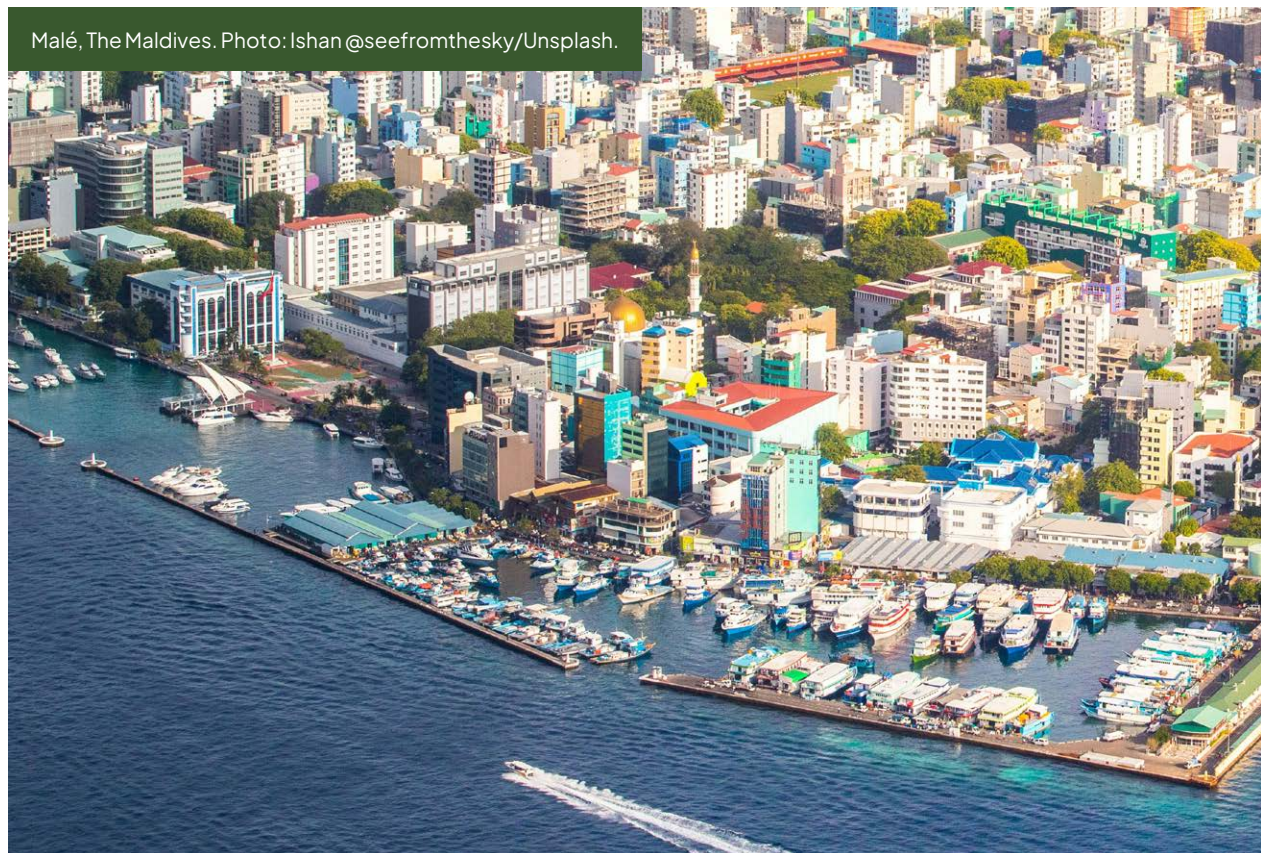
The three scenarios here set out different ways that the existing income-based graduation framework could be adjusted to better reflect structural vulnerability, fiscal sustainability and climate resilience, particularly for SIDS. Each focuses on whether additional mechanisms could reduce the risk to SIDS of an abrupt ODA withdrawal and the associated fiscal disruption:

- **Scenario 1:** a 'GNI plus' framework using the MVI
- **Scenario 2:** a climate finance exception for SIDS
- **Scenario 3:** a contingency safeguard

These scenarios are not mutually exclusive. Rather, they represent different layers of potential adjustments within the current graduation framework, ranging from broader structural reform to more targeted, exception mechanisms. In practice, elements of all three approaches could coexist.

Any approach to graduation reform will therefore need to be simple to administer, it must respond to recognised challenges faced by SIDS and other graduating countries, and it must feed into ongoing OECD DAC conversations on reforms to the ODA graduation process.

¹⁰ Perspectives shared in stakeholder consultations held for this report (April and May 2026).



3.1 Scenario 1: a ‘GNI plus’ framework using the MVI

The first scenario applies a ‘GNI plus’ framework to the graduation process, using MVI structural vulnerability scores as a second layer of screening for countries reaching the GNI per capita threshold. Countries that meet the income threshold for graduation but remain structurally vulnerable could either retain eligibility through an override mechanism or they could be placed on a transition pathway, which refers to a time-bound, gradual phase-out period.¹¹

The structural vulnerability sub-index of the MVI is used (rather than the lack-of-resilience sub-index) because it is a better measure of persistent structural constraints that are largely beyond national policy control. While resilience is also highly relevant for SIDS, and the scores for that sub-index are also high for many countries in the sample, this is more directly influenced by policy choices, institutional arrangements and levels of investment, which arguably benefit from higher levels of income. In contrast, structural

¹¹ In this analysis, during the time-bound phase-out period access to concessional finance is reduced gradually rather than withdrawn immediately upon graduation. The objective could be to smooth the adjustment process, reduce abrupt financing disruptions, and provide countries with additional time to strengthen domestic financing capacity and adapt to post-graduation borrowing conditions, among other adjustments.

vulnerability captures underlying exposure and susceptibility to external shocks that persist irrespective of income status. Consequently, this provides a more appropriate basis for testing alternative graduation arrangements.

3.1.1 Application of the framework

Table 3 shows application of the proposed MVI override framework for graduated SIDS (group A) and those projected to graduate under current income-based criteria (group B). Two different thresholds of MVI structural vulnerability scores are used for illustrative purposes:¹²

- In option A, the threshold is 60% of the maximum observed MVI score (73.8)
- In option B, the vulnerability threshold is the global mean MVI score (49.22).

Under option A, all graduated SIDS would have qualified for an exemption from graduation due to their structural vulnerabilities (except for the Cook Islands which does not have a vulnerability score). Among the 11 SIDS projected to graduate by 2034, the Dominican Republic, Mauritius and Suriname would fall below the threshold and therefore move into a transition pathway. Cuba, Guyana, the Maldives, the Marshall Islands, Nauru, Palau, St. Lucia, and St. Vincent and the Grenadines would continue to qualify for ODA despite surpassing the income threshold.

Understanding these wider system-level implications would require a separate global analysis, but it could be an important consideration for broader OECD DAC discussions around the ODA graduation framework and aid effectiveness.

This exercise shows how the introduction of a vulnerability-sensitive secondary threshold could materially alter graduation outcomes. The analysis focuses exclusively on SIDS, but the application of vulnerability-based eligibility criteria could have broader implications for other structurally vulnerable countries and for the overall distribution of ODA resources. Understanding these wider system-level implications would require a separate global analysis, but it could be an important consideration for broader OECD DAC discussions around the ODA graduation framework.

12 The thresholds used in the MVI override analysis are illustrative and are intended to test the sensitivity of graduation outcomes under alternative vulnerability benchmarks rather than represent proposed eligibility rules.

Table 3 Illustrative scenario of MVI override over GNI per capita threshold for graduation

● Exempt (Override) ● Graduated (Transition Path)

SIDS	Graduation year	MVI score	MVI > 60% max (44.33)	MVI > global mean (49.22)
Group A. Graduated				
Antigua & Barbuda	2022	63.4	●	●
Barbados	2011	46.2	●	●
Bahamas	1996	56.2	●	●
Cook Islands	2020	NA	NA	NA
Seychelles	2018	47.2	●	●
St. Kitts & Nevis	2014	52.4	●	●
Trinidad & Tobago	2011	47.7	●	●
Group B. Projected to graduate				
Cuba	2030	51.8	●	●
Dominican Republic	2034	43.1	●	●
Guyana	2025	55.1	●	●
Maldives	2032	70.4	●	●
Marshall Islands	2034	45.1	●	●
Mauritius	2029	38.6	●	●
Nauru	2027	58.2	●	●
Palau	2025	53.7	●	●
St. Lucia	2030	73.2	●	●
St. Vincent & the Grenadines	2033	65.1	●	●
Suriname	2032	42.3	●	●

Outlined below is the potential impact of an MVI override, had it come into effect for SIDS that have already graduated. The analysis looks at three key dimensions: 1) the fiscal implications for SIDS of applying a ‘GNI plus’ graduation framework; 2) the fiscal implications of a phased transition pathway; and 3) the estimated cost to donors of applying a ‘GNI plus’ framework to SIDS.

3.1.2 Fiscal costs to SIDS of applying the ‘GNI plus’ framework

Applying a ‘GNI plus’ framework to ODA graduation for SIDS would likely have had an effect on the fiscal burden imposed on those SIDS that have graduated – if they had not graduated.

To assess this, a ‘graduation premium’ is calculated: this is an estimate of the additional financing burden that is created when graduated countries take on higher-cost borrowing to meet their gross financing needs (see Annex 2).¹³ It is possible to estimate the direct fiscal penalty of graduation to a country by applying the spread between market borrowing rates and concessional rates to overall financing needs from the year of graduation to 2024.¹⁴

Five SIDS that previously graduated from the OECD DAC list¹⁵ all experienced a significant graduation premium (see Figure 4):

- Trinidad and Tobago, which graduated in 2011, has the largest cumulative graduation premium at approximately \$1.5 billion, with an average annual graduation premium of \$124 million through to 2024. This is followed by Barbados with a cumulative graduation premium of approximately \$380 million.
- In relative fiscal terms, St. Kitts and Nevis records the highest average annual burden with a graduation premium equivalent to 5.84% of government tax revenue, followed by Antigua and Barbuda with 4.05%, and Trinidad and Tobago with 3.96%. The Seychelles records a comparatively lower burden but still a significant annual burden equivalent to 2.82% of revenue.

Importantly, these estimates do not represent the total borrowing costs faced by these countries. The graduation premium does not assume that countries lose access to all concessional financing sources. Furthermore, the premium should not be interpreted as a

13 Gross financing needs refer to the total annual financing requirement of a government, including both fiscal deficits and debt repayments (amortisation) that must be financed within a given year.

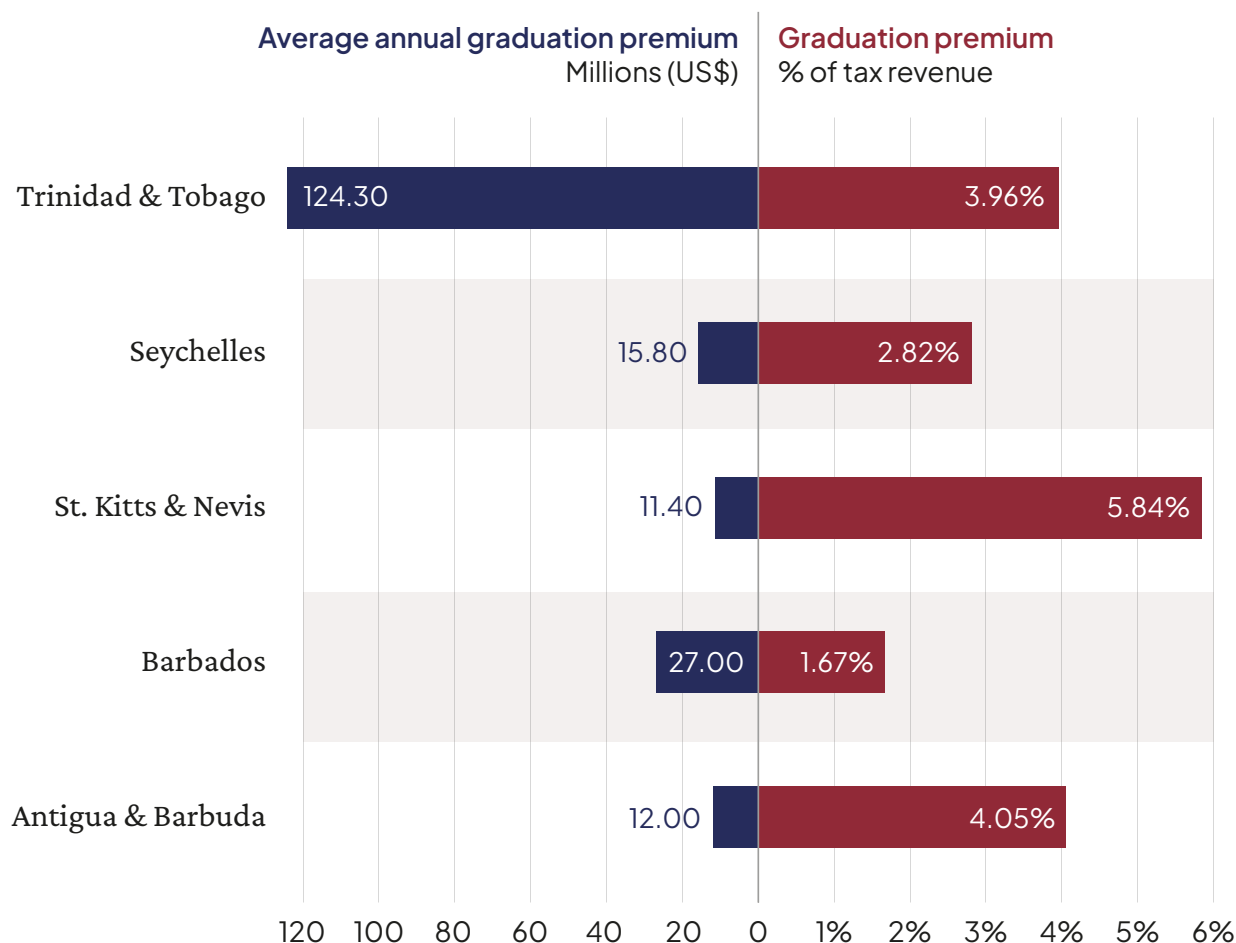
14 Graduation from the OECD DAC list does not necessarily imply complete loss of access to concessional finance but it does reduce the overall availability of highly concessional finance and it increases reliance on market-based borrowing. The market–concessional spread should therefore be interpreted as an analytical proxy for the loss of concessionality, rather than a prediction of actual post-graduation borrowing behaviour.

15 The Cook Islands and the Bahamas are not included because of lack of relevant fiscal data.

direct estimate of forgone government expenditure, as not all ODA is channelled through national budgets: a portion is delivered through non-state actors, multilateral agencies or project-based mechanisms.

Rather, the graduation premium represents the additional financing burden incurred over and above existing debt servicing and borrowing obligations due specifically to the replacement of concessional finance with higher-cost market rate borrowing after graduation. Moreover, the fiscal cost of graduation appears to extend well beyond the 10-year immediate transition period, generating recurring financing pressures across all SIDS that have graduated.

Figure 4 Estimated graduation premium for five graduated SIDS



3.1.3 A smooth transition pathway

A smooth transition pathway could help reduce the fiscal disruption from graduation in SIDS. The analysis that follows examines the effect of a phased withdrawal of support over a defined period (10 years), using a 'fiscal shock ratio' to compare annual ODA loss to domestic tax revenue under transition scenarios.

This metric is particularly important because it captures not only the volume of lost support, but the country's actual fiscal capacity to replace it. When a graduation 'cliff edge' occurs, the fiscal shock ratio measures the immediate budgetary shock; while under a transition path, the same metric can be estimated on an annual basis to show how fiscal stress evolves as concessionality terms are gradually withdrawn.

Unsurprisingly, the graduation cliff edge produces substantially higher fiscal pressure relative to a gradual transition for all five SIDS (see Figure 4). In St. Kitts and Nevis, this reaches more than 10% of tax revenue in the year of graduation. Antigua and Barbuda and the Seychelles also faced relatively high fiscal pressures in the first year post-graduation.

The analysis that follows examines the effect of a phased withdrawal of support over a defined period (10 years), using a 'fiscal shock ratio' to compare annual ODA loss to domestic tax revenue under transition scenarios.



St. Kitts and Nevis. Photo: Holger Woizick/Unsplash.

Under a 10-year transition pathway, however, the immediate fiscal burden declines significantly across all five countries, to below 1% of tax revenue in the first year. Even when average post-graduation effects are considered through to 2024, the transition path remains consistently less disruptive than abrupt graduation.

These findings suggest that a smooth transition mechanism could materially reduce the fiscal stress associated with ODA graduation while still allowing countries to progress towards graduation over time.

Table 4 Estimated fiscal impacts on graduated SIDS under abrupt and phased withdrawal of ODA

ODA graduated SIDS (year of graduation)	Year of graduation		Average (graduation year to 2024)	
	Cliff-edge shock as % revenue	10-year transition path shock as % revenue	Cliff-edge shock as % revenue	10-year transition path shock as % revenue
Antigua & Barbuda (2022)	3.14%	0.31%	3.01%	0.58%
Barbados (2011)	1.35%	0.13%	1.08%	0.69%
St. Kitts & Nevis (2014)	10.26%	1.03%	9.86%	5.78%
Seychelles (2018)	4.73%	0.47%	4.58%	1.71%
Trinidad & Tobago (2011)	0.52%	0.05%	0.85%	0.65%

3.1.4 Cost to donors of applying a ‘GNI plus’ framework to SIDS

The third step in this scenario is to estimate the cost to donors of maintaining concessional support to SIDS after income-based graduation thresholds are reached – i.e. what donors would spend if concessional support continues (either through an MVI override or phased withdrawal of ODA).

Using historical ODA baselines, the ‘donor cost’ is calculated by extending pre-graduation ODA averages over the post-graduation period for each of the five SIDS. Absolute donor cost alone can be misleading, so the cost of continued support to five SIDS is measured as a percentage of bilateral ODA caseloads to SIDS (for DAC and non-DAC members), under the assumption that the same donors would have continued

historical levels of support if SIDS had not graduated.¹⁶ This analysis is limited to bilateral flows because ODA eligibility and graduation status has a direct influence on bilateral donor allocation decisions and allocation decisions by multilaterals are more complex.

For the five graduated SIDS combined, the average annual cost of ODA continuation (based on historical pre-graduation flows) would have been approximately \$97 million. This is concentrated among a few bilateral providers:

- EU institutions account for approximately \$67 million annually of bilateral support that would have continued, representing 0.2% of the EU's overall ODA caseload.
- Other major contributors include Japan, Saudi Arabia, UAE and France, all of which would have faced relatively limited portfolio exposure (well below 1%) if concessional support continued.

Table 5 Estimated cost of MVI override for top 10 bilateral donors

Top 10 donors	Estimated annual donor cost (\$ millions)	Donor cost as % of their global ODA caseload
Group A. For 5 graduated SIDS (up to 2025)*		
EU institutions (excl. the European Investment Bank, EIB)	67.3	0.19%
Japan	6.0	0.03%
Saudi Arabia	4.7	0.08%
UAE	4.3	0.52%
France	4.2	0.03%
Canada	2.3	0.04%
United States	2.0	0.01%
Kuwait	1.9	0.75%
UK	1.7	0.02%
Australia	1.6	0.05%
Total donor cost for 5 SIDS	97	

¹⁶ For the purposes of donor concentration analysis, EU institutions are treated as a bilateral provider category given their role as a direct concessional financing source for SIDS within OECD DAC reporting systems.

Group B. For 11 SIDS projected to graduate by 2034**		
France	385.9	2.59%
US	362.1	0.69%
Saudi Arabia	266.5	4.53%
Japan	161.9	0.92%
Korea	45.2	1.05%
EU institutions (excl. EIB)	37.9	0.11%
Australia	37.4	1.29%
Canada	37.0	0.64%
UAE	32.7	4.00%
Spain	19.3	1.06%
Total donor cost for 11 SIDS	1475	

Note: *The five graduated SIDS referred to in this analysis include Antigua and Barbuda, Barbados, St. Kitts and Nevis, the Seychelles, and Trinidad and Tobago. **The 11 SIDS projected to graduate include Cuba, the Dominican Republic, Guyana, the Maldives, the Marshall Islands, Mauritius, Nauru, Palau, St. Lucia, St. Vincent and the Grenadines, and Suriname.

One further step is taken in the analysis for scenario 1: a graduation premium-to-donor cost ratio has been calculated for the five graduated SIDS to assess value for money in using an MVI override and/or transition path (see Table 6). Where ratios are close to or higher than one, graduation generated low levels of cost savings compared to relatively large fiscal costs for SIDS. For instance, a premium-to-cost ratio of four in the case of Trinidad and Tobago suggests that the additional financing burden borne by the country following graduation was nearly four times larger than the corresponding donor savings from withdrawing concessional support.

Table 6 Graduation premium-to-donor cost ratio for five graduated SIDS

Graduated SIDS	Graduation premium (\$ millions)	Donor cost (\$ millions)	Premium-to-donor cost ratio
Antigua & Barbuda	12	9	1.3
Barbados	27	14	1.9
St. Kitts & Nevis	11	18	0.6
Seychelles	16	25	0.6
Trinidad & Tobago	124	31	4.0

3.2 Scenario 2: a climate finance exception for SIDS

The second scenario or adjustment to the current income-based graduation framework entails a more targeted approach to support SIDS through the decoupling of climate ODA from broader ODA. Countries would still graduate from ODA eligibility when they reach the income threshold (with the application of an MVI override), but all SIDS (including those that have graduated already) would be eligible for concessional climate-related development finance. Essentially, a ‘climate finance exception’ would be applied, not as a replacement for broader reform and the adoption of a ‘GNI plus’ framework, but rather as an additional mechanism to protect official climate-based support to climate-vulnerable countries.

The central rationale is that climate vulnerability does not disappear with rising income status (Wilkinson et al., 2023). For many SIDS, regardless of their income level, exposure to climate hazards and the costs of adaptation and resilience measures remain structurally high (and are increasing as global temperatures rise). Therefore, this scenario looks at whether preserving access to concessional climate finance for SIDS represents a fiscally manageable and institutionally practical adjustment.

In practice, a climate finance exception would not require a separate categorisation of projects. The Rio Markers can be used to allow graduated SIDS to retain eligibility for ODA where the primary objective is to support climate adaptation and resilience, recognising that vulnerability often persists long after income-based graduation. In this sense, the exception would function less as a separate financing window and more as a targeted eligibility mechanism that reflects the continued exposure of SIDS to climate shocks and long-term resilience challenges.

3.2.1 Cost to donors of a full climate finance exception for SIDS

The analysis that follows looks at the total cost to donors of providing continued access to concessional climate finance for graduated and graduating SIDS. This is based on five-year historical averages of climate-related development finance flows (see Table 7).

For the five SIDS that have already graduated, the estimated climate finance exception cost to donors would have been comparatively small at approximately \$11 million per annum. More than 95% of this support is concentrated among three donors: EU institutions, UAE and Japan. Importantly, the cost relative to overall bilateral climate finance would be very low, except for UAE where roughly 14% of its annual climate ODA portfolio was with these five SIDS (\$4.1 million).

If the 11 SIDS projected to graduate continue to receive climate ODA, the estimated cost to donors is approximately \$374 million annually. Over 77% of this comes from three donors, and France accounts for nearly 58% of the total. Again, the burden relative to overall climate ODA portfolios will be modest for all donors except for UAE.

Table 7 Estimated cost to donors of a climate finance exception for SIDS

Top 10 donors	Projected annual donor cost of climate exception (\$ millions)	Donor cost as % of their global climate ODA caseload	% share of climate exception cost to donors
Group A. For 5 graduated SIDS up to 2025*			
EU institutions (excl. EIB)	5.69	0.09%	50.37%
UAE	4.10	14.20%	36.30%
Japan	0.95	0.01%	8.41%
UK	0.14	0.01%	1.24%
Australia	0.12	0.01%	1.05%
France	0.10	0.00%	0.87%
Ireland	0.07	0.06%	0.65%
Canada	0.07	0.01%	0.60%
Finland	0.02	0.02%	0.18%
US	0.01	0.00%	0.12%
Total	11.27		

Group B. For 11 SIDS projected to graduate by 2034**			
France	216.66	3.37%	57.86%
Japan	37.26	0.36%	9.70%
Korea	36.18	2.34%	9.67%
EU institutions (excl. EIB)	30.92	0.40%	6.74%
Australia	14.30	1.53%	3.79%
Canada	11.90	1.22%	2.47%
UAE	9.32	26.97%	2.08%
Spain	5.72	4.03%	1.53%
Italy	4.30	1.27%	1.15%
US	4.18	0.16%	1.11%
Total	370.74		

Note: *The five graduated SIDS referred to in this analysis include Antigua and Barbuda, Barbados, St. Kitts and Nevis, the Seychelles, and Trinidad and Tobago. **The 11 SIDS projected to graduate include Cuba, the Dominican Republic, Guyana, the Maldives, the Marshall Islands, Mauritius, Nauru, Palau, St. Lucia, St. Vincent and the Grenadines, and Suriname.

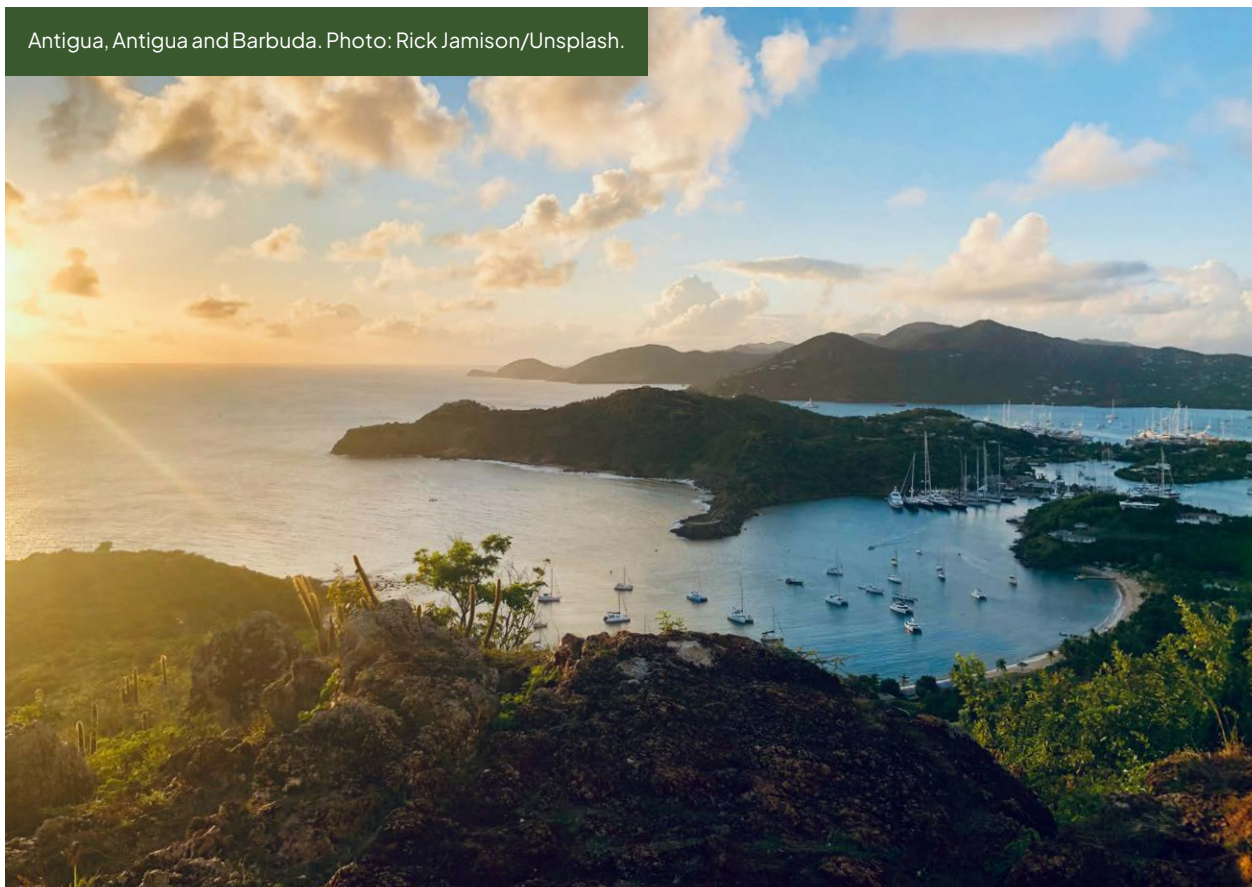
3.2.2 Climate ODA replacement cost for SIDS

Scenario 2 looks at the cost to SIDS of withdrawing only climate ODA (as a sub-component of broader concessional flows) that is then replaced through market-rate borrowing.

Even for SIDS receiving low levels of ODA climate finance, withdrawing this support can generate sustained cumulative costs over time.

The annual climate replacement cost appears to be relatively low at first glance, but the costs can become significant when SIDS do not receive concessional climate finance from bilateral donors for extended periods. For example, Antigua and Barbuda, which graduated in 2022, would have accumulated an estimated additional climate financing burden of more than \$1 million by 2024 (\$0.38 million per annum) under market-rate replacement assumptions.

Antigua, Antigua and Barbuda. Photo: Rick Jamison/Unsplash.



The estimates in Table 8 suggest that, even for SIDS receiving low levels of ODA climate finance, withdrawing this support can generate sustained cumulative costs over time. And the implications may be even more significant for the 11 SIDS due to graduate soon, several of which currently receive substantially larger volumes of climate ODA. For example, in Nauru, the average annual climate ODA replacement through market-based debt could be nearly 1.5% of tax revenues.¹⁷ Increased market borrowing is likely to create recurring financing pressures that accumulate steadily over the post-graduation period and further constrain long-term climate resilience investment in these countries. The cumulative climate ODA replacement burden for Mauritius, for example, could reach nearly \$42 million within five years of its projected graduation in 2029.

17 Estimated based on 2024 tax revenue of Nauru.

Table 8 Estimated costs to SIDS of climate ODA replacement

SIDS	Graduation year	Estimation year (graduation + 5)	Annual climate ODA replacement burden (\$ millions)	Cumulative replacement burden (graduation + 5 years)
Group A. Graduated SIDS				
Barbados	2011	2024	0.002	0.012
Trinidad & Tobago	2011	2024	0.018	0.09
St. Kitts & Nevis	2014	2024	0.204	1.02
Seychelles	2018	2024	0.072	0.36
Antigua & Barbuda	2022	2024	0.384	0.768
Group B. Projected to graduate				
Guyana	2026	2031	0.541	2.707
Palau	2026	2031	0.855	4.274
Nauru	2027	2032	0.478	2.392
Mauritius	2029	2034	8.362	41.81
Cuba	2030	2035	3.003	15.017
St. Lucia	2030	2035	0.344	1.72
Maldives	2032	2037	0.599	2.997
Suriname	2032	2037	0.262	1.308
St. Vincent & the Grenadines	2033	2038	0.106	0.531
Dominican Republic	2034	2039	8.328	41.639
Marshall Islands	2034	2039	0.675	3.374

3.3 Scenario 3: a contingency safeguard

The third scenario looks at the potential effects of temporarily reinstating ODA eligibility for SIDS for a limited period following severe shocks. For all SIDS, higher income status does not eliminate exposure to severe climate and disaster risks. Indeed, a single extreme event can generate losses equivalent to 100% or more of GDP, rapidly eroding fiscal space, disrupting economic activity and creating recovery financing needs that far exceed those faced by larger economies with comparable income levels ([Panwar et al., 2024](#)) (see Box 1).

The purpose of a temporary reinstatement of ODA eligibility for all SIDS would be to reduce immediate fiscal stress and to avoid countries being forced to finance reconstruction entirely through domestic budget reallocations, reserve depletion or high-cost borrowing.

For all SIDS, higher income status does not eliminate exposure to severe climate and disaster risks. Indeed, a single extreme event can generate losses equivalent to 100% or more of GDP.

This analysis does not test a specific trigger mechanism for a disaster exception. However, eligibility for such an exception could be linked to objectively verified disaster impacts, such as loss and damage exceeding a specified share of GDP, using internationally recognised and validated post-disaster assessment methodologies. An illustrative threshold could be where losses exceed 20%–30% of GDP. Under such circumstances, graduated SIDS may regain temporary access to selected forms of concessional finance for a defined recovery period. This could be, for example, the year of the event and/or up to two or three subsequent years based on the nature and extent of the loss and damage. Such support may be targeted towards recovery, reconstruction, climate adaptation and disaster risk reduction activities, rather than constituting a full reinstatement of general ODA eligibility.

Box 1 Impact of catastrophic disasters on high-income, graduated SIDS

The experiences of St. Kitts and Nevis, Barbados and the Seychelles illustrate how severe post-disaster financing pressures can emerge even in high-income SIDS with relatively stable macroeconomic trajectories prior to a shock (see Table 9).

St. Kitts and Nevis experienced back-to-back impacts of Hurricanes Irma and Maria in 2017, only three years after graduating from the OECD DAC list. Combined damage for the public sector exceeded approximately \$52 million (5.5% of GDP) (OECS, 2017). Despite the scale of the shock, the insurance payout from the Caribbean Catastrophe Risk Insurance Facility (CCRIF) amounted to only about \$2.3 million, covering less than 5% of estimated damages (CCRIF, n.d.). The remaining recovery burden was largely financed domestically through reserve drawdowns, emergency expenditure, fiscal concessions and reconstruction spending. Real GDP growth took a dent and slowed down by 0.8 percentage points following the hurricane. Public debt, which declined continuously in prior years, increased by 1.4 percentage points to 62.9% of GDP. The country faced elevated external imbalances post disaster (IMF, 2018).

Similarly, Barbados was hit by Hurricane Beryl in 2024 at a time when public debt was above 106% of GDP. The damage amounted to approximately \$96.5 million (1.4% of GDP), with major impacts concentrated in fisheries and coastal infrastructure (ECLAC, 2025). The hurricane reduced GDP growth by at least 0.2 percentage points, but the macroeconomic impact was moderate due to landfall in a non-tourist season (ECLAC, 2025; IMF, 2024a). Notably, inflation (consumer prices) increased by nearly six percentage points in 2024 against 2023. Although the hurricane did not trigger a CCRIF payout, Barbados secured external recovery financing mainly from the IMF, but this relied on exceptional institutional approvals rather than any standing concessional recovery mechanism linked to disaster vulnerability (IMF, 2024a).

Severe flooding and an industrial explosion in 2023 in the Seychelles generated estimated damage of \$148 million (7.4% of GDP) (IMF, 2024b). The disaster occurred while the Seychelles was still recovering from the pandemic-related collapse in tourism and undertaking fiscal consolidation under IMF-supported programmes. Real GDP growth declined significantly from 15% to 3.2% in 2023. Although debt had declined from earlier pandemic peaks (75% of GDP), reconstruction pressures contributed to renewed borrowing needs and the reallocation of planned public investment expenditures towards immediate recovery and cleanup operations (ibid.).

In all three cases, major disasters generated significant reconstruction needs relative to the size of these economies, in a context of limited and unpredictable external recovery finance. Therefore, there is a strong rationale for introducing a temporary post-disaster concessional reinstatement mechanism for graduated SIDS.

Hurricane Beryl during the morning of July 2, 2024. Photo: ABI imagery from NOAA's GOES-16 Satellite/Wikimedia Commons.

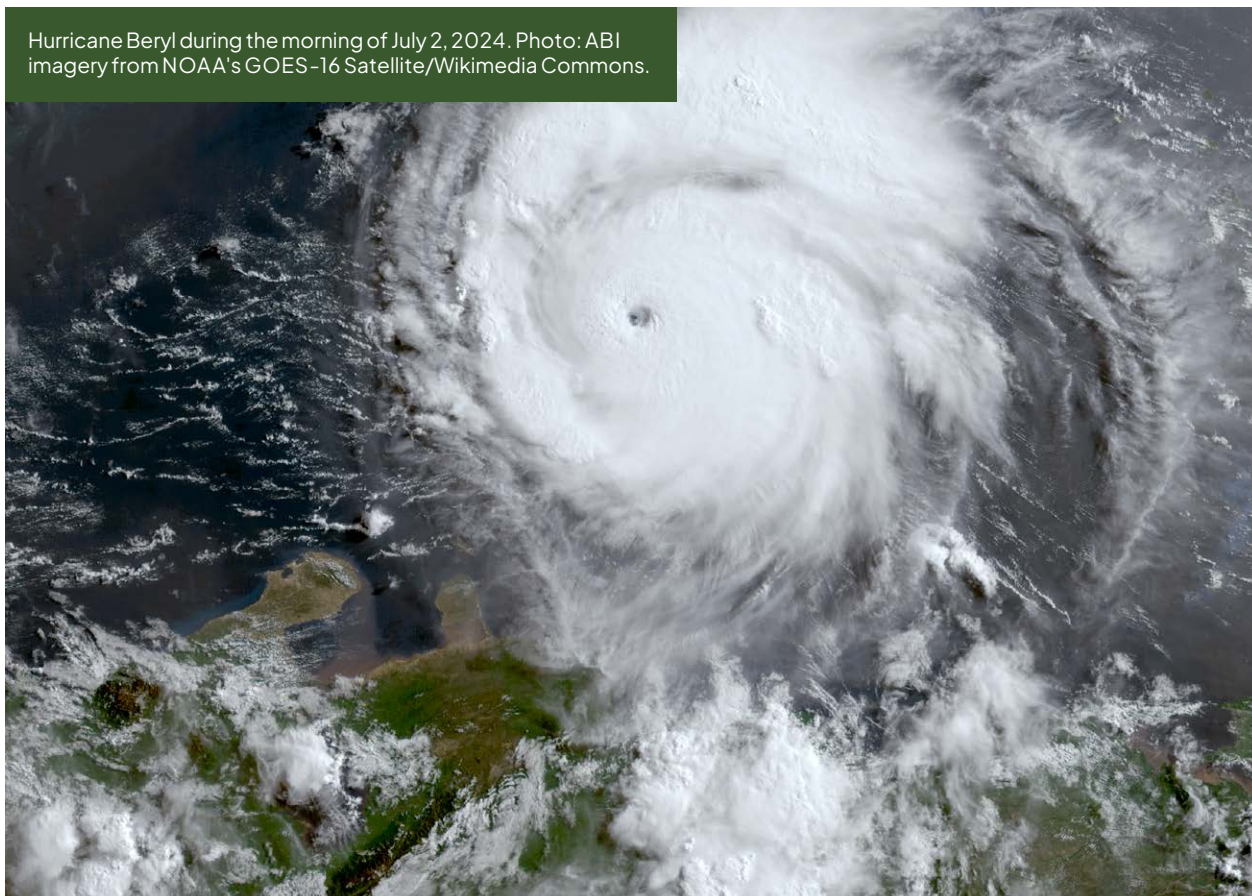


Table 9 Macro-fiscal variables in graduated SIDS, before and after major disaster events

Post-graduation disaster events	GDP growth rate		Inflation rate		Public debt stock (\$ millions)	
	Pre-disaster year	Disaster year (+/-)	Pre-disaster year	Disaster year (+/-)	Pre-disaster year	Disaster year (+/-)
St. Kitts and Nevis, Hurricane Irma and Maria (2017)	2.9%	2.1% (-0.8)	-2.30%	-0.4% (+1.9)	590	606 (+16)
Barbados, Hurricane Beryl (2024)	4.1%	3.8% (-0.3)	4.1%	9.8% (+5.69)	7469	7448 (-21)
Seychelles, severe flooding and industrial explosion (2023)	14.9%	3.2% (-11.8)	2.63%	-1.1% (-3.8)	578	642 (+64)

4 Reflections and observations

SIDS experience important structural vulnerabilities that will always limit their ability to generate sustained levels of growth and sufficient domestic tax revenues for critical investment to build resilience. They are also highly exposed to more frequent and more severe extreme weather events due to climate change, which result in escalating losses and fiscal impacts. For these reasons, SIDS face significant challenges when they reach the income threshold for ODA eligibility: they are forced to borrow at higher interest rates, debt levels go up dramatically and climate shocks further tighten fiscal space exactly when SIDS need to be investing in recovering and strengthening infrastructure, basic services, local businesses and communities.

The current graduation framework is not working well for SIDS. With 11 set to graduate in the coming years, there is clearly a need, and an opportunity, to rethink and reform the system.

The three scenarios presented in this working paper provide options and initial analysis of graduation reforms that would benefit SIDS, but which could also in principle be extended to other vulnerable countries. It appears that they would not impose a significant burden on OECD DAC members. Indeed, the analysis suggests that the relative benefits to SIDS far outweigh the costs to development partners of sustaining support to these vulnerable nations at the point at which they become ineligible for ODA (see summary in Table 10). The same analysis has not been conducted for other graduated countries, but the very high levels of debt faced by SIDS relative to their peers suggests that the benefit–cost ratio of continued support would be lower.

The current graduation framework is not working well for SIDS. With 11 set to graduate in the coming years, there is clearly a need to rethink and reform the system.

Each scenario needs further development and precision, particularly to agree the metrics to be used for a 'GNI plus' model, a climate finance exception and a contingency safeguard for SIDS. All categories, indicators, thresholds and other metrics will need to be objective and simple to calculate and measure in order to be adopted by the OECD DAC (and potentially other donors).

The aim of this study is not to provide recommendations as to which scenario should be taken forwards: indeed, all three could work well together. Rather, the analysis shows viable options for graduation reform for a group of countries that, because of their structural vulnerabilities and high exposure to climate shocks, do not quite fit the underlying assumptions of ODA graduation. In an era of declining ODA and when difficult decisions need to be taken on the purpose and focus of development assistance, an exception for SIDS could have an outsized impact on these small and vulnerable nations, providing resources and maintaining the fiscal space needed for urgent resilience investments.

Table 10 Summary of costs to donors of graduation reform scenarios for SIDS

Scenario description	Donor cost implications
Scenario 1 A 'GNI plus' framework for SIDS	• The estimated annual donor cost of an MVI override for the 5 graduated SIDS would have been \$97 million. • For the 11 SIDS projected to graduate, the cost could be \$1.5 billion annually. The additional financing burden (graduation premium) borne by SIDS following graduation is nearly four times larger than corresponding donor savings from withdrawing concessional support.
Scenario 2 A climate finance exception for SIDS	• For the 5 SIDS that have already graduated, the estimated climate finance exception cost to donors would have been \$11 million per annum. • The estimated cost of the 11 SIDS projected to graduate continuing to receive climate ODA is approximately \$374 million annually (based on historical climate finance patterns).
Scenario 3 A contingency safeguard for SIDS	• The financial cost of this exception would be periodic rather than regular and it may be targeted towards recovery, reconstruction, climate adaptation and disaster risk reduction activities, rather than constituting a full reinstatement of general ODA eligibility. • This exception does not negate the implementation of the other two scenarios.

Annex 1. List of SIDS and eligibility for ODA in 2026

ODA eligible	ODA ineligible
Comoros	Bahamas
Guinea-Bissau	Singapore
Haiti	Barbados
Kiribati	Trinidad and Tobago
Solomon Islands	Seychelles
Timor-Leste	Antigua and Barbuda
Tuvalu	Cook Islands
Cabo Verde	St. Kitts and Nevis
Micronesia	
Papua New Guinea	
Samoa	
São Tomé & Príncipe	
Vanuatu	
Belize	
Cuba	
Dominican Republic	
Dominica	
Grenada	
Guyana	
Jamaica	
Maldives	
Marshall Islands	
Mauritius	
Nauru	
Niue	
Palau	
St. Vincent & the Grenadines	
St. Lucia	
Suriname	
Tonga	

Source: OECD (n.d. -b).

Annex 2. Methodological note on data sources and steps in scenario development

Data sources

The scenario analysis presented in the main report is designed to support replication, scrutiny and sensitivity testing. The analysis draws on multiple datasets – each selected for a distinct methodological purpose:

- The OECD DAC database serves as the primary source for ODA and Climate-Related Development Finance (CRDF). These datasets are used to construct baseline ODA and climate ODA estimates for SIDS that have graduated and those that are projected to graduate soon. Five-year average ODA and climate ODA baselines are used instead of annual values to reduce volatility associated with one-off projects, disaster-response spikes or donor-specific programming cycles.
- IMF Article IV Consultation reports ([IMF, n.d.](#)) provide the principal fiscal and debt architecture used in Scenario 1 and Scenario 3. These reports are used to extract country-specific gross financing needs (GFN), debt ratios, amortisation schedules, tax revenue indicators, fiscal balances and market borrowing conditions where available. Other macroeconomic datasets like the World Development Indicators (WDI) and the International Debt Statistics (IDS) database supplement IMF data and support cross-country comparability for debt stocks, debt service indicators and macro-fiscal variables.
- Structural vulnerability data are drawn from the UN MVI framework ([UN, 2024](#)).

Approach to constructing the scenario analysis

Scenario 1: MVI override and smooth transition pathway

Scenario 1 tests whether income-based graduation outcomes change when structural vulnerability is introduced as a secondary threshold. Countries exceeding the selected vulnerability threshold are modelled either under continued concessional eligibility or through a phased transition pathway where ODA is assumed to be declining by 10% every year for 10 years.

The analysis begins by identifying the graduation year for each SIDS based on actual or projected GNI per capita eligibility. Once the graduation year is established, the country's structural vulnerability score is assessed using the UN MVI framework. Alternative

threshold scenarios are then applied to test whether countries remain sufficiently vulnerable to justify continued ODA eligibility or placement on a transition pathway. These thresholds are treated as indicative scenario options only.

Next, the fiscal cost of graduation is estimated through the ‘graduation premium’ analysis using GFN. GFN is used as the principal fiscal burden variable because it captures both annual fiscal deficits and debt rollover obligations, thereby providing a more realistic measure of sovereign financing pressure. The annual graduation premium is calculated as:

$$GP_t = GFN_t \times (i_m - i_c)$$

Where: GP_t is the annual graduation premium; GFN_t is gross financing needs in year *t*; *i_m* is the assumed market borrowing rate; and *i_c* is the concessional borrowing rate.

This formula estimates the additional annual financing burden imposed when concessional borrowing is replaced by market-rate borrowing following graduation until the year 2024 for the graduated SIDS. The graduation premium should therefore not be interpreted as total sovereign borrowing cost, but rather as the incremental financing penalty associated with loss of concessional borrowing conditions.

A concessional borrowing benchmark interest rate of 1% is used to approximate highly concessional development finance conditions typically associated with development lending facilities available to vulnerable developing countries, consistent with OECD concessionality frameworks (OECD, 2023). The assumed market borrowing rate of 7% is based on the elevated financing costs frequently faced by SIDS and other vulnerable economies in international capital markets due to structural risk premiums, climate vulnerability and limited market access (Hurley et al., 2025).

For the transition pathway analysis, it is assumed that the concessional support is reduced incrementally over a defined transition period (assumed 10 years) rather than withdrawn immediately. Fiscal stress under the transition pathway is estimated through the fiscal shock ratio:

$$\text{Fiscal shock}_t = \text{Annual ODA reduction}_t / \text{Tax revenue}_t^{18}$$

This ratio captures the fiscal pressure associated with replacing declining concessional finance through domestic revenue mobilisation.

¹⁸ Tax revenue is selected as an indicator of the government’s ability to absorb a reduction in ODA (through its own local sources of revenue).

Finally, the donor cost is estimated by extending five-year average pre-graduation ODA flows across the delayed graduation or transition period. This five-year average is used instead of annual values to reduce volatility associated with one-off projects, disaster-response spikes or donor-specific programming cycles. For the SIDS projected to graduate, a five-year average between 2019 and 2024 is used as a proxy for donor cost. Donor cost is additionally assessed as a share of total donor ODA caseload to evaluate the systemic affordability of alternative graduation pathways.

Donor concentration analysis is used to identify whether continuation costs are concentrated among a small number of bilateral providers or distributed more broadly across donor portfolios.

Scenario 2: Climate exception after ODA graduation

Under this scenario, countries may still graduate from general ODA eligibility based on income criteria (and the MVI override) but retain access to concessional climate-related development finance through a dedicated climate exception.

The first analytical step involves calculating five-year average climate ODA prior to graduation. This average is treated as the baseline annual climate concessionality requirement. Annual donor cost under the climate exception scenario is defined as:

$$\text{Donor cost}_t = \text{avg. climate ODA}$$

Cumulative donor cost across the analysis horizon is estimated as:

$$\text{Cumulative donor cost} = \text{avg. climate ODA} \times \text{years after the graduation}$$

These calculations estimate the additional donor burden associated with maintaining climate-related concessional finance after graduation. For graduated SIDS, the analysis of cumulative cost extends through to 2024, while for those projected to graduate it extends for five years post projected graduation.

Donor concentration analysis is then applied to identify the principal bilateral providers supporting graduated SIDS and those projected to graduate. This allows donor burden to be evaluated not only in aggregate terms, but also relative to total donor climate ODA portfolios.

Recipient-side burden is estimated through the climate ODA replacement burden (CORB) created by borrowing at market rates instead of concessional rates:

$$\text{CORB}_t = \text{climate ODA}_t \times (i_m - i_c)$$

This formula is used to estimate the additional financing burden incurred assuming that concessional climate finance must be replaced through market-rate borrowing.

Scenario 3: Temporary reinstatement of ODA eligibility following severe disaster shock

Scenario 3 examines whether graduated SIDS, or SIDS already moving through transition pathways, should regain temporary access to concessional finance following major disasters. The analysis focuses on the interaction between estimated disaster damages, debt dynamics, fiscal conditions, available disaster-risk financing and post-disaster reconstruction pressures. Case study examples are constructed using macro-fiscal indicators observed before, during and after major disaster events. Indicators include debt-to-GDP ratios, tax revenue ratios, gross financing needs, fiscal balances and available recovery financing through mechanisms such as CCRIF payouts, emergency borrowing or IMF support facilities.

Assumptions, sensitivity and limitations

The analytical approach applied in this study relies on several assumptions necessary for scenario construction. These assumptions should therefore be interpreted as indicative analytical devices rather than predictive forecasts.

- The assumed market borrowing rate of 7% is intentionally used to remain policy relevant. It reflects tightening global financial conditions, elevated sovereign borrowing costs and the risk premium frequently faced by small vulnerable states in external capital markets. The rate is not intended to represent country-specific borrowing conditions, but rather a standardised benchmark used for comparative scenario analysis. Changes in the rate will affect the fiscal cost calculations.
- The concessional borrowing benchmark of 1% is used to approximate highly concessional development finance terms. Actual concessional lending conditions vary substantially across lenders and facilities.
- The use of five-year ODA and Climate ODA averages reduces volatility associated with episodic project cycles, disaster-response surges and irregular donor disbursements. However, this smoothing approach may understate short-term financing spikes or overstate continuity in unstable donor environments. This methodological trade-off has been made to favour baseline stability over year-specific precision.

- Future climate finance projections are inherently uncertain. Constant-value (five-year average-based) projections are analytically stronger for donor-cost comparison, but they may change based on donor preferences.
- The two MVI thresholds of 60% of maximum score and global mean MVI are applied as scenario-testing mechanisms rather than deterministic eligibility rules. Threshold selection could materially affect override outcomes and therefore should be interpreted through range-testing rather than as a fixed policy recommendation.

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