

Chairman's Summary
Small States Forum at Annual Meetings of the IMF-World Bank, Washington D.C.
15 October 2022, 9:00 am-11.30 am

1. Member countries of the Small States Forum (SSF, the Forum), represented by their Heads and members of delegations to the Annual Meetings of the International Monetary Fund (IMF) and the World Bank Group (WBG), met on 15 October 2022. The Forum was also attended by representatives from other International Financial Institutions (IFI), development agencies and bilateral development partners. The Forum was chaired by Mr. Lyonpo Namgay Tshering, Minister of Finance of Bhutan.

Welcome remarks by the Vice President, Operations Policy and Country Services, World Bank, Mr. Ed Mountfield

2. Mr. Mountfield welcomed the attendees at meeting in-person after more than two years of virtual meetings. As a context for the meeting, he noted the overlapping global crises, including the aftermath of the COVID-19 pandemic, Russia's war in Ukraine and deepening impact of climate change, faced by the global community. These crises are having a devastating impact on developing countries, including a sharp rise in extreme poverty, and are putting at risk decades of progress made in health, education, and jobs. He informed the meeting that as a response to the crises, the World Bank (WB, Bank) has devised a framework that combines crisis response and long-term development by focusing Bank's financial and advisory support towards mitigating food insecurity, protecting people and jobs, strengthening resilience for future crises and challenges, and building back better with sound policies, institutions, and investments.

3. Mr. Mountfield reiterated WB's commitment to helping address the special development needs of small states. He specifically noted the urgency to deal with the impact of climate change. He informed that total IDA commitments to small states reached \$1.8 billion in FY22, a significant increase from the \$161 million committed a decade earlier. He drew attention to IDA20's policy commitments regarding climate action targeted at building resilience to shocks. He informed the meeting that the Bank will prepare Country Climate Development Reports for eight small states in FY23.

Opening remarks by the SSF Chair, Mr. Tshering

4. Mr. Tshering highlighted the devastating impact of the complex and overlapping crises on small states. Amidst the fragile recovery from the impact of the global pandemic, the war in Ukraine has exacerbated the socio-economic vulnerabilities causing a humanitarian and economic catastrophe. Many small states face crippling debt burden. Their populations face shortages of fuel and cereals. Surging food and fuel prices are constraining policy choices in the midst of nascent economic recovery. He shared with members how Bhutan is navigating these crises with support from bilateral partners and multilateral organizations. He cited the high vaccination rates and support to households and businesses as examples of Bhutan's policy response.

5. Mr. Tshering reminded the members that these dramatic impacts are all unfolding against a backdrop of a climate crisis, to which small states are exceptionally vulnerable. He cited within-country migration, shortening crop years, and melting snow and glaciers resulting in floods, among the climate change impacts. He emphasized that small islands and small landlocked economies are going through these impacts in similar ways, being disproportionately vulnerable. He hoped that the COP27 in Egypt next month will seek stronger action from big emitters of greenhouse gases to do more and live up to their commitments in the Paris Agreement.

6. He appreciated exceptional IDA support in the face of unprecedented external shocks and thanked IDA deputies for the IDA20 replenishment. He recognized the instrumental role played by the SSF in advocating for international support for small states, including through special arrangements under IDA and IBRD financing from the WB and the donor community.

Technical presentation titled *Global Economy and Small States: Overlapping Crises, Multiple Challenges* by Chief Economist and Director, Equitable Growth, Finance and Institutions, World Bank, Mr. Ayhan Kose

7. Mr. Kose's presentation addressed two questions. First, what are the near-term growth prospects for small states? And second, what are the main risks? He characterized the global economic environment in terms of rising inflation, tightening financing conditions, and slowing global growth. Growth in small states is expected to slow as the global outlook darkens, despite an incomplete pandemic recovery. Activity in 2023 is barely expected to surpass its 2019 level. There are multiple downside risks, including financial stress, energy and food insecurity, and climate disasters. Risk of a global recession has risen, with significant trade and financial spillovers to small states. Large external imbalances heighten small state vulnerabilities.

Technical presentation titled *Small States: Advancing Action to Address Unique Development Challenges* by Director, Operations Policy and Country Services, World Bank, Ms. Paloma Anos Casero

8. Towards setting the stage for later discussion among members, Ms. Casero shared evidence on the unique economic, social and climate challenges faced by small states, how those challenges have been compounded by overlapping global crises, and how small states and international community, including the WB, have responded to them. Governments have responded with innovative policy actions to address short-term impacts of the overlapping crises, but the long-term agenda remains vast. The Bank has responded at speed and scale alongside the international community and its annual financing commitments to small states have grown 12 times in the past decade.

9. She recognized that small states share common challenges but differ in economic resilience, driven by a diverse set of initial conditions and policy room to maneuver. WB's country-based engagement model allows a tailored response to unique needs of each small state.

Plenary Discussion

10. Several members elaborated on how following the COVID-19 pandemic and multiple crises, especially the ongoing food and energy crisis, their **countries are in dire straits with limited financial capacity to achieve long-term goals**. The Pacific members said that actions taken by the governments to fight the pandemic and save lives had severe effect on their economies and have led to increased poverty, including impact on tourism, an important source of revenue and employment for many in the region. Further, until very recently the recruitment of seafarers and seasonal workers slowed almost to a stop, interrupting the flow of remittances that many families rely upon.

11. Members noted that the various **compounding crises have strained their limited human and physical resources** impeding their ability to progress and deliver on national development goals and the 2030 agenda. The crises are adding unsustainably to their public expenditures. Important structural projects have been delayed, suspended, or cancelled. The combined effect of the current crises is also impacting their societies in less visible ways such as impact on mental health and the related productivity decline.

12. Members **called for increased financial support from the international community**, at more favorable conditions, to confront future shocks. They urged IMF and the WB to simplify access to financial resources. The Chair suggested that conditionalities attached to financing for small states could be streamlined, and procedural burden reduced, to ensure faster disbursement in times of crisis. In response, Mr. Mountfield apprised members that disbursements from the WB during the COVID-19 pandemic have been 50 percent higher than in the pre-pandemic period. He agreed that in times of crisis it is very important to have funds readily available. He drew attention to the Catastrophe Deferred Drawdown Option (Cat DDO) which has been a successful instrument for several small states. With a Cat DDO, states can have access to financing that can disburse in as quickly as a week after a declaration of a national emergency and such funding is provided in unearmarked budget support.

13. Island member states made a strong statement that **climate change continues to be the single greatest threat** to low lying and narrow islands. Its impacts disproportionately affect the poor and women, due in part to insufficient social safety nets. Recurring natural disasters cause accumulation of debt. Stability of these states is linked to adaptation to climate change, but response is not in proportion to the scale of challenges. In addition to sources of finance (such as IDA and IBRD), the grant element is more important.

14. In response, Mr. Mountfield stated that climate action is central to WBG's development agenda. The WB recognizes that there is basic injustice in expecting that additionality in terms of expenses that come from any climate event or even ongoing adaptation and mitigation of climate impact would be met from adjustment coming only from internal policy changes or internal resources. He shared that the WBG is the largest provider of climate finance to developing countries. In FY21, the WBG provided \$31 billion in climate financing, accounting for over half of the climate financing of all the multilateral development banks.

15. Several **members asked IFC and MIGA to ramp up investment support** to increase private sector participation in their countries. Specifically, they called upon the IFC to assist small state members increase their project profiles to encourage international participation. The Bank's involvement in various stages of a project can reduce project's risk profile, hence increasing attractiveness. **Susan M. Lund, IFC's Vice President for Economics and Private Sector Development**, noted IFC's support to small states with a current portfolio of about \$450 million in investments, up from \$380 million in FY19, and plans to scale up their presence. IFC is also providing advisory services to nine small states to structure public-private partnerships in airports, power, water, and sewage. Ms. Lund noted that blended concessional finance is important for supporting the private sector to de-risk projects and help crowd-in other DFIs and private sector capital in investments. She mentioned that IFC is leveraging the IDA private sector window for eligible small states and have a range of tools to help make private sector investments more attractive to others, including local currency financing, risk sharing agreements, and subordinated loans.

16. Some **members felt that the WB should treat island and non-island small states equally**. They argued that non-island states are equally susceptible to climate effects such as drought, land degradation, and desertification. Djibouti, on behalf of francophone African members informed the meeting that they plan to coordinate, including with the Africa Anglophone constituency, their action, define common interests, and think together how the WB and the IMF could move forward the agenda of small states in a manner that is fair and equitable to African and non-island states. Mr. Mountfield acknowledged that IDA's Small Island Economy Exception is limited to islands at the current time and the WB is looking at options and discussing them with IDA deputies.

17. Some members requested that the WB should help in setting up a **vulnerability index** to have a good measurement of the challenges faced by developing countries. The representative of the Commonwealth Secretariat made a strong pitch to the IFIs that they should help in reaching a consensus on definition and measurement of vulnerability, drawing upon Commonwealth Secretariat's work and the ongoing work on the U.N.'s multi-dimensional vulnerability index. Considerations of vulnerability would allow concessional finance for higher income countries in times of natural disasters. A suggestion was also made for a broader reform of architecture and processes of IFIs to align them with the modern needs.

18. Mr. Mountfield drew attention to WBG's recent exceptional support to some IBRD graduates. He acknowledged that the world is facing dire emergencies and there has never been a more important time for global solidarity. He urged members to continue advocating for more concessional financing and about the importance of IDA as a vehicle in that regard.

19. Several **members requested stepped-up technical support by the WB**. There was a suggestion that the WB should develop a strategy for small states to account for their specific characteristics and circumstances. Members appreciated WB support for fisheries management in the Pacific. Cabo Verde

suggested that the Bank should create a regional center for excellence to support exchange knowledge and the development of economic skills. They also asked for setting up a special consultation platform targeted to small states (such as the previous Small Island States Resilience Initiative – SISRI) that they could regularly consult for advice. Members of **landlocked states advocated for more innovation** in developing a targeted WBG strategy for addressing their specific needs. They highlighted the supply side constraints, trade restrictions and high trading costs, and serious gaps in energy access which affects industrial and agricultural productivity as some of their special characteristics deserving tailored approach.

20. Some members drew attention to **opportunities for growth** in their countries. For example, the Pacific is benefiting from innovative fisheries management, clean energy, and digital economy. They thought that it is about time that they tapped into the propane economy and digital financing services initiatives which are more relevant given their geographical location and large areas. Members' attention was drawn to the 30x30 campaign to protect ocean resources, agreeing to which would significantly affect their main source of revenues, especially for those who are heavily reliant on fisheries.

21. Mr. Mountfield said that the Bank clearly hears the members on the need for strong analytical work. He specifically drew attention to Country Climate and Development Reports being prepared in several small states in the coming year. He assured that the Bank is committed to supporting small states in thinking through growth models that address their common characteristics.

22. IMF representative shared that the **Resilience and Sustainability Trust (RST)** has started operations following good progress on fund raising, having received pledges for about 25% of the targeted 33 billion SDRs. The Fund has been able to reach agreements with 11 members, including one small state (Barbados), for accessing RST funds. They expect these agreements to be approved by their board by the end of the year.

23. **Members thanked the WB for hosting the SSF** which has served well as a platform for drawing attention to small state issues. They stressed the importance of partnership amongst themselves and with the MDBs to fully realize the vision of improving the welfare of their people. They thanked the WB and IMF management and staff for their dedication and critical work to support member states.

Remarks by the Managing Director, Operations, World Bank, Mr. Axel van Trotsenburg

24. Mr. van Trotsenburg emphasized that every member country, whether big or small, is important for the Bank. The Bank understands the special needs of small states and that GDP per capita does not capture their full realities. Small island countries are also prominently affected by climate change, as evident in dramatic hits to their economies by hurricanes and typhoons. Related to this, is the escalating debt in small states. He acknowledged the sharp contractions in the economies of Pacific and Caribbean islands due to enormous hits to tourism and remittances because of COVID-19.

25. He acknowledged the need for additional funding to small states. He drew attention to enormous increases in IDA commitments to small states in recent years, although using IDA to help non-IDA middle-income countries in times of crisis is still a work in progress. He underscored that although IDA vehicle is important, it cannot solve everything, and climate finance needs are going to be multiples of what is available. What is needed is additionality provided by other organizations. In this context, the SSF can help by persistently reminding about special needs of small states.

26. Mr. van Trotsenburg reflected that the Bank needs to take a longer-term view of how to support countries in times of enormous fluctuations due to remittances and tourism and continue working on the debt issue.

Adoption of Communiqué

27. The draft communiqué was read at the Forum and later circulated to participants for comments. Changes proposed by the participants were addressed. A copy of the final communiqué is below.

Small States Forum

1818 H Street, N.W., Washington, D.C. 20433

October 15, 2022

1. Members of the Small States Forum (SSF) met in person on October 15, 2022.
2. Members discussed the exceptionally difficult challenges that they face as they navigate the current global overlapping crises that have exacerbated structural vulnerabilities. The compounding impact of these shocks has deeply hurt their economies, along with concomitant social impacts and rising climate risks. Managing the global impacts of the war in Ukraine, leading to high fuel and food prices, at a time when their economies had barely started to recover from the impact of a two-year old pandemic, has stretched their limited capacities. These impacts are occurring against a backdrop of rising climate risks to which these economies are highly exposed. Near-term economic prospects of small state economies face downside risks related to heightened global uncertainty, tightening financial conditions, and a possibility of global recession, which could further stress their economies and populations.
3. Several Members have responded to these challenges with policies that sought to strengthen their fiscal frameworks, social protection systems, learning programs, and climate resilience, leveraging the use of digital technologies and innovative financing solutions. But the long-term agenda remains vast. With their resources and capacities committed to fighting the shorter-term impacts of these multiple shocks, longer-term development priorities have suffered immensely. Most small states find themselves farther away from achieving the SDGs than they were in 2019. Most remain poorly prepared to deal with climate change, which is likely to affect all small states – be they island, coastal, or landlocked – more intensively than other countries. Their investments towards adapting to climate change, building resilience, and diversifying their economies have stagnated and their fiscal space is more constrained because of elevated debt burdens. Some members called upon the international community to support capacity building efforts and knowledge exchanges on good practices in the areas of climate resilience and sustainable use of natural resources in small states.
4. The issue of the high debt burden in several Member States has been highlighted in previous SSF communiques. This major source of vulnerability has been exacerbated by the compounded impacts of the global overlapping crises. Members look to the World Bank and IMF for continuing capacity-building and technical support on fiscal policy and debt management in small states.
5. This Forum has been pushing for more urgent action on climate change which is the single greatest threat to the livelihoods, security, and wellbeing of small states. Members call on all parties to the Paris Agreement to ensure that COP 27 delivers clear progress on turning pledges and commitments into action and a scaled-up ambition to limit global warming to 1.5 degrees above pre-industrial level. Members urge world leaders, especially the big emitters, to commit to achieving net zero emissions by 2050. The previous communique had called upon the World Bank to give priority to small states in undertaking analytical work to provide them with timely technical advice on climate action. Members appreciate that the World Bank has started preparing Country Climate Development Reports for several small states.
6. Members value the international support that has enabled them to respond meaningfully to the multiple crises. In that context, the Forum thanked the World Bank for continuing to provide robust volume of IDA resources towards responding to the pandemic and subsequent shocks. Members call upon the international community to expand concessional resources to enable small states to put their long-term development programs back on track. Members call upon development partners to ensure appropriate support to all small states, including island, coastal and landlocked states facing structural development constraints and high exposure to multiple vulnerabilities.