



Small States Forum | October 15, 2022

SMALL STATES

Advancing Action to Address Unique Development Challenges



KEY MESSAGES



Small states face unique challenges that have been compounded by overlapping global crises.



Governments deployed innovative policy responses, but the agenda remains vast.



The international community has stepped up financing and support, among them the World Bank Group.



Unique challenges

Small states face unique challenges that have been compounded by overlapping global crises. But one-size fits all approaches can not work and customized solutions are called for.

SMALL STATES, BIG CHALLENGES

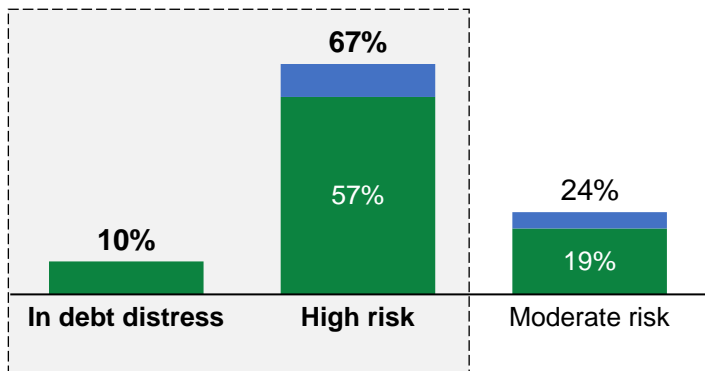
Overlapping global crises have compounded development challenges faced by vulnerable Small States

ECONOMIC

- Small domestic markets
- Strong dependence on imports
- Volatility in output and government revenues

~80% of small states covered by the LIC-DSF face high risks of debt distress or are already in debt distress

■ All SSF members (+8) ■ Small states with population <1.5 million (+42)

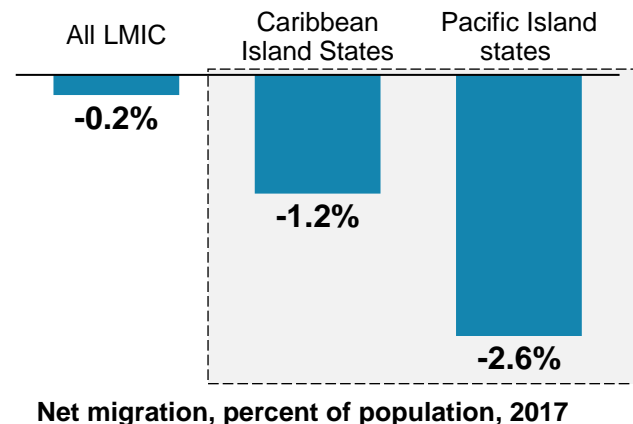


Source: World Bank Debt Sustainability Analysis (DSA) 2022

SOCIAL

- Brain drain
- Scarcity of skills
- Weak systems and low capacity

Small states experience very high rate of population outflow. Net migration across regions significantly higher than in other EMDE



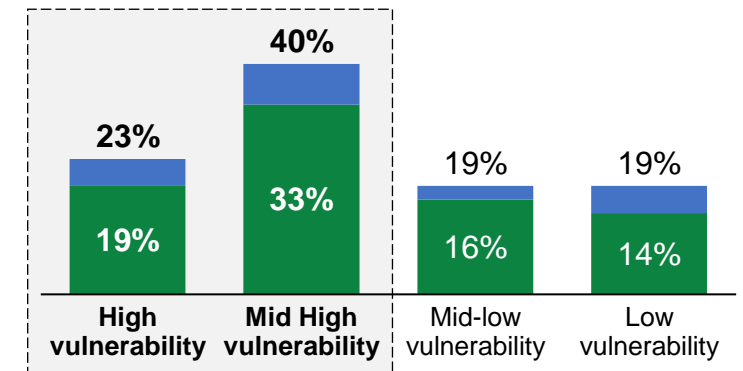
Source: United Nations, World Population Prospects (2019)

CLIMATE

- Acute vulnerability to natural disasters
- High costs of adaptation, building back better
- Impact on key sectors (tourism, fisheries)

Over 60% of small states are highly vulnerable to climate change in the world

■ All SSF members (+8) ■ Small states with population <1.5 million (+42)



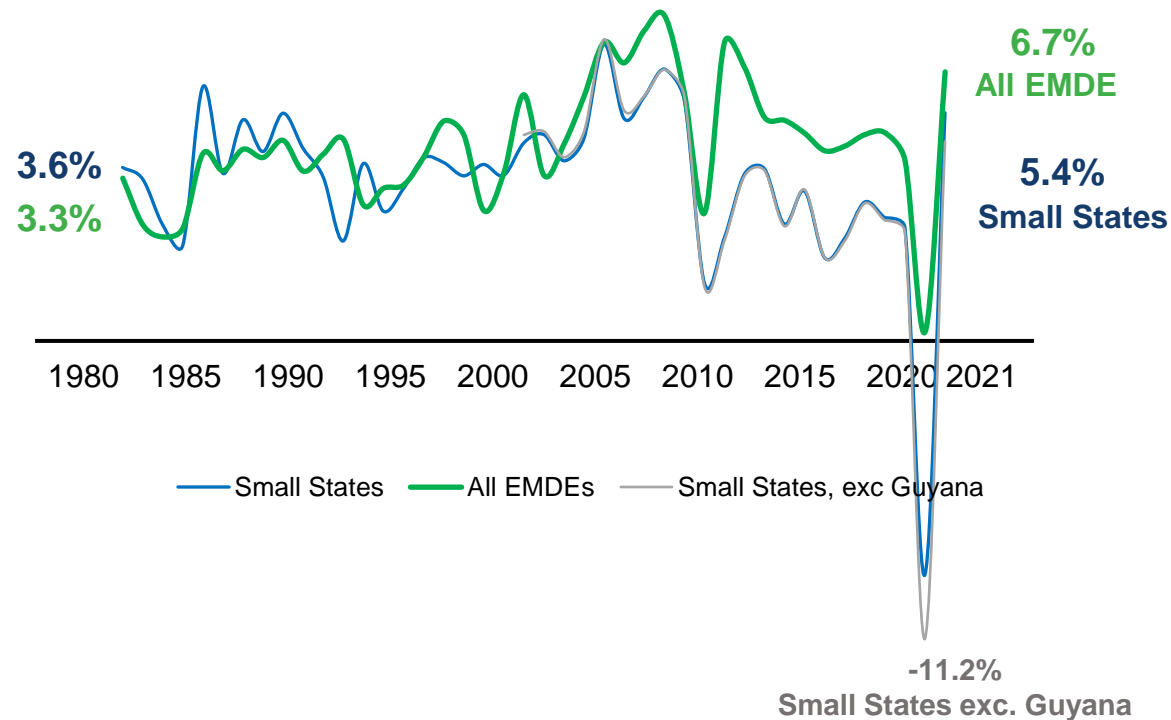
Source: ND Gain Vulnerability Index

CHALLENGES REFLECTED IN GROWTH PERFORMANCE

More volatile and weaker growth in Small States than emerging and developing economies

Small states faced more volatile and weaker growth performance since mid-2000s

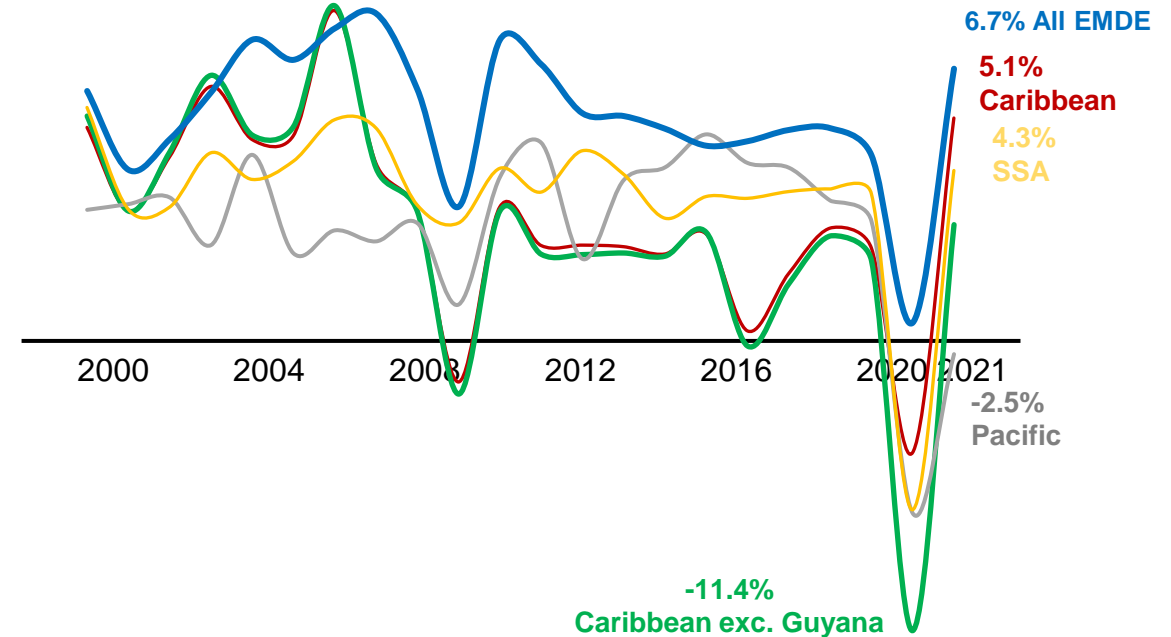
GDP Growth rate, percent, 1980-2021 (weighted average)



Source: WDI 2022, World Bank

Small states across all regions were hit harder during COVID-19

GDP Growth rate in Small States by regions (weighted average)

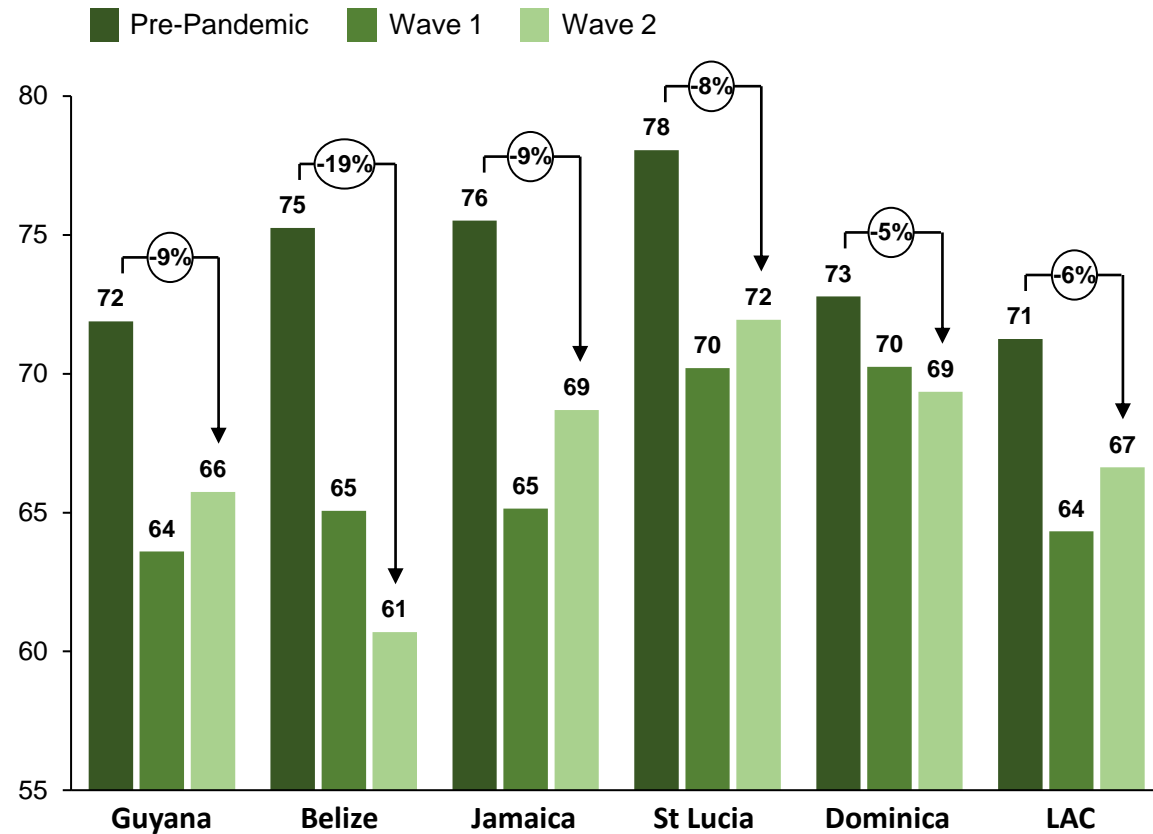


Source: WDI 2022, World Bank

UNIQUE VULNERABILITIES MAGNIFY THE IMPACT OF GLOBAL OVERLAPPING CRISES

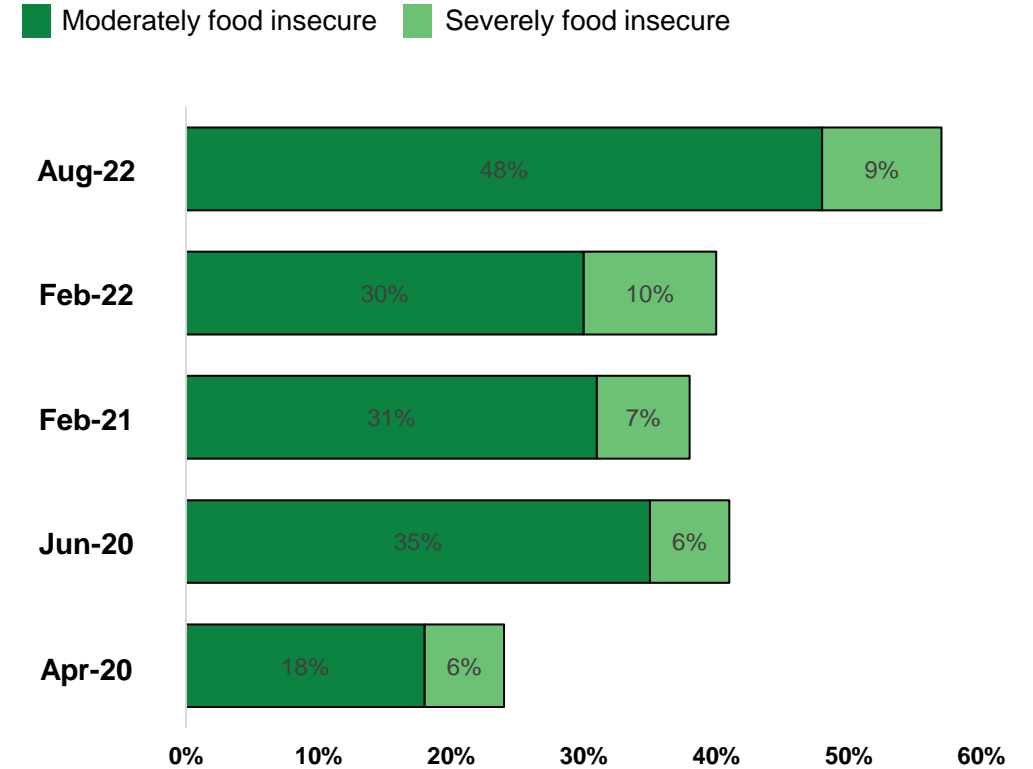
Compounded impacts of overlapping crises on unemployment and food insecurity in the Caribbean

Employment to population ratio, percent (18 + years old)



Source: WB staff calculations.

Prevalence of food insecurity, percent

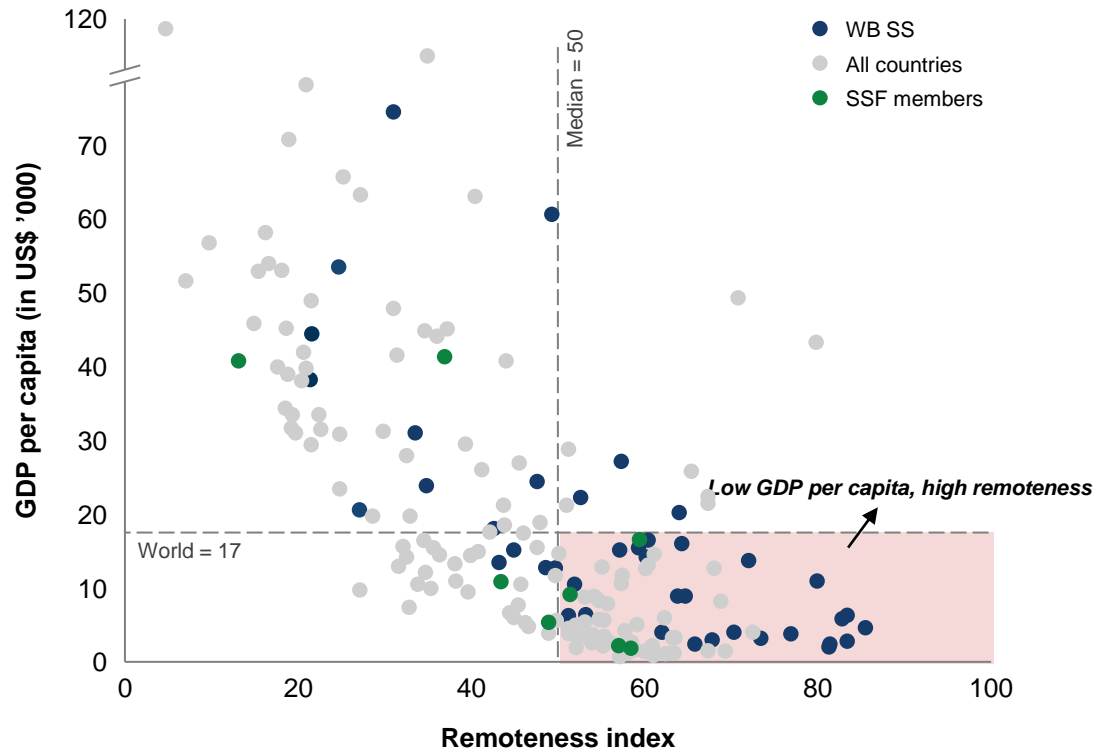


Source: WFP.

COMMON CHALLENGES BUT DIVERSITY IN ECONOMIC RESILIENCE

Small States share common challenges but differ in economic resilience, driven by a diverse set of initial conditions and policy room to maneuver

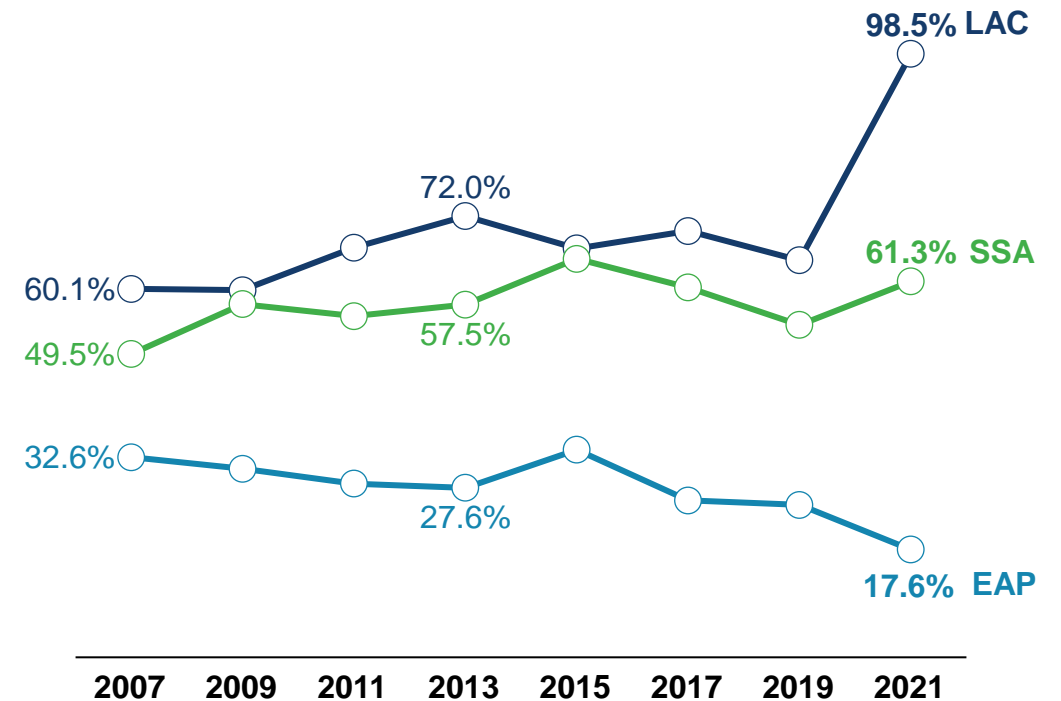
Not all Small States are affected by a challenging combination of lower income and remoteness



Source: UNCTAD calculations.

Debt trajectories in Small States also vary significantly across regions

Public Debt in Small States, percent of GDP (median)



Source: WEO 2022, WB staff calculations



Policy Responses

Governments of Small States have undertaken a range of policy actions to address structural challenges and the impacts of the multiple and overlapping global crises— from fiscal measures expanding healthcare and safety net programs and temporary tax relief to households and small businesses, to supporting innovative financial solutions to climate adaptation.

SMALL STATES ARE STEPPING UP TO THE CHALLENGE

Governments have responded with policy actions to address short-term impacts of the overlapping crises, but long-term agenda remains vast

ECONOMIC

Managing fiscal impacts of shocks

Strengthening fiscal frameworks with financial innovations

Setting up wealth funds and fiscal rules

Rebuilding fiscal buffers (MTDS, PIM, e-procurement, e-tax,)

Improving the financial architecture for contingent financing: CAT DDOs/CAT bonds

Pursuing Regional Solutions

SOCIAL

Protecting the poor from shocks

Strengthening social protection systems (improving household data, targeting, and digital delivery)

Supporting vaccination

Alleviating Noncommunicable disease burden

Innovative approaches to learning leveraging digital solutions

CLIMATE

Responding (and adapting) faster and at scale to disasters

Enhancing Disaster Risk Management policies

Innovative financing, pooling risks: Catastrophe risk Insurance

Strengthening resource management policies: Ocean and Coastal management

Implementing Multi-Hazard Early Warning Systems

HOW SMALL STATES ARE RESPONDING

ECONOMIC

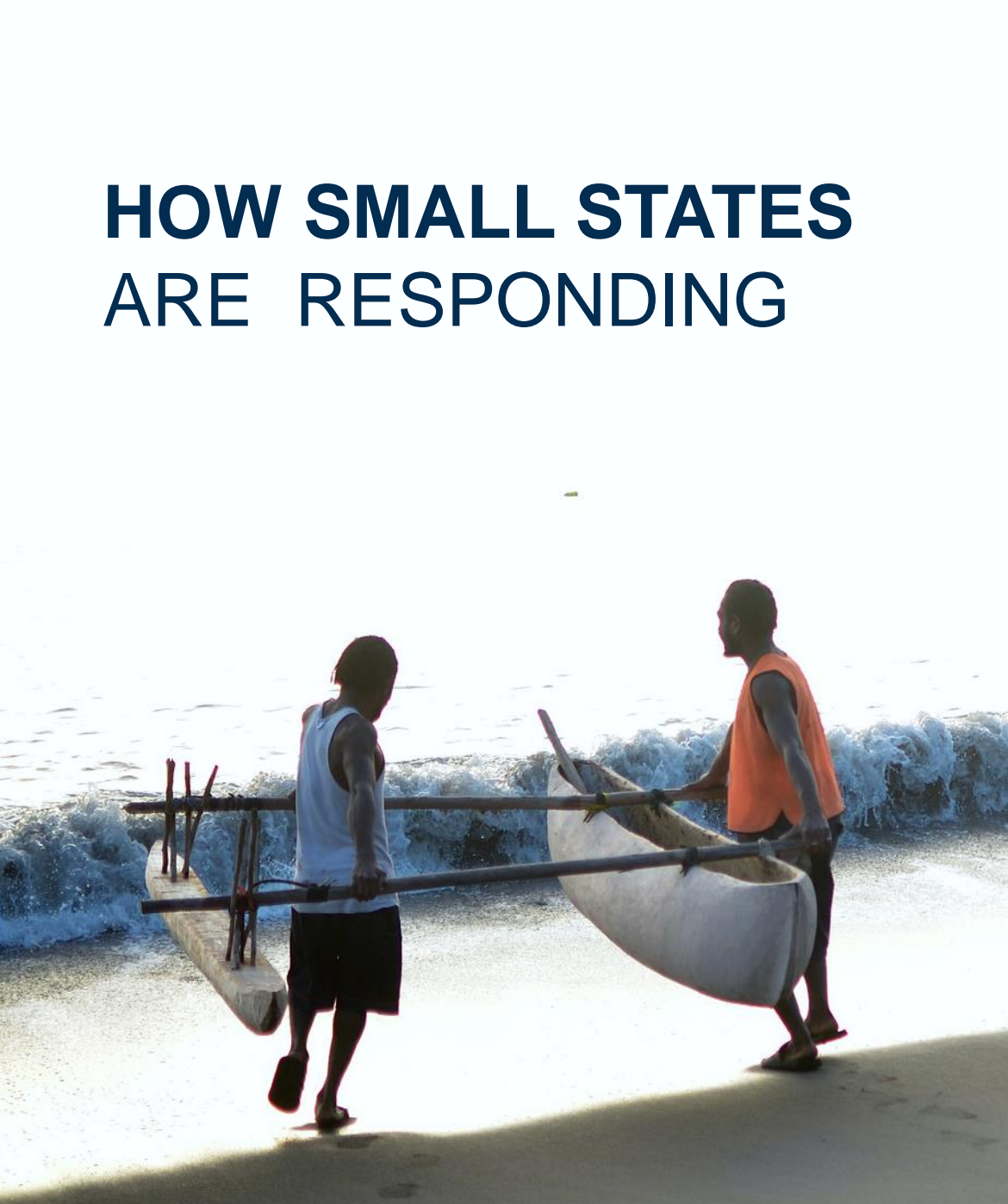
Increased fishery revenues by **Pacific Islands** through forging stronger regional cooperation and improved regulatory framework;

SOCIAL

Prioritized social protection in COVID19 response- **Lesotho**
Strong vaccination drive in many small states - **Bhutan, Mauritius, Fiji, and Maldives** have fully vaccinated above 70 percent of their population also contributing to an economic rebound.

CLIMATE

Leveraged international capital markets to narrow the climate financing gap (Blue Bonds of **Seychelles** and Green Bonds of **Fiji**); innovative mechanism of catastrophe risk insurance (**Caribbean**)





International Support for Small States

The international community, including the World Bank Group, has stepped up support to Small States in responding to the challenges.

STEPPING UP INTERNATIONAL SUPPORT

FINANCING:

Per capita ODA to Small States is higher than the average for developing countries

MDBs lending to Small States, often at more preferential terms

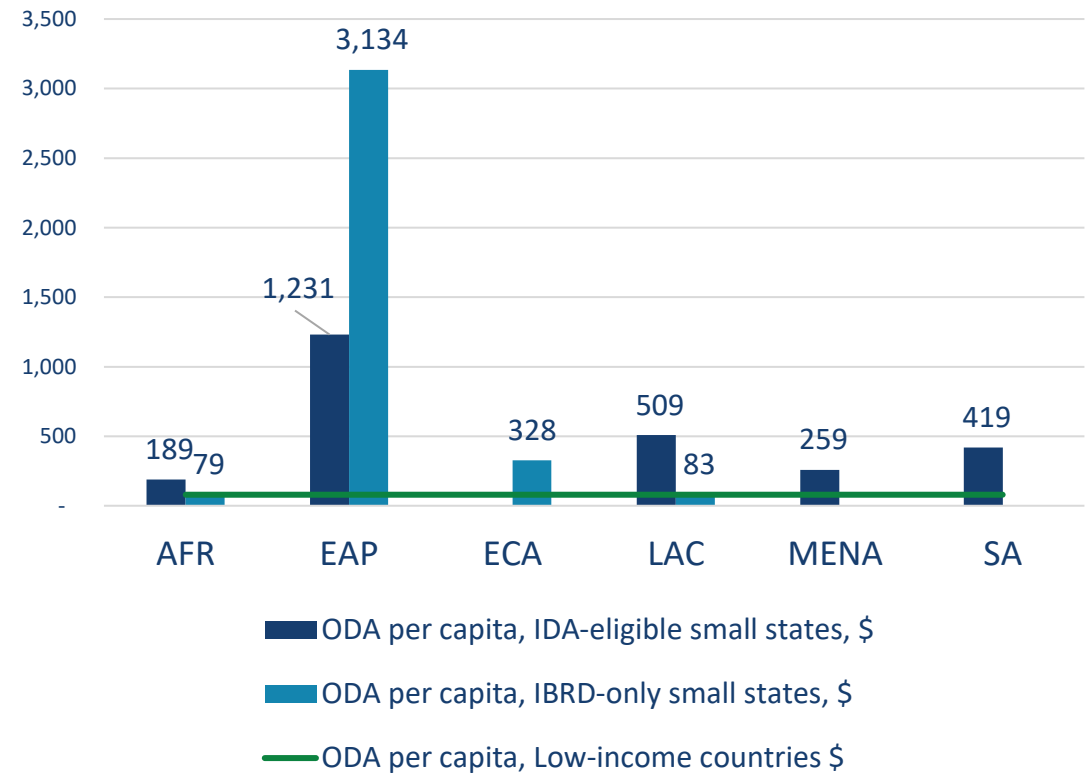
TAILORED RESPONSES:

Flexibility in business processes

Field presence

Special focus on capacity building

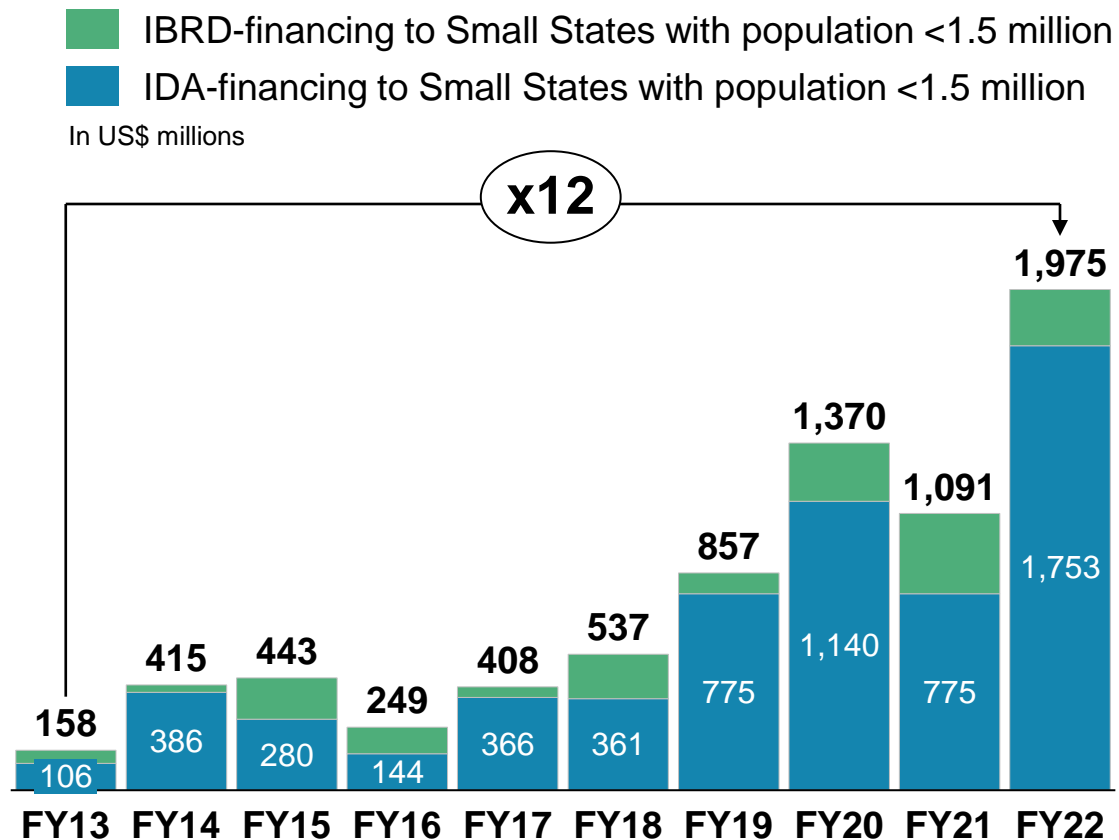
ODA PER CAPITA, \$US (SIMPLE AVERAGE FOR 2020)



Source: WDI 2022, World Bank staff calculations.

REITERATING WBG COMMITMENT TO SMALL STATES

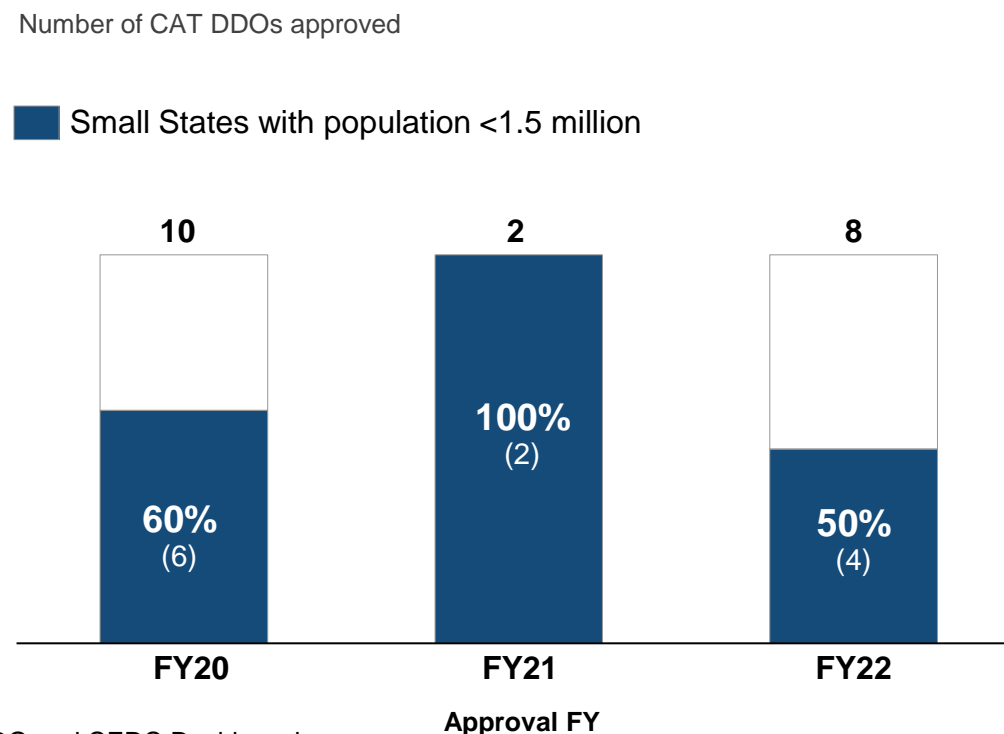
The World Bank has responded at speed and scale alongside the international community



Source: OPSOM.

12x IBRD/IDA commitments increased since FY13

60% of Development Policy Lending with Catastrophe Deferred Drawdown Option are with Small States



Source: CAT DDO and CERC Dashboard.

x3 Active operations with Contingent Emergency Response Components between FY19 and FY22

TAILORING THE WORLD BANK GROUP RESPONSE TO COUNTRY NEEDS

The WBG engages with Small States through its country-based model tailored to respond to their unique needs

Innovative Risk Financing Approaches: Jamaica catastrophe (cat) bonds

The World Bank **issued a CAT bond to provide Jamaica with US\$185 million insurance cover for three hurricane seasons** ending in December 2023. The CAT bond strengthened Jamaica's financial architecture for disaster risk financing, increasing its resilience. Through the CAT bond the World Bank **leverages its experience and reputation in the capital markets, its AAA credit rating, and its uniquely flexible capital-at-risk notes program** to facilitate risk transfer solutions using capital markets.

Fast-tracking Bhutan's COVID Response

The World Bank helped establish contact tracing and **early warning systems and procure medical and testing supplies**. All hospitals and 78 primary health centers received test kits, and personal protective equipment were distributed to 20 district health authorities. With support from the World Bank and development partners, Bhutan established **one of the world's most effective vaccination campaigns**. Already as of May 2021, 88 percent of the eligible population were vaccinated with the first of two doses.

The WBG continues to engage with Small States and development partners to support the crisis response and their long-term development goals

Questions

1

What are your most pressing challenges as you navigate a turbulent global economy?

2

Which policy responses are you developing to balance short-term needs with long-term development goals?

3

How can the international community support you?





WORLD BANK GROUP SUPPORT TO SMALL STATES

THANK YOU

