

Chairman's Summary
Small States Forum Virtual Meeting
14 April 2022, 6 am – 9 am

1. Members of the Small States Forum (SSF), represented by their Heads/members of delegations to the 2022 Spring Meetings of the World Bank (WB) and International Monetary Fund (IMF), met virtually on 14 April 2022. The Forum was also attended by representatives from other IFIs, 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 Mr. Tshering, the first ever Chair of the Forum from a landlocked country. He saw Bhutan's chairmanship as reflective of the diverse nature of small states. He started by reiterating that supporting small states, which constitute more than a quarter of World Bank Group (WBG) members, is an essential part of the WBG's mission to help countries end poverty and promote green, resilient, and inclusive development. He recognized the forum as a key platform for discussing the development challenges facing small states, identifying possible solutions and strategies together, and advocating for recognition of the special vulnerabilities of these states.

3. Mr. Mountfield characterized the current development context of SSF member states in terms of coping with three crises simultaneously: the COVID-19 pandemic, the war in Ukraine, and the accelerating pace of the climate change, all of which have had a large impact on GDP and prices in small states and exacerbated existing challenges. He assured that the WBG remains strongly committed to supporting small states as they navigate these challenges.

Opening remarks by the SSF Chair, Mr. Tshering

4. Mr. Tshering recognized the critical role played by SSF in the past in advocating special WB treatment for small states, given their unique situation, and in enabling information exchange among members, particularly as they continue to face the unprecedented external shocks.

5. He recognized WB's continued support to small states through the International Development Association's (IDA's) small island economies exception, which has enabled growing volumes of financing to eligible members in the recent years. He welcomed the IDA20 replenishment, which was strongly supported by the SSF, and noted expectations that it will play a significant role in the post-COVID recovery in small states. He also recognized the special terms for International Bank for Reconstruction and Development (IBRD) lending to small states and the flexible approach shown by the WB in providing exceptional financial assistance to IBRD graduates.

6. The chair discussed the uncertainty and vulnerabilities faced by small economies due to the overlapping shocks of COVID-19 pandemic and deteriorating global security, against a background of high debt and limited fiscal space. These crises are hammering the poor and vulnerable worldwide with an enormous human toll, including large learning losses. He identified recovering from the pandemic as the key objective for small states. He said that the Forum will continue to emphasize the climate change challenges. He called upon the WB to remain flexible and responsive to the needs of most vulnerable members, such as small states. He hoped that the Forum members would use the

SSF platform to continue engaging with the international community for soliciting more enhanced support for small states.

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

7. Mr. van Trotsenburg acknowledged the structural disadvantages of small economies and the unique vulnerability of most small states to natural disasters. Besides the pronounced economic impact of the COVID-19 pandemic, small states now face a new set of challenges and risks due to the war in Ukraine. He assured the Forum members about continued support of the WBG in meeting these challenges and crises.

8. On COVID-19 response, he shared with the members that, since the onset of the pandemic, \$1 billion in IDA concessional financing and \$750 million in IBRD resources have been approved for the Forum members. Despite many challenges, most Forum members have continued to make progress in vaccine rollout, and the WBG stands ready to further support small states in vaccine rollout.

9. On climate change, Mr. van Trotsenburg emphasized that the WBG continues to seek ways to help small states address climate change, including by integrating climate change into their development strategies and applying climate financing in ways that achieve the most positive impact. The WBG's new ambitious Climate Change Action Plan aims to bring climate finance to 35 percent of all financing, to transition away from fossil fuel dependent activities, and to align new activities with the Paris Agreement by 2024. IDA20 will incentivize investments in low carbon energy and battery storage and serve preserving natural capital and biodiversity with a focus on marine ecosystems.

10. He affirmed continuation of WB's IDA and IBRD policies that provide most small states access to significant resources at affordable terms in exception of their per capita income levels. He shared details of the successful conclusion of the early replenishment for IDA20 with an historic \$93 billion package, up from \$82 billion under IDA19, noting that IDA20 includes financing modifications that would benefit small states. He also stated that IBRD, with its enhanced financing capacity, is well-positioned to help small states. He reassured SSF members that the WBG will keep much in mind the needs of the SSF members to cope with the additional challenge of economic fallout of the Ukraine war.

Technical presentation titled *Small States: Faltering Recovery, Multiplying Challenges* by Director, Equitable Growth, Finance and Institutions, World Bank, Mr. Ayhan Kose

11. Mr. Kose's presentation addressed two questions. First, what are the near-term growth prospects for small states? And second, what are the key policy challenges? He shared that the World Bank's forecast for global growth has been downgraded, due to high uncertainty, rising inflation, tightening financial conditions and supply shocks. Tourism remains depressed and small states face large output losses due to the pandemic. Geopolitical tensions associated with the war in Ukraine have amplified risks to small states, including financial stress, inflation, supply disruptions, food insecurity, and fragmentation of trade, investment, and financial networks. Supporting the vulnerable through the period of high food and energy prices; facilitating trade; mitigating debt vulnerabilities; accelerating vaccinations; preparing for climate change and natural disasters; and addressing structural barriers to growth remain key policy priorities in the near future.

Technical presentation titled *The COVID-19 Crisis in Education: A Chance to Build Back Better*, by Global Director, Education, World Bank, Mr. Jaime Saavedra

12. Mr. Saavedra described the impact of COVID-19 on education as the worst education crisis of the century, noting that the pandemic has dramatically exacerbated the learning crisis. Countries chose to close schools to combat the pandemic, generating large and highly unequal learning losses and exacerbating learning poverty. Stimulus packages during the pandemic did not prioritize education. He cautioned that future learning is at risk. Without swift action, the future of the generation that suffered learning losses is at risk more generally. Countries need to set ambitious but achievable targets to accelerate learning now. Political and financial commitment is needed to recover and accelerate learning.

Discussion

13. Several members acknowledged and thanked the WBG and other development partners for their support and special consideration to small states. They specifically noted the exception made for small states by IDA, and the various other lines of funding and technical assistance.

14. Members shared their experiences with managing the COVID-19 pandemic crisis, and their recovery prospects. They recounted the impact of the pandemic over the past two years in terms of rise in unemployment, restrictions leading to disruption of supply chains and food insecurity, and human capital scarring from learning losses. Several countries reported their high rates of vaccination, resumption of tourism, and rebound in economic activity. But there remain multiple stress points and new ones have emerged, especially in times of high uncertainty due to events unfolding around the world.

15. Members spoke of the impact of the Russian invasion of Ukraine on their economies. The war has exacerbated uncertainty in the global economy, led to disruptions in the global supply chains, elevated shipping costs, and inflated fuel, food, and commodity prices. Fiji shared how it is trying to minimize the impact of inflation on households through tax relief. Members called upon the WB to extend urgent additional support to small states hit by multiple overlapping crises. Mr. Mountfield responded that the WB is preparing a package of surge financing for developing countries to support them in this difficult time.

16. Members drew attention to high debt in several small states, particularly in the Caribbean. They argued that high debt is the result of natural disasters and other economic shocks—the COVID-19 pandemic most recently—and not of economic mismanagement. They stressed the need to discuss debt relief, in all forms, openly, and to have more nuanced approaches to measuring the debt-carrying capacity of small states. Belize shared its experience, which is relevant to other small island and low-lying coastal developing states, with a debt-for-nature swap, which reduced the country's external debt by 10 percent of GDP while greatly improving the prospects for marine protection.

17. On debt issues, Mr. Mountfield responded that the WB will continue to advocate for and support the implementation of debt reduction and debt resolution strategies in situations of debt distress. He agreed that it is important to have nuanced approaches to assessing debt sustainability that consider debt carrying capacity of different countries. In that regard, work is underway to review the low-income country debt sustainability framework of the WB and the IMF.

18. Members cautioned that climate change cannot be forgotten in the midst of other crises, and it still demands an urgent response. The recent report of the Intergovernmental Panel on Climate Change (IPCC) says plainly that it is highly unlikely that global warming will stay below 1.5 degrees. Members noted that that result would be catastrophic for small states, particularly in the Pacific and the Caribbean. They also noted that climate finance to date has been underfunded and has been more geared towards mitigation than adaptation and urged the international community to scale up financing and target it towards climate adaptation.

19. Almost all speakers made a passionate plea for a more flexible approach to concessional finance to small states by lenders and donors. They urged that the criteria used to measure development capture vulnerability and asked for equitable IDA access to all small states based on vulnerability. Bhutan suggested that IDA country allocations to small states could go up further. Mr. Mountfield clarified that the WB does not rely exclusively on Gross National Income per capita for IDA allocations. Vulnerability to natural disasters and climate change is an eligibility criterion for small states' exceptional access to IDA, which draws on three widely used indices for natural disaster, for climate, and economic vulnerability.

20. The IMF representative shared information on the Resilience and Sustainability Trust recently approved by the Executive Board of the IMF. The Trust will provide for addressing long-term structural challenges with an initial focus on climate change and pandemic preparedness. Small states will be among the 143 eligible members. There will be caps on access and financing will be calibrated since the Trust will be only about \$50 billion initially. The representative stressed that the Fund would collaborate with the WB and other regional partners in identifying policy priorities and developing conditionality.

21. Some members suggested that the SSF could be used more productively. Besides meeting annually with presentations and speeches, action on topics discussed could be undertaken over the near period. Fiji suggested that in the various assessments, analyses, and presentations by the Bank and the Fund, the 16 members of the Pacific Island Forum could be used as a separate group and not be lumped together with Asia or Southeast Asia.

Adoption of Communiqué

22. The SSF secretariat read out the draft communiqué, which was circulated to all participants for comments and changes proposed by the participants addressed. A copy of the final communiqué is attached as an annex.

Small States Forum

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

Washington DC, April 14, 2022

1. Members of the Small States Forum (SSF) met virtually on April 14, 2022.
2. Small states today face an exceptional convergence of hardships. As a group, they experienced a much deeper economic contraction in 2020 due to the COVID-19 pandemic, and their rebound has been significantly weaker than other emerging markets and developing economies. The pandemic will leave a legacy of escalated debt burdens and scarring of human capital in many small states. Moreover, the global impacts of the war in Ukraine are now also undermining this sluggish post-COVID recovery, with many small states struggling to manage food and fuel price inflation, rising interest rates resulting from monetary tightening, and the capital outflows and rising borrowing costs that will ensue. These impacts are occurring against a backdrop of accelerating climate change, which affects small states, and especially island states, much more intensively than other countries.
3. We value the international community's recognition of the special situation faced by small states and their multilateral and bilateral support, which has greatly expanded our ability to respond to the multiple crises. Yet our challenges are becoming harder, and our economic vulnerabilities are growing. To manage the triple challenge of addressing the impacts of the COVID-19 pandemic, the war in Ukraine, and accelerating climate change while also putting our long-term development programs back on track, our need for development financing will stay at elevated levels over the coming years.
4. The war in Ukraine has led to rising global fuel, food, and commodity prices, which are heavily impacting small states. Most small states are net food and fuel importers, and persistently high prices will result in deteriorating external accounts and adverse social impacts, especially for the poor. The social impact is expected to be particularly significant in small states with low per capita incomes and high poverty rates, mostly in Africa and the Middle East. Rising fuel prices are likely to result in further increases in already-high electricity costs in most small Caribbean states and in transport costs in the remote Pacific states. In addition, the long-awaited recovery of the tourism sector in some small states will be directly affected.
5. SSF members noted that COVID risks prompted some countries to close schools to combat the pandemic, with the result that many school-children, especially the poor and younger children, suffered large and unequal learning losses. Members supported swift action to accelerate learning for these children, through prioritizing education in stimulus and recovery expenditures. This should involve reaching every child and retaining every child in school, assessing learning loss levels, prioritizing teaching of the fundamentals (numeracy, literacy, and socio-emotional skills), enhancing catch-up learning, and supporting psycho-social health and well-being.
6. Previous SSF communiqués have drawn attention to the high debt burden of several member states. These debt burdens have been exacerbated by the COVID-19 pandemic. High debt-servicing costs are constraining available fiscal space for the development and provision of services and crowding out domestic investment. International conflict as well as rising inflation and tightening monetary policy in advanced economies are likely to deepen this problem, raising the costs of borrowing. We value the technical advice of the World Bank and the IMF on improving fiscal policy, public investment programs, and debt management frameworks in our countries and we support the need for debt transparency. We look forward to their continued advocacy and support in the design and implementation of debt relief. We also call on the international community to consider other debt relief measures such as debt-for-nature swaps.

Annex - Communiqué

7. Small states have been at the vanguard in raising the alarm about climate change, which poses an existential threat to several of our member states. We appreciate the increasing global awareness about climate change following the 26th UN Climate Change Conference in Glasgow in 2021. Yet, the latest report from the Intergovernmental Panel on Climate Change is alarming, revealing the huge gap between climate pledges and action. We are concerned that the restructuring of global energy markets in a context of international conflict could spur increased medium-term production of fossil fuels and urge governments instead to act on the long-term benefits of investing in renewable energy sources to achieve sustainable energy security. In this context, we appreciate the World Bank Group's commitment to achieving 35 percent in climate finance, and 50 percent of IDA and IBRD financing for adaptation, which is a top priority for small states. We call on the World Bank to give small states priority in undertaking analytical work to provide them with timely technical advice on adaptation measures.

8. IDA19 resources have been critical to most IDA-eligible small states in responding to the COVID-19 pandemic and maintaining public services. The SSF thanks IDA and its donors for the historic \$93 billion IDA20 replenishment package, which is an important manifestation of the international community's goodwill and solidarity. IDA's policy of providing extraordinary concessional financing to small island states has enabled vital support to these vulnerable countries in the past. We call on IDA to provide sustained support to all small states with vulnerabilities.