

# WORLD BANK GROUP SUPPORT TO SMALL STATES





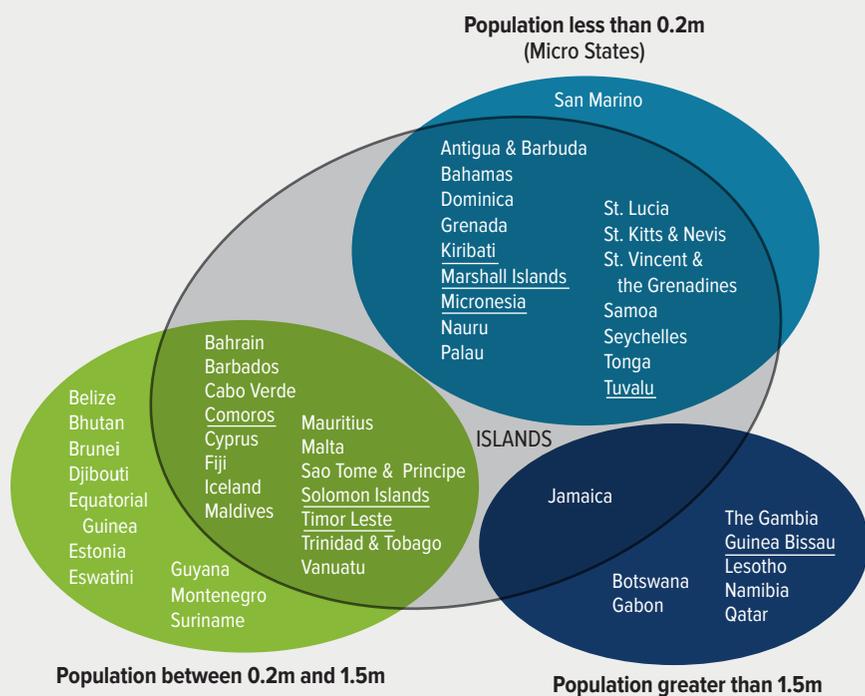
## SMALL STATES: KEY FEATURES OF A DIVERSE GROUP<sup>1</sup>

Small States face unique development challenges. Due to their small population and economic base, these countries are particularly vulnerable to exogenous shocks such as economic shocks, natural disasters and climate change. With limited economic opportunities and significant migration, they often face capacity constraints.

1. Source: *Small States: Vulnerability and Concessional Finance, Technical Note, OPCS, July 2018.*

The Small States Forum (SSF) is an important platform for high-level dialogue on how the Bank Group is helping to address Small States' special development needs. The SSF comprises 50 members, including 42 countries classified as Small States according to the Bank Group definition (i.e., those with a population of 1.5 million or less) and eight other Small States Forum members with a population greater than 1.5 million that share similar challenges.<sup>2</sup>

**FIGURE 1 • SSF Members: Diverse in Population Size and Geography**



Note: Small States consist of Islands, land-locked states and coastal states. Those countries outside the inner circle for Islands are land-locked or coastal.  
 \*\*Countries underlined indicate FCVs that are classified as fragile according to the Harmonized List of Fragile Situations

2. Botswana, Gabon, The Gambia, Guinea Bissau, Jamaica, Lesotho, Namibia, Qatar.

While sharing common challenges associated with the small size of their economies and vulnerability to exogenous shocks, the SSF is in fact a very diverse group. There is high variation among members in terms of population size, income levels, geography and other features that result in a wide spectrum of development outcomes:



**POPULATION** • Many SSF members are micro states (i.e., with a population of less than 200,000 people). Population size ranges from 11,792 people in Tuvalu to 2.96 million people in Jamaica.



**GEOGRAPHY** • SSF countries are distributed across all regions and about two-thirds are island states. The remaining one-third includes five land-locked countries (Bhutan, Botswana, Eswatini, Lesotho, and San Marino).



**REMOVEDNESS** • Several SSF countries, particularly islands, are among the most remote in terms of distance to the nearest international markets (e.g., Pacific islands).



**LAND AREA** • A number of island states have a very small land area (e.g., Nauru has 20 square kilometers), while non-island states such as Namibia and Botswana have 4.5 and 3.1 times the area of all small island states combined, respectively.

3. Formally known as Swaziland.



**FRAGMENTATION AND DISPERSION** • Some countries are archipelagos dispersed over a broad ocean area (e.g., Kiribati has an area of 810 square kilometers distributed in 35 atolls/islands spread over 3.6 million square kilometers of ocean).

---



**VULNERABILITY TO NATURAL DISASTERS AND CLIMATE CHANGE** • Many SSF countries are disproportionately vulnerable to a range of natural disasters, particularly those located in disaster-prone areas. About one-third of Small States are highly vulnerable to climate change, including rising sea-levels and droughts.

---



**DEBT BURDEN** • Significant growth volatility often associated with the impact of natural disasters and other exogenous shocks and weak fiscal management have contributed to substantial debt accumulation in many SSF countries. Debt levels for these countries are on average higher than for other developing countries, although there is considerable diversity across individual countries.

### The disproportionate impact of the COVID19 pandemic on Small States underscores their unique vulnerabilities.



While the spread of the COVID19 infection has been contained in most Small States, the economic and social impact has been especially severe. Many Small States are highly dependent on activities such as international tourism which has sharply declined amidst the pandemic-induced global recession.

In 2020, real GDP in Small States contracted on average by 7.1percent compared to a 1.7 percent contraction in emerging markets and developing economies. In tourism- dependent Small States, real GDP declined by 10-20 percent. As the global economy recovers along with increased vaccination rates, it is estimated that most Small States will restore pre-pandemic GDP levels by 2022.

The social impact of the pandemic has been high. Unemployment reached 20 to 30 percent of the labor force, with female workers disproportionately affected due to their larger participation in sectors most impacted by the pandemic such as tourism and other services sectors.

The pandemic has exacerbated already high fiscal imbalances and debt vulnerabilities in several Small States, particularly those with limited access to concessional resources.



# WORLD BANK GROUP SUPPORT: ADDRESSING SMALL STATES' VULNERABILITIES

The World Bank Group has a long-standing and growing commitment to supporting Small States' development efforts. Small States are a priority for the entire Bank Group, including the International Development Association (IDA), the International Bank for Reconstruction and Development (IBRD), the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA).

In recent years, World Bank Group support to Small States has been ramping up, particularly in four areas:

- I. Enhancing development finance
- II. Developing innovative disaster and climate financing mechanisms
- III. Fostering private investment and diversification
- IV. Strengthening government capacity

## I. ENHANCING DEVELOPMENT FINANCE

### IDA FINANCING OF SSF COUNTRIES

In recognition of their unique vulnerabilities, IDA has extended special treatment to Small States through (i) exceptional access to IDA's concessional resources, (ii) increasing financing volumes, and (iii) the highest concessionality.

#### *Eligibility for IDA concessional resources*

IDA provides concessional resources to the world's poorest countries. Eligibility for IDA support depends on a country's relative poverty – defined as per capita income below an established threshold (\$1,185 in FY21). Based on the application of the Small Island Economies Exception introduced in 1985 and/or lack of creditworthiness, many Small States are eligible for IDA concessional resources even though their per capita incomes are above the threshold for receiving IDA support. In all, 24 SSF countries are IDA-eligible, including 17 countries with IDA-only status and seven with Blend status (eligible to borrow from both IBRD and IDA).

#### *Volume of IDA resources*

A ten-fold increase in IDA's minimum annual base allocation from SDR<sup>4</sup> 1.5 million in IDA15 to SDR 15 million in IDA18 has particularly benefitted small economies. In terms of actual financing, total IDA commitments (including IDA financing windows) to IDA-eligible SSF members more than doubled in IDA18 relative to IDA17, increasing from \$1.2 billion to over \$2.9 billion. For IDA-eligible Small States, total IDA commitments more than tripled over the same period. In FY21, the first year of the IDA19 cycle, IDA commitments to SSF members amounted to \$877 million, including \$185 million from

4. The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. The value of the SDR is based on a basket of five currencies—the U.S. dollar, the Euro, the Chinese renminbi, the Japanese yen, and the British pound sterling. (Source: IMF)

**IDA has been the lynchpin of Bank support to Small States and the leading multilateral provider of concessional resources to this group of countries.**

- IDA has been the leading multilateral provider of concessional resources to small economies, accounting for 28 percent of multilateral official development assistance (ODA) to the SSF members in 2014-16.
- Small States have particularly benefited from the past four IDA replenishments primarily due to an increase in IDA's annual minimum base allocation from SDR 1.5 million in IDA15 to SDR 15 million in IDA18, resulting in a massive scale up in IDA18 to \$2.9 billion in financing commitments (including IDA financing windows).
- With the recent re-classification of Fiji from IBRD-only to Blend, there are 24 IDA-eligible SSF members of which 21 are Small States that receive either Grants and/or IDA Credits on the most concessional lending terms that IDA offers, Small Economy Terms—at no interest, 40-year amortization, with a 10-year grace period.
- As of IDA18, Small Economy Terms (originally applicable to Small Island Economies) were extended to the four IDA-eligible Small States that are not islands (Bhutan, Djibouti, Guyana, Timor-Leste).

## WORLD BANK RECOGNITION OF SMALL ISLANDS' VULNERABILITIES SINCE 1985: THE "SMALL ISLAND ECONOMIES EXCEPTION"

In 1985, the World Bank's Board approved the Small Island (SIE) Economies Exception in recognition of small islands' special characteristics (of size, remoteness, etc.) resulting in similar challenges to those faced by low-income countries. At the time, six Small Island Economies that were due to graduate from IDA were granted the Exception and remained IDA-eligible.\*

Currently, 17 Small Island Economies with GNI per capita above the IDA operational cut off are eligible to receive IDA concessional financing under the Exception, including 11 SIEs with IDA-only status and six Blend SIEs.\*\*

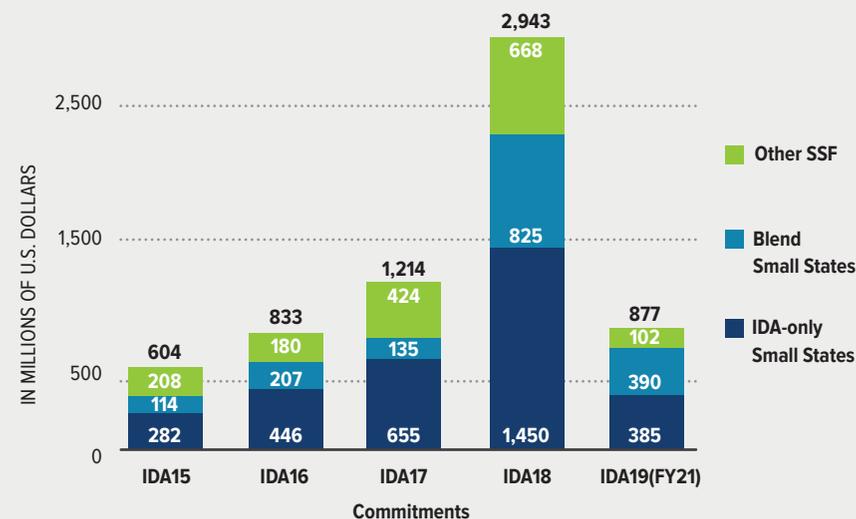
In March 2019, the SIE Exception Policy was revised to include criteria for considering requests from IBRD-only SIEs to be reclassified as IDA-eligible. In addition to a per capita income threshold, the eligibility criteria include vulnerability based on commonly used vulnerability indices that focus on natural disasters, climate change and structural vulnerability to economic and environmental shocks. Pursuant to the revised policy, Fiji was reclassified from IBRD-only to a Blend country (eligible to IBRD and IDA financing) effective July 1, 2019. In 2021, Comoros was granted continued eligibility to IDA concessional financing under the Exception—the small island was due to graduate from IDA because its per capita GNI exceeded the IDA cut off for three consecutive years.

\*Dominica, Grenada, St. Lucia, St. Kitts and Nevis, St. Vincent and the Grenadines, Tonga.

\*\*IDA-only status (Comoros, Kiribati, Micronesia, Marshall Islands, Maldives, Samoa, Sao Tome and Principe, Solomon Islands, Tonga, Tuvalu, Vanuatu); Blends (Cabo Verde, Dominica, Fiji, Grenada, St. Lucia, St. Vincent and the Grenadines), St. Kitts and Nevis (which was granted the exception in 1985) graduated to IBRD-only status in 1994.

IDA's Crisis Response Window (CRW) which were mobilized to help respond to the severe impact of COVID19 as well as severe natural disasters.

FIGURE 2 • Rising Financing Volumes and Massive IDA18 Scale up for SSF Countries



Source: World Bank

### IDA concessional financing terms

Currently, 12 out of 17 IDA-eligible SSF countries classified as IDA-only are at high risk of debt distress and receive 100 percent of their financing as IDA grants, while the remaining five with moderate risk rating receive 50 percent of their financing as IDA grants. Debt distress ratings are determined by the World Bank/IMF Debt Sustainability Framework for low-income countries (LIC-DSF). A revised LIC-DSF, effective July 2018, expands the stress testing framework in order to more systematically

5. IDA offers concessional credits on "Regular Terms", "Blend Terms," and "Small Economy Terms." For definitions and details of IDA financial terms and conditions see Bank Policy: Financial Terms and Conditions of Bank Financing.

capture the specific circumstances faced by Small States, such as vulnerability to natural disasters.

IDA Credits to IDA-eligible Small States are extended under Small Economy terms — IDA’s most concessional terms (10 years grace period, 40 years repayment period). Small Economy Terms have a grant element of 61 percent, compared to a grant element of 53 percent for IDA credits on IDA regular terms (6 years grace period, 38 years repayment period).

### Additional opportunities for financing: IDA’s Windows

IDA-eligible SSF countries also have access to additional financing from various IDA windows, notably, the Crisis Response Window (CRW), the Regional Program, and the new Private Sector Window (PSW) introduced in IDA18.<sup>6</sup>

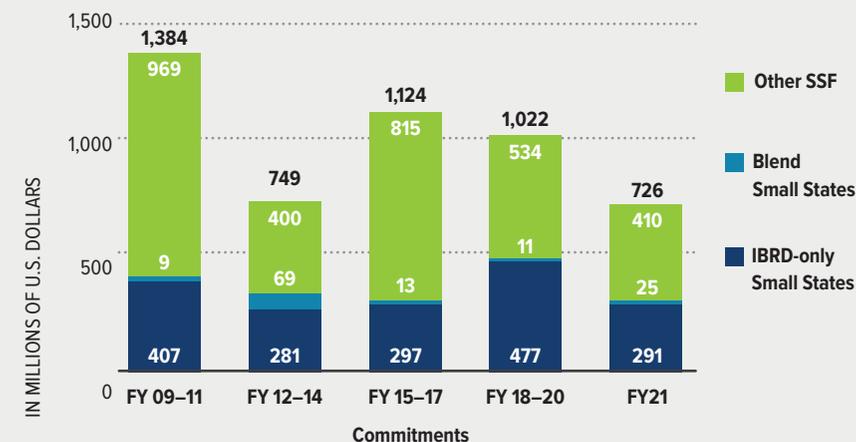
## IBRD FINANCING OF SSF COUNTRIES

Twenty-three SSF members have access to IBRD financing, of which 16 countries are IBRD-only and seven have access to both IBRD and IDA resources (Blend Countries). IBRD lending commitments to SSF members between FY15-20 amounted to over \$2.1 billion. In per-capita terms, Montenegro has been the top IBRD borrower (\$898), followed by Gabon (\$412) and Jamaica (\$366). In FY21, IBRD commitments amounted to \$726 million, including \$200 million extended on an exceptional basis to Barbados and the Bahamas, both IBRD graduates whose economies were severely hit by the COVID19 pandemic.

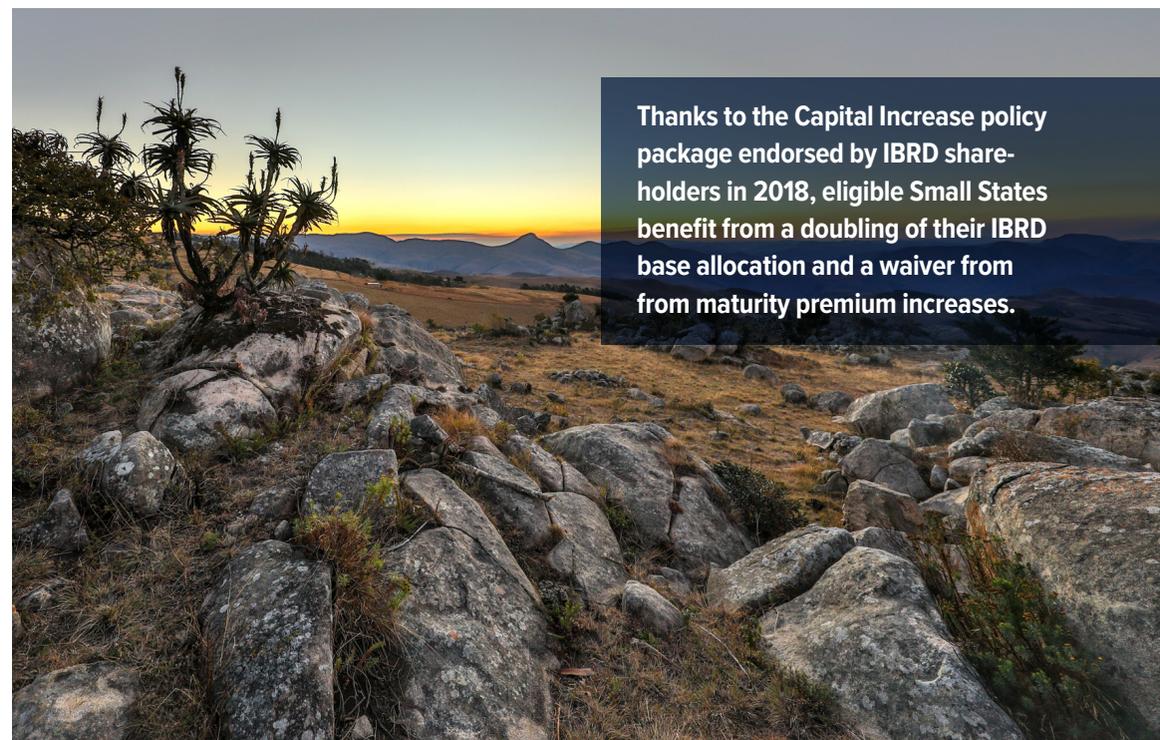
Thanks to the Capital Increase policy package endorsed by IBRD shareholders in 2018, IBRD eligible Small States benefit from a doubling of their IBRD base allocation and a waiver from maturity premium increases.

6. Other windows include the Scale-up Facility and the Regional Sub-Window for Refugee and Host Communities. Note that Blend and Gap countries are not eligible to access the PSW unless they are classified as fragile.

**FIGURE 3 • IBRD Lending Commitments to IBRD SSF countries, FY09-21**



Source: World Bank  
 \*IBRD-Only in FY21 includes lending to IBRD graduates



Thanks to the Capital Increase policy package endorsed by IBRD shareholders in 2018, eligible Small States benefit from a doubling of their IBRD base allocation and a waiver from maturity premium increases.

## WORLD BANK RESPONSE TO COVID 19

While the Bank Group has a range of crisis response financing and operational tools to support clients in addressing natural and economic shocks, the severe impact of the COVID19 pandemic has prompted extraordinary measures. These include the rapid mobilization of IDA and IBRD financing, including through the FastTrack COVID19 Facility (FTCF) under the Global COVID-19 Multiphase Programmatic Approach, and redeployment of resources to help respond to the crisis. The Bank is also supporting global initiatives to provide temporary debt service relief for poor countries which benefit IDA-eligible SSF countries.

IDA. To help IDA-eligible SSF countries deal with the health, social and economic impacts of the pandemic, IDA has enabled the frontloading of IDA19 country allocations and mobilized additional resources from the Crisis Response Window (CRW). Since the onset of the pandemic, \$1.4 billion in IDA concessional financing has been approved for SSF members (including a record \$240 million in CRW resources), with \$898 million geared to COVID19 response. Of this amount, \$168 million support health operations for disease containment and treatment of which \$68 million were directed to vaccination programs in 8 SSF members (Cabo Verde, Comoros, Guinea-Bissau, Eswatini, Lesotho, The Gambia, Guyana, and Sao Tome and Principe). Another \$730 million are helping to address the pandemic's economic and social impacts—which have been especially severe in SSF countries highly dependent on tourism—and lay the ground for resilient recovery. To ensure sufficient resources are available to support IDA countries recover from the pandemic going forward, the IDA19 cycle has been shortened from three to two years (covering FY21 and FY22) and the IDA20 replenishment has been advanced by one year.

IBRD. With enhanced financing capacity and more affordable terms for IBRD-eligible Small States, IBRD is well positioned to help these countries respond to the COVID-19 pandemic. After years of inactive lending, some IBRD-only Small States have resumed IBRD borrowing while others with active IBRD portfolios have expanded their programs in FY20 and FY21. Since the onset of the pandemic, IBRD financing for SSF countries has totaled \$780 million. This amount includes IBRD loans extended on an exceptional basis to the Bahamas and Barbados, both IBRD graduates whose economies were severely impacted by the sharp downfall in tourism caused by the pandemic and in the case of the Bahamas followed the devastation caused by Hurricane Dorian in 2019. Each island received \$100 million to support COVID19 relief and lay the foundations for resilient recovery. IBRD lending to SSF members for health response operations has amounted to \$61 million in countries with relatively high numbers of cases (Gabon, Jamaica, Suriname, Eswatini, and Trinidad and Tobago).

Temporary debt relief. IDA-eligible SSF members can participate in the Debt Service Suspension Initiative (DSSI) endorsed by the Bank Group Governors at the 2020 Spring Meetings. The initiative aims at postponing bilateral debt service payments in low-income countries to release resources to respond to the COVID-19 pandemic. The suspension period, originally set to cover May-December 2020, has been extended through December 2021. Out of 24 IDA-eligible SSF members, fifteen are participating in the DSSI with potential savings estimated at \$603 million during the May 2020-December 2021 period (representing 0.2-5.7 percent of GDP at country level).

## II. DEVELOPING INNOVATIVE DISASTER AND CLIMATE FINANCING MECHANISMS

The World Bank has an extensive track record of supporting the development and implementation of innovative financing mechanisms for crisis response and climate change. This is particularly relevant for small economies, given their vulnerabilities.

### *Disaster and Crisis response*

Since its introduction in IDA15, the IDA Crisis Response Window (CRW) has provided additional resources totaling \$529 million to help 22 IDA-eligible SSF members to help respond to severe natural disasters (tropical storms, floods, droughts) and currently to the COVID19 pandemic.

In 2018, Dominica received \$50 million in CRW resources for reconstruction following Hurricane Maria which caused damages estimated at 226 percent of GDP. In 2020, Tonga received \$20 million from the CRW to address the adverse effects of the dual shocks of the COVID-19 pandemic and Tropical Cyclone Harold which devastated the island's infrastructure in 2020 with damages estimated at 12 percent of GDP. In 2021, Fiji received \$115 million in CRW resources to help respond to severe impact of COVID 19 as well as to support recovery efforts from three Tropical Cyclones—Harold in April 2020, Yasa in December 2020 and Ana in January 2021.

The Disaster Risk Management Development Policy Financing with a Catastrophe Drawdown Option (CAT-DDO) provides immediate liquidity to countries in the aftermath of a natural disaster. As a policy instrument, it supports reforms to improve climate and disaster risk management. Funds are preapproved based on a sound disaster risk management program and an adequate macroeconomic framework. The CAT-DDO is available to both IBRD countries and IDA countries (since IDA18). In

FY20-FY21, CAT-DDOs were approved for eight Small States in a total amount of \$285 million, mostly IDA funded. In FY21, IDA disbursed a \$20 million CAT-DDO to support St Vincent and the Grenadines' response to the crisis caused by La Soufriere volcano eruption.

The Bank has also supported the establishment of two successful regional risk insurance pools—the Caribbean Catastrophe Risk Insurance Facility (CCRIF) and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI). Since its launch in 2007, the CCRIF has paid out over \$200 million to 16 members including a pay out of approximately \$11 million for the Bahamas following Hurricane Dorian in 2019 and \$2.4 million to Barbados after Hurricane Elsa in 2021 (the first hurricane to hit the island in 60 years). The PCRAFI paid \$3.5 million to Tonga after Tropical Cyclone Gita in 2018 and \$4.5 million after Hurricane Harold in 2020.

### *Climate Finance: Turning vulnerability into opportunity*

The Bank Group is working with Small States to develop innovative climate finance mechanisms. These mechanisms are particularly relevant for IBRD-only Small States that are not eligible for IDA financing.



**On October 17, 2017 Fiji, a small island country exposed to floods and tropical cyclones, became the first emerging market to issue a sovereign green bond.**

### III. FOSTERING PRIVATE INVESTMENT AND DIVERSIFICATION

Private investment is a key driver of any country's economic development. However, Small States face challenges in attracting private investment due to their small market size, limited economic opportunities, and often remoteness. The Bank Group seeks to promote private investment in Small States through its private sector arm, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) as well as by strategically leveraging IDA and IBRD financing.

#### IFC AND MIGA

IFC is supporting economic diversification and resilience in Small States through investments in finance, infrastructure, agriculture, tourism and services. IFC's Small States portfolio totaled \$203 million in FY20, up from \$169 million in FY19. The largest share of projects is going to Commercial Banking (47 percent), Microfinance (18 percent) and Tourism (10 percent), with small loan programs targeted at Small and Medium Enterprises (SMEs). Under its SME Facility, IFC, in collaboration with the World Bank Treasury, has set up a risk-sharing facility in Sao Tome and Principe and developed additional schemes for Cabo Verde and the Pacific Islands. Under the Agribusiness Facility, IFC has invested to support the Solomon Islands (tuna sector), Guinea-Bissau (fruits and vegetables), while in Bhutan, IFC has invested in a semi-green field company to produce hazelnuts for export. IFC is also providing advisory services on Public-Private Partnerships (PPPs) to nine Small States on airports, power, water and sewerage. The IFC also leverages the IDA PSW, including to support housing finance in West Africa (benefitting Guinea-Bissau), risk-sharing in the Pacific, and a private sector tele-com operator in Comoros.<sup>7</sup>

7. Blend and Gap small states are not eligible for PSW resources, unless they are classified as fragile.

In 2018, the World Bank supported the issuance of the world's first blue bond in the Seychelles. A \$20 million World Bank package approved in September 2017—to improve the sustainability of the Seychelles' marine resources—included an IBRD guarantee of EUR5 million that enabled the issuance of a \$15 million blue bond in October 2018. The World Bank Treasury provided technical assistance for structuring of the blue bond. The proceeds of the bond are used as grants for fisheries management activities as well as loans to encourage local public and private investment in sustainable fishing and the protection of ocean resources.

Green bonds provide another opportunity for small states to raise climate financing. In October 2017, Fiji, a small island exposed to floods and tropical cyclones, became the first emerging market to issue a sovereign green bond. The 100 million Fijian dollar (\$50 million) bond received overwhelming interest from domestic investors. The bond was structured with technical assistance from the World Bank Treasury and the IFC under a three-year Capital Markets Development Project, supported by the Australian Government. The proceeds of the bond will be used to fund projects promoting low carbon and climate resilient growth consistent with Fiji's Green Growth Framework.



The Bank Group seeks to promote private investment in small states through its private sector arm, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) as well as by strategically leveraging IDA and IBRD financing.

## MAXIMIZING FINANCING FOR DEVELOPMENT: SUSTAINABLE TUNA FISHERIES IN THE SOLOMON ISLANDS

With one of the world's largest and most plentiful fishing grounds, the Solomon Islands relies on tuna for revenue, food security and exports. The World Bank Group promotes the sustainable management of tuna fisheries in the country. IDA supports the implementation of sustainable fishing practices under the vessel day scheme (VDS) supported by the Pacific Islands Regional Oceanscape Program, while the IFC has made investments in the SolTuna tuna processing company—where two thirds of workers are women—and the National Fisheries Development (NFD), both owned by the Tri Marine Group. As a result, the country captures more value from its tuna resources, providing more jobs and expanding opportunities for women.

MIGA promotes private foreign investment through the provision of political risk insurance. MIGA's portfolio in Small States has increased from \$854 million in FY20 to \$982 million at end FY21, in support of 19 projects across 12 countries. The largest portion of MIGA's exposure is in Renewable Energy, Financial Inclusion, and Green Buildings. For Small States MIGA utilizes the Small Investment Program for projects below \$10 million with no minimum project size.

### DE-RISKING

'De-risking is the phenomenon of financial institutions terminating or restricting correspondent banking relationships with clients or

categories of clients to avoid risk. The Bank Group is supporting Small States—which are particularly vulnerable to this trend—to help address some of the causes of de-risking. One of the reasons given by large banks for de-risking is a concern about implementation of anti-money laundering standards. The Bank Group supports countries to improve the legal frameworks and supervision of these obligations, including through National Risk Assessments (NRAs) of money laundering. The Bank is preparing country studies and National Risk Assessments to identify and quantify adverse effects of de-risking on financial systems in emerging markets (for example, in Jamaica, Samoa and Tonga). Twenty Small States have received technical assistance for NRAs. In 2018, the Bank Group published a correspondent banking survey, investigating solutions to the decline in banking services in emerging markets, including Jamaica, Samoa and Tonga. .

### INVESTMENTS IN THE BLUE ECONOMY

The Bank Group is supporting the transition to a blue economy in Small States, including through a series of regional initiatives. In the Caribbean, the Bank supports the implementation of Grenada's road map toward blue growth (the first launched in the sub-region in 2016), through technical assistance and a series of development policy operations. Expanding on Grenada's successful model, the Bank is supporting the sustainable management of ocean resources in the sub-region under the Unleashing the Blue Economy of the Eastern Caribbean Project.

Similarly, the Pacific Regional Oceanscape Program project is helping to strengthen the shared management of selected oceanic and coastal fisheries in the Solomon Islands, Micronesia, Marshall Islands, Tuvalu, Tonga, Samoa, and Kiribati. The West Africa Regional Fisheries Program and the South West Indian Ocean Fish program also support improved fisheries management in Cabo Verde,

Guinea Bissau, Comoros, Maldives and Seychelles at the regional, national and community levels.

## INVESTMENTS IN DIGITAL INFRASTRUCTURE

The World Bank is helping Small States' efforts to develop connectivity infrastructure often through regional approaches. Significant investments in broadband infrastructure are being made, in some cases in partnership with the private sector.

For example, the Bank supported the completion of submarine cable connections in Fiji, Samoa and Tonga (including outer islands), and work is on-going in Kiribati (including outer islands), Micronesia, and Tuvalu. Accompanying these investments is substantial technical assistance to develop the legal and regulatory enabling environment to support market liberalization, foster new investment and upgrade of access networks (e.g. Fourth Generation Long-Term Evolution (4G/LTE)), and encourage better and cheaper services. The Digital Transformation project is helping 500,000 residents in Dominica, Grenada, St Vincent and the Grenadines, and St Lucia and is enhancing government's ability to provide public services, including to respond to the COVID19 epidemic.

## IV. STRENGTHENING CLIENT CAPACITY

---

Given their small populations, many Small States face a shortage of skills and capacity constraints, including capacity to absorb development assistance in an effective and sustainable way. The World Bank supports the strengthening of Small States' capacity through technical assistance and training activities, the deployment of flexible operational policies and procedures to fit their specific circumstances, and implementation support on the ground.

The World Bank is helping small states' efforts to develop connectivity infrastructure to drive Digital Dividends. Significant investments in broadband infrastructure are underway, in some cases in partnership with the private sector.



### *Flexible Project Preparation and Design*

Preparations Advances (PAs) are available under the Bank's Project Preparation Facility (PPF). The funding and scope of the facility were increased in 2017 to allow for a programmatic approach to project preparation that can create economies of scale and reduce the administrative burden for clients. Currently, Micronesia is using a programmatic PA to prepare the operations through a centralized implementation unit at the ministry of finance. PAs have also been approved for Kiribati, Marshall Islands, Samoa and Tonga.

In the Pacific, the World Bank has provided training to about 300 government officials in Samoa, Solomon Islands, Tonga and Vanuatu on procurement, financial management, as well as the new Environmental and Social Framework. It is also limiting the number of operations per country and ensuring minimum size (\$5million).



The World Bank has provided training to about 300 government officials in Samoa, Solomon Islands, Tonga and Vanuatu on procurement, financial management, as well as the new Environmental and Social Framework.

### *Supporting capacity to build climate and economic resilience*

**Climate resilience.** The World Bank is supporting Small States' efforts to mainstream climate smart planning and build climate resilience, including meeting their Nationally Determined Commitments (NDCs) targets and goals on climate adaptation under the COP21. It is assisting Small States to translate NDCs into policies and investments, with technical assistance ongoing in Antigua and Barbuda, Jamaica, St. Vincent and the Grenadines and Sao Tome and Principe.

**Climate Action Peer Exchange (CAPE)** is a forum for peer learning, knowledge sharing, and mutual advisory support. It brings together ministers and senior technical specialists from finance ministries across the world, as well as World Bank staff and other international experts, to discuss the fiscal challenges involved in implementing the Nationally Determined Contributions (NDCs) established under the 2015 Paris Agreement. CAPE is a contribution of the WBG to the NDC Partnership. Activities in Small States include:

- The Climate Action Peer Exchange (CAPE), supported by NDC Support Facility (NDC-SF), and the Eastern Caribbean Central Bank (ECCB), and jointly with Caribbean Regional Technical Assistance Centre (CARTAC) held a workshop on **“Fiscal Policy for Climate Action in the Caribbean” on Jan 21-23, 2019 in the St. Kitts and Nevis**. The workshop discussed fiscal reforms for a low carbon growth transition in the Caribbean, climate-informed budget processes, and debt and risk management instruments.
- CAPE provided financial and technical support to the joint **WB-IMF Climate Change Policy Assessment for St. Lucia (2018)** to help the country understand and manage the expected economic impact of climate change, while safeguarding long-run fiscal and external sustainability.

The upcoming Integrated Capacity Building Program in the Pacific will aim to strengthen project management in island states.

In the Caribbean, the World Bank is collaborating with other bilateral and multilateral partners to reduce implementation transaction costs and capacity burden on countries.

### *Fiduciary, Environmental, and Social standards*

The Bank is providing extensive training on the procurement framework, which allows the use of flexible arrangements for capacity-constrained clients. As part of the roll-out of the Environmental and Social Framework (ESF), the World Bank has delivered targeted training for Small States clients, including through hands-on support and workshops attended by some 550 participants (e.g. senior government officials, project implementation unit staff, other stakeholders).

- CAPE provided financial support for the study of **Recommendations for Strengthening Fiscal Policy for Resilient, Equitable and Low-Carbon Development in Dominica (2018)**, which identified fiscal and financial reforms to improve the public finances of Dominica to help stem the fiscal challenges of reconstruction after hurricane Maria.

**Debt sustainability.** Training on the revised Debt Sustainability Framework for LICs (LIC DSF), effective July 2018, was delivered in 2019. Twenty-five SSF members benefitted from seven two-day seminars for senior officials and eight five-day workshops for technical staff on the revised LIC DSF.<sup>8</sup>

The World Bank Treasury also provides on-demand training to clients to build capacity to engage with insurance and capital

8. The countries include: Bhutan, Botswana, Cabo Verde, Comoros, Djibouti, Dominica, Grenada, Guinea, Guinea-Bissau, Guyana, Kiribati, Lesotho, Maldives, Marshall Islands, Federated States of Micronesia, Namibia, Samoa, Sao Tome & Principe, Solomon Islands, The Gambia, St. Vincent & the Grenadines, Timor Leste, Tonga, Tuvalu, and Vanuatu.

markets to increase financing resilience to disasters. Trainings are planned in 2020 for members of the Eastern Caribbean Central Bank (ECCB). Additionally, joint World Bank-IMF assistance is planned to support the ECCB to explore options for state contingent debt instruments that would provide debt service relief to countries in the aftermath of a natural disaster to prevent short-term liquidity problems from transitioning into full debt crises.

### *Implementation support on the ground*

To maximize the development impact of available resources, the World Bank is increasing the number of staff and resources deployed in fragile countries and Small States. The number of field-based staff working in SSF member countries increased by 41 percent in 2019 relative to 2016. For both fragile countries and Small States, having more staff on the ground provides client governments with enhanced support to implement Bank-financed operations.





## LOOKING AHEAD: THE SMALL STATES FORUM NOW AND GOING FORWARD

More than one-fifth of World Bank members are countries with a population below 1.5 million. Despite their diversity, these countries share unique vulnerabilities associated with the small size of their economies and high exposure to natural disasters and other external shocks, including the current COVID pandemic. The World Bank Group remains committed to helping address Small States' development needs through innovative approaches that fit their unique circumstances. Convening every year on the sidelines of the World Bank Group/IMF Spring and Annual Meetings, the Small States Forum will continue to provide an effective platform for dialogue and knowledge-sharing on how the World Bank Group can best support Small States. The Forum is chaired on a rotating basis among SSF members of the Caribbean, Africa, Asia and the Pacific.



© October 2021 The World Bank Group  
1818 H Street, NW  
Washington, DC 20433 USA  
[www.worldbank.org/](http://www.worldbank.org/)  
All rights reserved.

This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent. The World Bank does not guarantee the accuracy of the data included in this work. Nothing herein shall constitute or be considered to be a limitation upon or waiver of the privileges and immunities of The World Bank, all of which are specifically reserved.