

Chairman's Summary

Small States Forum Online Meeting, 13 October 2021

1. Finance Ministers, heads of delegations and delegation members of the Small States Forum (SSF) met virtually on 13 October 2021, on the occasion of the 2021 Annual Meetings. The Forum was also attended by representatives from multilateral development banks and bilateral development partners. The Forum was chaired by Mr. Aiyaz Sayed-Khaiyum, Attorney General, Minister of Economy, Civil Service and Communications, and Minister responsible for Climate Change, Government of Fiji.

2. Mr. Zutt, Director, Operational Policy and Country Services (OPCS) introduced Mr. Edward Mountfield, the new Vice President of OPCS.

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

3. Mr. Mountfield thanked the Chair for his strong and thoughtful leadership of the Forum especially during the time of COVID-19 crisis. He announced that following this meeting, the chairmanship of the SSF will be rotated to Bhutan. He welcomed Mr. Lyonpo Namgay Tshering, Minister of Finance of Bhutan, who will be the next chair of the Forum.

4. Mr. Mountfield recounted the World Bank's strong commitment to small states, as evident in financing terms and volumes made available to them as an exception to the regular IDA and IBRD policies. He described the challenges faced by small states in managing the impact of COVID-19 and accessing vaccines and assured that the World Bank Group (WBG) continues to lean forward in its support to small states, both to address the pandemic and to get them back on track towards green, resilient, and inclusive growth. Since the start of the COVID-19 outbreak, the World Bank has provided over \$2 billion in support to the members of the Small State Forum. He referred to the WBG's recently launched Climate Change Action Plan as an important sign of commitment to the climate agenda that impacts so many of the members.

Opening remarks by the SSF Chair, Mr. Sayed-Khaiyum

5. Mr. Sayed-Khaiyum welcomed the incoming chair, Mr. Tshering, Finance Minister of Bhutan. Taking stock of SSF accomplishments in the past three years, he noted that small states are in a worse place than they were three years back, due to COVID-19 and climate change. During this period, SSF ministers and their leaders relentlessly advocated for larger financial support to small states. He acknowledged the WBG's commitment to small states, and IDA as an important source of concessional finance. He appreciated the WBG's decision to shorten the IDA19 cycle and start negotiations for the IDA20 replenishment one year ahead of schedule. He recalled that beyond IDA, the World Bank had prioritized small states in IBRD's capital package and demonstrated a flexible and tailored approach in providing financial assistance to IBRD graduates experiencing serious financial constraints.

6. The Chair outlined the challenges such as spiraling debt burdens and the high cost of climate adaptation faced by small states in the decade ahead and the need for fiscal resources to meet these challenges. He identified four advocacy priorities for the SSF going ahead: (i) developing a clear

system that ensures reliable access to vaccines for small states; (ii) the need to mobilize more IDA resources; (iii) working with IMF to ingrain approaches to low-cost and longer-maturity lending for climate to small states; and (iv) closer collaboration and a need-based approach by leading multilateral development partners in devising the financial support architecture for small states. On climate finance, he called for the international community to set a clear pathway to close the gap between climate finance commitments and the actual contributions and establish a fair allocation system based on vulnerability to climate change.

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

7. Mr. Trotsenburg acknowledged the Forum's contribution to important achievements, including the IDA replenishment and the IBRD capital increase. He thanked the Chair for work accomplished during the past three years and welcomed the new Chair. He described the World Bank's program of support for COVID-19 vaccinations and World Bank's stepped-up support to small states, amounting to \$1.4 billion in IDA concessional financing and \$780 million of IBRD financing since the onset of the crisis. He shared that the IDA20 discussions are progressing well, and the Bank looks forward to a successful replenishment. Towards that end, he stated that the voice of small states is extremely important. He also noted the World Bank's flexible approach for IBRD graduates in financial distress that allowed loans on an exceptional basis to the Bahamas and to Barbados.

8. Mr. Trotsenburg affirmed that the WBG will continue to work hard to help countries achieve long-term growth, poverty reduction, and resilience to future shocks. In this context the WBG's second Climate Change Action Plan (CCAP), covering 2021 to 2025, commits 35 percent of financing to support climate action, of which 50 percent is expected to support adaptation. The WBG will focus on helping countries integrate climate change into their development strategies and apply climate financing in ways that achieve the most positive impact. The WBG will incentivize investment in low carbon energy and battery storage and support preservation of natural capital and biodiversity with a focus on marine ecosystems.

Technical presentation titled 'Small States: A Challenging Recovery' by Director, Equitable Growth, Finance and Institutions, World Bank, Mr. Ayhan Kose

9. Mr. Kose's presentation addressed two questions. First, what are the growth prospects for small states? And second, what are the key policy challenges? He characterized the global economic environment as difficult for small states, given that travel and tourism services are still below 60 percent relative to where they were prior to the crisis, and that financing conditions are tightening as compared to the advanced economies. Growth in 2021 in small states is expected to be around 3.5% -- much weaker than EMDEs. Despite the return of growth, only one-third of small states will go back in 2023 to the per capita income levels they enjoyed in 2019. The unemployment rate will remain high. Risks ahead include the impact on tourism of new COVID-19 outbreaks and inflationary pressures. Mr. Kose grouped policy changes into three broad categories: first, bringing the pandemic under control and pursuing economic stability; second, promoting crisis preparedness and tackling climate change; and third, reforms to bolster growth prospects. Many small states also need to manage elevated debt and address a wide range of structural constraints.

Technical presentation titled ‘Supporting Small States Forum (SSF) Members to acquire and deploy COVID-19 vaccines’, by Vice President, Human Development, World Bank, Ms. Mamta Murthi

10. Ms. Murthi noted that, like the global pattern, new COVID cases are either declining or have plateaued in SSF members. Vaccination rates in small states are mixed due to varied access to vaccines. Less than half of the SSF members have secured enough supply to vaccinate 40 percent of the population by the end of 2021 and 70 percent by the middle of 2022. She informed that drawing upon the envelope of \$20 billion available for vaccine support, the World Bank has committed nearly \$6 billion for vaccine purchase and deployment in over 60 countries, of which eight are SSF countries. The Bank is also using data and advocacy to work with all suppliers to prioritize supply for developing countries, including SSF Members. She offered to share market information available to the Bank on vaccines with interested SSF members. She emphasized that, besides the woeful mortality and morbidity, the pandemic has resulted in a serious setback in human capital and human development due to the loss of nutritional status, the postponed preventive care, and the impact on young people who are not able to enter the job market.

Discussion

11. Members shared their gratitude and appreciation of Fiji’s chairmanship of the Forum over the last three years, and congratulated Bhutan on its assumption of the chairmanship for the next two years.

12. Members drew attention to high debt in several small states and called on the World Bank to support macroeconomic and structural reforms to address the underlying imbalances, driving rapid debt accumulation in these countries. A suggestion was made that the debt incurred due to COVID-19 be worked out over a longer period, so that fiscal space is available for recovery. A member shared its experience with debt restructuring, including with a debt for marine swap.

13. Landlocked small states noted that they face restrictions on the mobility of farm workers and transport services, leading to a cascading effect on agricultural supply chains, thereby threatening food security. This could reverse established progress in reducing malnutrition and hunger. Border closures also have long-term implications, such as a diversion of foreign direct investment.

14. Small states from Africa called for more financing from the IDA regional window to improve regional connectivity in the transport, energy, and digital infrastructure sectors. They also suggested that the WBG cooperate more vigorously with the African Union, which oversees the implementation of the AfCFTA, to promote trade and market integration in regional economic corridors. Members also called on IFC and MIGA to help scale up financial infrastructure to enhance trade and cross-border capital flows in small and landlocked states.

15. Several members referred to structural constraints to development faced by small states. They urged the WBG to review the income criteria used to measure development and capture vulnerability appropriately. Members from the Pacific described IDA funding as an anchor for the national budget of small nations and called on the advanced countries to ensure that IDA20 is well-resourced. Members emphasized the importance of meeting climate finance commitments by developed countries that largely remain unmet.

16. An IMF representative apprised the meeting about how small states could benefit from the general allocation of SDRs and their channeling. She said that small states received about \$9.9 billion out of the \$650 billion SDRs allocated to all IMF member countries. Besides that, the IMF is exploring options on how to channel SDRs voluntarily made available by shareholders with strong external accounts to countries most in need. One option being considered is to create a new trust in the IMF called the Resilience and Sustainability Trust (RST). The RST would aim to provide affordable long-term financing, as a top-up to a regular IMF-supported program, towards meeting long-term challenges such as climate change. RST financing is also expected to catalyze additional financing from MDBs and hopefully the private sector. The preliminary thinking is that the eligibility for the RST would include all low-income countries, all small states, and vulnerable middle-income countries.

17. Members shared their experience with the availability of vaccines and the status of vaccine rollout in their countries. During the discussion, Ms. Murthi added that Africa and East Asia stand out as parts of the world where access to vaccines has been very difficult. She called on AU members to take advantage of the AVAT facility.

Remarks by Mr. Lyonpo Namgay Tshering, Minister of Finance of Bhutan, the incoming chair of SSF

18. Mr. Tshering thanked the outgoing chair for his outstanding and inspiring leadership and welcomed the opportunity offered to Bhutan, a landlocked country, to be the chair of the SSF. He argued that having a chair from a small landlocked country is an important statement that, despite the diversity amongst SSF members, they all face similar fundamental challenges. He identified COVID-19 and climate change as the two greatest threats for small states. He said that Bhutan looks forward to engaging with the 50 small states and developing an integrated effort to addressing the unique development challenges of small states. He assured that Bhutan will put all the needed resources, time, and energy to fulfill the mandate of this forum for the next two years and beyond.

Adoption of Communiqué

19. Mr. Sayed-Khaiyum 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.

Small States Forum

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

Washington DC, October 13, 2021

1. Members of the Small States Forum met virtually on October 13, 2021.
2. The COVID-19 pandemic continues to have a disproportionate economic and social impact on small economies. Following an average contraction in small states of more than 8% in 2020, recovery is expected to remain sluggish, with most small states not reaching their pre-pandemic per capita income levels before 2024 at the earliest. With global travel still 60% below pre-pandemic levels, the recovery is expected to be particularly weak in tourism-dependent economies. The pandemic will have a lasting legacy in small states, with potential output expected to remain below pre-pandemic projections for the next decade.
3. Small economies have been responding to the crisis with their limited resources and capacities. We value the multilateral and bilateral international support made available to us. Yet our challenges remain daunting. Even as our attention has been fixed on dealing with the pandemic and its impacts, our economic vulnerabilities have been intensifying. We remain committed to getting back on track and strengthening resilience to escalating longer-term risks, including climate-induced disasters. A continued inflow of external financing at elevated levels and on affordable terms will be critical to our recovery and to sustained blue, green, resilient, and inclusive growth.
4. The economic and social recovery of our countries depends critically on vaccinating people against COVID-19. However, availability to date remains variable at best. Small states need an equitable, expeditious, and transparent availability of vaccines. While a large number of SSF members are on track to reach global vaccination targets for mid-2022, others still face serious constraints around vaccine procurement, delivery, and deployment, and will require continuing assistance, including adequate level of concessional financing.
5. Small states entered COVID-19 with higher debt levels than other EMDEs, due to small domestic economies and high exposure to climate-induced disasters. Responding to the crisis substantially exacerbated their debt burdens and acutely eroded the fiscal space to invest in the recovery. We welcome the Debt Service Suspension Initiative that provided temporary fiscal space to 15 members of our Forum. This further needs to be decisively and comprehensively supported by long-term and durable solutions and sustained focus and commitment from the international community. To this end, we ask the World Bank and the IMF to provide the necessary technical support to address debt vulnerabilities in small states, on a country-by-country basis, and for the international community to engage more closely with creditors to develop common approaches to addressing debt sustainability.
6. Small economies are at the forefront of the impact of climate change triggered by anthropogenic activities. Rising sea-levels affecting our coastal areas are an existential threat to small island states, and warming seas bring more intense and frequent storms to some, while severe droughts impact others. The fragile biodiversity of oceans surrounding our states is under threat, and ocean pollution and rising sea temperatures are hurting our fisheries and coastal economic activities. While we have repeatedly drawn attention to the climate emergency, to date there has been much talk, but little action. We strongly support the principles and goals of the Paris Agreement to limit global warming to 1.5 degrees Celsius above pre-industrial level through global community's concerted efforts in reducing greenhouse gas emissions. We see COP26 as a pivotal moment, when inspired political leadership can rise to meet the challenge of climate change. In this context, we welcome the World Bank Group's Climate Change Action Plan for 2021-25 and its commitment to focus more financing for adaptation. The unequivocal link between economic stability and climate change must continue to be a core pillar for financing to small states. We expect that improved climate financing will become more readily available on affordable terms to small states.
7. For 24 IDA-eligible members of the Forum, IDA resources have been critical to responding to the COVID-19 pandemic and maintaining public services. To recoup development losses and build back better from the crisis,

it is imperative that concessional resources remain available at high levels. We are happy to see the commitment and solidarity of the international community to support a strong IDA20 replenishment and call for a successful completion of the on-going IDA20 negotiations, so that \$100 billion is made available to help IDA countries to recover from COVID-19 and return to their long-term blue, green, resilient, and inclusive development trajectories.