Chairman’s Summary
Small States Forum Online Meeting, 10 April 2021

1. Finance Ministers and Central Bank Governors from member countries of the Small States Forum (SSF) met virtually on 10 April 2021, on the occasion of the 2021 IMF-World Bank Spring Meetings. The Forum was chaired by Mr. Aiyaz Sayed-Khaiyum, Attorney-General, Minister for Economy, Civil Service and Communications, and Minister responsible for Climate Change, Government of Fiji. The Forum was also attended by representatives from development partners that are active in supporting small states’ agenda.

Opening statement from the SSF Chair, Mr. Sayed-Khaiyum, Minister for Economy and Minister responsible for Climate Change, Government of Fiji

2. The chair opened by calling attention to the plight of the people of Saint Vincent and Grenadines where a volcano had erupted the previous day, noting that the event provided a stark example of the adversities faced by small states. He thanked the EDs on the Board of the World Bank Group for advocating for the pressing needs of small states.

3. Mr. Sayed-Khaiyum recounted the unprecedented double-digit GDP contractions and job losses suffered by most small states in 2020 and the compounding vulnerabilities of groups such as women and girls, youth, and the elderly. He pointed to the importance of ensuring that the devastation not permanently scar their development. The chair recognized the actions taken by the governments of small states to repurpose available resources to preserve social safety nets, preserve jobs, and inject cash into the economy in order to stem the precipitous decline in economic output. He noted that as a consequence, small states have been compelled to engage in an unprecedented level of borrowing, and that to ensure their financial stability, they are making difficult public policy choices such as re-allocating resources away from building climate resilience. He cautioned that if the status quo persists, small states will emerge from the pandemic more vulnerable than ever, with huge debt overhangs coupled with a very fragile economic environment. In this context, the chair acknowledged the crisis financing that has been provided by the International Financial Institutions, including the World Bank and the IMF, noting the substantial increase in IDA allocations over the years and preferential IBRD terms, but he maintained that the multilateral system still does not fully recognizes small states’ realities and its inherent structural impediments.

4. The chair referred to IDA as the most critical and forward-leaning element of the international financial architecture serving low income and the most vulnerable countries, and posited that more resources will be needed to return to pre-COVID growth and the trajectory for reducing poverty worldwide. He stressed that IDA needs to be significantly increased for small states, in parallel with commitments to promote sustainable growth and achieve common development objectives. He called for ultra-long-term concessionary financing instruments that will take small states to 2050, when they need to reach the net zero goal for carbon emissions.

5. Finally, the chair drew attention to the need for expeditious and equitable access to COVID vaccines for global recovery. He noted that securing immunization equitably and in a timely manner may represent the last chance to bridge the growing divide between the developed and developing world, countries wealthy and poor, and large and small. Emphasizing that vaccines are a global public
good, he urged strong support to ensure small states are protected together with the rest of the world.

Remarks by the Vice President, Operations Policy and Country Services, World Bank, Ms. Manuela Ferro

6. Ms. Ferro noted that the SSF, for which the World Bank serves as Secretariat, has been an effective platform for amplifying the voice of its members. She thanked Fiji, and Mr. Sayed-Khaiyum in particular, for the proactive and strong chairmanship of the forum.

7. She noted that the safe reopening and sustainable recovery of small states’ economies is likely to be slow, especially in tourism-reliant countries. Pointing to the volcanic eruption in St. Vincent and Grenadines, she stressed that these states remain vulnerable to natural shocks which have a large impact as they try to recover.

8. The Vice President outlined the World Bank’s significant support towards emergency COVID response. She argued that the Bank’s resources are not enough to support both clients’ immediate relief and recovery as well as their medium-term development outcomes. She noted that the Bank is discussing an early replenishment of IDA with shareholders, who understand well the needs of small states. Ms. Ferro emphasized that high vaccination globally is required to end the pandemic and noted that in October 2020, the World Bank made available $12 billion to finance vaccine acquisition and deployment and has since approved financing in 11 countries, of which five are SSF members.

9. She informed participants that 2021 is a critical year at the Bank for renewed global climate ambition and will be important for putting in place the building blocks for a resilient recovery. She noted that the small states, as a group, are some of the countries most affected by climate change and are an important voice in the international community on the importance of financing for climate adaptation. She reiterated that the World Bank looks forward to working with small states to address this critical challenge both at the country and global level.

Technical presentation titled ‘The COVID-19 Pandemic, Vaccine Developments, and the World Bank Group’s Operational Response’, by Director, Operations Policy, OPCS, World Bank, Mr. Stéphane Guimbert

10. Mr. Guimbert provided an overview of the state of play with regard to the COVID pandemic, vaccination, and the World Bank Group’s response in small states. He noted that SSF member countries have lower COVID-19 death and case rates compared to the global average and that vaccination rates vary widely in these countries. He discussed the sharp increase in IDA financing per capita to small states, which has risen from three times higher than that for the average IDA country in FY15-17 to six times higher during FY18-20. Mr. Guimbert noted that the Bank has financed 22 COVID response operations worth over $115 million in Forum member countries and is conducting vaccine readiness assessments to support vaccine rollout. He also pointed to the Bank’s coordination with other agencies and COVAX in particular.

Technical presentation titled ‘Small States: Fragile Recovery Ahead’ by Acting Vice President, Equitable Growth, Finance and Institutions, World Bank, Mr. Ayhan Kose

11. Mr. Kose’s presentation focused on the state of the recovery in small states and recommended policy priorities. He noted that tourism trends have been mixed so far in 2021 and revival is expected
to be slow until the virus is brought under control and restrictions can be lifted. He stated that commodity prices have recovered in recent months, which could support growth and public finances, and remittance flows to EMDEs have also recovered. Growth in small states is predicted to reach 4.4 percent in 2021, which is weaker than the 5.7 percent expected in EMDEs. Mr. Kose explained that the impact of the pandemic on incomes will be longer lasting; in 40 percent of small states, losses in per capita income in 2020 reversed 10 years or more of income gains.

12. On policy priorities, Mr. Kose said that many small states will continue to face pressures on their finances and are likely to have difficulty reducing already large debt burdens in the short to medium term. In light of these challenges, he recommended that policy priorities focus on saving lives through vaccine rollout, protecting the vulnerable through social protection measures, maintaining the foundations of these economies and the private sector, and setting the stage for green, resilient, and inclusive development (GRID). In this context he stressed the importance of boosting resilience to climate change and extreme weather.

Discussion

13. Members thanked the World Bank and other MDBs for the timeliness of financial support and stressed the need for maintaining high levels of financing to help with recovery. In that context they underscored the importance of a successful IDA20 replenishment. A new issuance of IMF special drawing rights was appreciated.

14. Members described the varied health impact of the pandemic across small states, the preventive and containment measure they have taken, and progress with vaccination. They shared concerns about vaccine availability beyond COVAX and sought support from developed countries and multilateral partners towards equitable access. Ms. Ferro responded that the Bank is engaging with COVAX and vaccine manufacturers and asked members to formulate contracts as soon as feasible. The United States representative noted that the U.S. will be soon able to share vaccines with the rest of the world.

15. Members confirmed the devastating economic costs of the pandemic, particularly due to the sudden stop in tourism receipts, and described output losses due to the spillover from services to construction and manufacturing. They pointed to social costs in terms of increased poverty and unemployment and noted with concern the erosion of human capital. Several members described their efforts to maintain critical services; some referred to the opportunity to strengthen critical policy reforms, while others described their strategy for recovery and building resilience to future shocks. Many members described the efforts they are making to bring tourism back and their success thus far. Several referred to recent natural disasters that have compounded the impact of the pandemic and pressed the case for the assessment of overall vulnerability which is multifaceted.

16. Several members stressed the need for debt relief beyond DSSI, whatever form it may take, that covers middle-income small states. There was a suggestion in favor of green debt swaps, which would allow the exchange of external debt repayment flows with financing climate adaptation, mitigation, and resiliency efforts. Mr. Kose responded that the Bank will be working with the IMF on the Common Framework to restructure debt on a case-by-case basis. Ms. Ferro added that we need the partnership of many others, including Paris Club members, the private sector, and non-Paris Club members to come together to help address what, in some cases, is a significant debt overhang.

17. All speakers showed a keen awareness of the importance of managing the impact of climate change and a willingness to invest in sustainable approaches to development. The GRID approach
was appreciated, and participants highlighted the need for additional financing to achieve the levels of scale required to meet the climate targets set for 2050.

Adoption of Communique

18. Mr. Sayed-Khaiyum read out the draft communique, which was discussed, and changes suggested by the participants were addressed. A copy of the final communique is attached.

2. The COVID-19 pandemic continues to have a huge economic and social impact on small economies. In 2020, small states’ output contracted by 6.1 percent, compared to 1.8 percent in all EMDEs. International arrivals in tourism-reliant small states collapsed between 35 to 84 percent, resulting in an average 17 percent contraction of output. Natural disasters and calamities compounded the shock from the pandemic in some small states, with cyclones hitting Fiji, Tonga and other islands in the Pacific over the last year, and a volcanic eruption occurring in St. Vincent and the Grenadines a few days before our meeting. The rebound in activity from 2021 onward is expected to be slower in small economies as compared to all EMDEs. Poverty in small states is expected to increase in 2021 for the first time since 2009.

3. As we noted when we last met in October 2020, small economies have responded to the crisis with all the resources, capacities, and international support available to them. Yet the pandemic has significantly diverted resources towards immediate health and economic relief, away from meeting our countries’ daunting longer-term development challenges. It has also exposed and exacerbated pre-existing vulnerabilities. We are committed to get back on track, rebuild fiscal buffers, and strengthen resilience, and therefore call for a continued inflow of external financing at high levels and on affordable terms. Recovery to pre-pandemic levels and getting on track to sustained green resilient and inclusive growth should involve international support for responding to escalating longer-term risks and vulnerabilities from natural disasters as well as ocean pollution in small islands.

4. Recovery will also critically depend on the availability of vaccines, which are necessary to safely re-open economies and rekindle international travel. Equitable access and a strong roll-out of vaccines requires an unprecedented effort. We renew our call, articulated in the communiqué adopted in October, for worldwide equitable, expeditious, and transparent access to safe and effective vaccines. We appreciate the World Bank Group’s support to countries for vaccine purchase and deployment, including addressing the gap between COVAX supply and the supply needed to ensure vaccination coverage in small states. We ourselves remain committed to implementing, to our full capacity, efficient and equitable vaccination programs in our countries. We call on the international community to take a more forward-leaning and transformative approach to helping small states to access vaccines expeditiously on a fair and equitable basis, given that the pandemic does not recognize international boundaries and that a global economic recovery is in every country’s interest.

5. Debt vulnerabilities in many small economies continue to grow, severely constraining the capacity to invest in recovery and in urgently needed climate action. The relief provided under the Debt Service Suspension Initiative (DSSI) has helped many small states by freeing up resources to increase social, health, and economic spending in response to the crisis. We appreciate the G-20’s call on private creditors to participate in the DSSI on terms comparable to those offered by official creditors as well as ongoing efforts to implement the Common Framework for Debt Treatments beyond the DSSI, and we encourage the Bank and the IMF to work with all small states to help them to address debt vulnerabilities on a case-by-case basis. In addition, we underscore the need for consideration of other debt relief measures such as nature for debt swaps.

6. We acknowledge and appreciate the push being made by IFIs and other international bodies to renew global climate ambitions. As a group, we are the countries that are the most affected by climate change. We encourage all development partners to recognize the multiple channels of risk and vulnerabilities facing small states, including from climate change, which is causing rising sea levels and an increased frequency and intensity of natural disasters. These vulnerabilities, combined with structural economic factors related to smallness and the disproportionate impact of the COVID pandemic, compromise the recovery and growth prospects of small
economies. We call on our partners to incorporate these risk considerations into the provision of enhanced, flexible, and tailored approaches to concessional financing for our countries.

7. Our strong belief is that mobilizing more resources for IDA remains a critical priority. Committing IDA19 resources within a shorter two-year period will significantly scale-up resource availability in 2020 and 2021 to all IDA countries, including the 24 IDA-eligible members of this Forum. We are pleased that the deliberations on advancing IDA20 have progressed well since the 2020 Annual Meetings. We are hopeful that the on-going discussions on IDA20 will conclude successfully with the international community committing to a strong IDA20 replenishment to ensure appropriate levels of support to countries for immediate crisis response as well as getting back on track to their long-term development trajectories.