

Chairman's Summary

Small States Forum Online Meeting, 8 October 2020

1. Finance Ministers and Central Bank Governors from member countries of the Small States Forum (SSF) met virtually on 8 October 2020, on the occasion of the 2020 IMF-World Bank Annual Meetings. The Forum was chaired by Mr. Aiyaz Sayed-Khaiyum, Minister for Economy 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.

2. Ms. Ferro, Vice President of Operations Policy and Country Services, World Bank, introduced the session by recalling the role played by the SSF since 2000 as a platform for discussing the development challenges facing small states and amplifying their collective voice in development aid fora. She pointed to the added significance of the SSF during this time of crisis when the effects of the COVID pandemic threaten the development gains of small states and underscored the efforts made by the Bank, both in IDA and IBRD, to lead the way in supporting these countries.

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

3. Mr. Sayed-Khaiyum noted that while most Forum SSF members have not seen a large-scale health crisis from the virus, but as a group they will experience a much sharper contraction in GDP in 2020 than any other group of countries. He noted that small states face unprecedented financing gaps because of sharp declines in revenues and mounting expenditure pressure and pointed to major uncertainties going forward while the risks remain tilted to the downside.

4. Mr. Sayed-Khaiyum stressed the additional pressure exerted by the crisis on small state economies, which suffer from structural disadvantages stemming from remoteness, the small size of their domestic markets, and increasing exposure to climate change. He noted that while member governments have re-prioritized available resources to provide the necessary social safeguards to their populations and to preserve jobs, most small states lack the financial liquidity and economic strength to adequately address the challenges. He stressed the urgency of addressing the resource gap in small states that are uniquely prone to shocks and have limited capacity to respond. He also emphasized the need for a safe, effective vaccine for COVID to be treated as a global social good and to ensure its availability to those that are most vulnerable.

5. Mr. Sayed-Khaiyum appreciated the support provided by MDBs, including the World Bank and the IMF, noting that IDA-eligible small states have benefitted from the marked increase in allocations since IDA16, and IBRD-only small states have an option to borrow on preferential terms. He argued for exploring options to make concessional resources available for higher income small states, noting that GDP per capita can mask deep structural disadvantages faced by these countries. He underscored the need for a well-resourced IDA to uphold the economic security of the most vulnerable countries and noted that far greater resources will be needed to facilitate a return to a pre-COVID trajectory of growth and poverty reduction. He called upon members to engage with the Bank and the IMF for analytical and policy support.

6. Finally, Mr. Sayed-Khaiyum accepted the request that Fiji carry on as the SSF chair for another year and stated that his priorities would be to support the replenishment of IDA19 and emphasize

debt sustainability, nature-based solutions, biodiversity preservation, digital transformation, and broad sustainable development.

Address by the Managing Director, Operations (MDO), World Bank, Mr. van Trotsenburg

7. Mr. van Trotsenburg acknowledged the disproportionate impact of COVID on most small states, particularly those with heavy reliance on tourism. He stated that, on average, real GDP in small states is projected to contract by 7 to 8 percent in 2020, compared to about 2 percent contraction for all emerging markets and developing economies. He described the likely slow recovery and the uncertainty ahead related to COVID, commodity prices, and remittances. He acknowledged that the pandemic has exacerbated the effect of structural disadvantages already facing small states.

8. The MDO described the World Bank Group's (WBG) response to COVID – its most rapid and widespread emergency response program in history -- organized around four pillars, namely, to help clients: (i) save lives; (ii) deal with the social and economic impacts of the pandemic; (iii) keep companies afloat and economies running; and (iv) strengthen their policies, institutions, and investments to rebuild better. Since the start of the outbreak, the Bank has provided support to 28 small states, amounting to over \$800 million. This robust support was enabled by policies tailored to address small states' special needs, which proved important in mobilizing necessary resources for crisis response.

9. The MDO suggested that diversion of resources by small economies to address COVID and its economic and social impacts could have deep and long-lasting effects on poverty and the achievement of the Sustainable Development Goals (SDG). While IDA19 is expected to largely maintain the same level of allocations to IDA-eligible small states as in IDA18, more resources will be needed to restore the momentum of poverty reduction and address long-term structural challenges, including those stemming from climate change. He noted that the World Bank is exploring ways to maintain its financial capacity at higher levels through 2022. In this context, additional donor contributions will be particularly important. The Bank is also exploring ways to bring down the cost of borrowing by IBRD-only small states through trust fund solutions. And lastly, the Bank is considering exceptional access for two IBRD graduates in FY21 to facilitate their return to market-based financing.

10. Finally, the MDO described the Bank's preparations for support towards the purchase and deployment of COVID vaccines. Up to \$12 billion will be made available by the Bank for this purpose.

Remarks by the Regional Vice President Asia and Pacific, International Finance Corporation (IFC), Mr. Alfonso Garcia Mora

11. Mr. Garcia described how IFC is working together with the World Bank to support key sectors such as tourism and emphasized the need to mobilize private sector solutions given the limited public financing as small states rebuild. Currently, IFC has a significant presence in small states in Latin America with a portfolio focused on commercial banking and small businesses; its support to tourism and agribusiness is growing. IFC is also promoting risk instruments that would help leverage the private sector more. Mr. Garcia shared information on IFC's advisory services in small states which is focused on investment climate and the business environment, and public-private partnerships. He noted a growing need for work on solvency frameworks to support corporate restructuring. He

expects that IFC will make greater use of IDA's Private Sector Window in the next two years.

Technical presentation on impact of the pandemic on small states by Acting Vice President, Equitable Growth, Finance and Institutions, World Bank, Mr. Ayhan Kose

12. Mr. Kose's presentation focused on three questions: First, what are the main features of small states? Second, how has the pandemic affected these economies in the short-term and the long-term? And, finally, what are policy options for small states? Mr. Kose identified high exposure to external conditions such as reliance on tourism, commodity exports and remittances as the main feature of small economies. In addition, most of them are highly exposed to the adverse impacts of natural disasters, including tropical storms, earthquakes, tsunamis, and floods which makes them particularly vulnerable to climate change as well.

13. Mr. Kose presented data showing that small states are going through the deepest global recession since the Second World War, and that the pandemic will lead to devastating long-term income losses. He noted that half of the small states could lose more than 10 years of per capita income gains in just one year. While growth is expected to return in 2021, small states will experience more modest rebounds -- about 3.7 percent -- compared to 5 percent in other emerging market developing economies. Mr. Kose noted that the deep recession will have long-term adverse effects on output through reduced productivity, investment, and employment; aggregate GDP in 2025 will likely be 9 percent below the previously projected trend in 2019. Cumulative output loss over the next 5 years in these economies will be about 42 percent of their GDP in 2019.

14. Mr. Kose recommended that the policy response focus on relief, recovery, and resilience. Beyond the short-term health response, it is critical to maintain the foundations of the economy and the private sector which means assisting viable firms, supporting aggregate demand, and preserving financial stability. Small states also need to continue to boost resilience to climate change and extreme weather events while employing green and blue strategies to build the foundations for a durable recovery. They must try to minimize the adverse impact of remoteness and protect human capital to attract investment. This short and medium-term response is, however, constrained by worsening fiscal positions and rising public debt.

Discussion

15. Members thanked the World Bank for the rapid financial support and stressed the need for maintaining high levels of financing during the entire IDA19 cycle. They also requested more fast-disbursing support and increased grants. Participants agreed on the need to catalyze private investment flows.

16. Many tourism-dependent small island members described how the collapse of tourism is having a deep impact on their economies and people. They emphasized that they cannot diversify away from tourism in the short- to medium-term. Therefore, a restart of tourism is important to their economic well-being, and they are taking steps towards that. Bahamas suggested that a knowledge center be established to exchange experience on how tourism can be restarted safely, and others put forth ideas such as a global standard protocol for pretesting so that tourists regain confidence in traveling and a global tourism trust fund to support increased airport testing capacity.

17. Several members pressed for solutions to the growing public debt and supported an

extension of the Debt Service Suspension Initiative (DSSI). They suggested that COVID-related debt should receive special treatment so that it does not come in the way of recovery. A suggestion was made to create a small committee that could work with the World Bank, IMF and OECD to facilitate discussions on measurement of indebtedness and classification of debt.

18. Some participants from the Caribbean referred to the ever-increasing pressures related to the provision of correspondent banking services that threaten their external trade business and inward investment.

19. Participants emphasized that small states suffer the most from climate change-induced adversities and the destruction of ocean ecosystems, something to which they have not contributed much. Members stressed the urgent need for solutions rather than more discussion. Several participants lent support to the idea of creating a vulnerability index to guide concessional multilateral financing to small states. Some representatives of developed nations described their support for sustainable management of ocean resources, tackling climate change, and for nature-based solutions. They called upon the major international financial institutions to ensure that their activities are not only aligned with the Paris Agreement, but also with nature, and that climate vulnerable nations are able to access finance more easily.

Communique and concluding remarks

20. Mr. Sayed-Khaiyum read out the draft communique, which was discussed, and changes suggested by the participants were incorporated (copy attached). He encouraged the members to use the sub-committee of the SSF for raising issues and engaging in more focused discussion with the World Bank.

21. In her concluding remarks, Ms. Ferro acknowledged the pain of small states as they face the impact of COVID. She emphasized that it is essential that the messages agreed to in the Communique are carried to the IMF-World Bank meetings by all participants. She thanked Mr. Sayed-Khaiyum for his engaged chairmanship of the Forum and skillful management of the meeting, and for accepting to extend Fiji's tenure as chair for another year.

Small States Forum

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

Washington DC, October 8, 2020

1. Members of the Small States Forum met virtually on October 8, 2020.
2. Small economies are facing an unprecedented social and economic crisis due to the COVID-19 pandemic. A collapse in tourism, falling commodity prices, and diminished remittances have sharply increased poverty and unemployment. Some Small States are witnessing a dual shock from the health impacts of the pandemic and recent natural disasters. Most small economies are in recession, with GDP falling by 7.6 percent in 2020 on average, and over 20 percent in some tourism-dependent economies (World Bank staff estimates).
3. Small States' response to the crisis has demanded all of our resources, capacities, and international support available to us. All countries have initiated public health measures to contain the pandemic as well as economic relief packages to protect employment and businesses. Declining revenues and increased spending have put most of our countries under severe fiscal stress.
4. The pandemic's course is uncertain but advances in vaccines and therapeutics are promising. People will have the confidence to resume normal activities only when safe and effective COVID-19 vaccines become widely available. Such a vaccine must not only be treated as a social good and be made affordable, but we must be given priority access as our economies have been the hardest hit.
5. This pandemic has reinforced our vulnerability to pre-existing structural challenges, including limited capacity and economies of scale and high-cost public services. These have been compounded by our vulnerability to climate change and by ever-increasing pressures in the provision of correspondent banking services that threatens our external trade business and inward investment. Against this background, the pandemic is closing businesses, leading to job losses and economic distress that may permanently scar the sustainable development of Small States.
6. To get back on track, Small States will need to rebuild fiscal buffers, protect viable businesses, increase disaster resilience, and continue to invest in diversification and new drivers of growth. Small States authorities are already taking measures to reduce impacts, including policy measures and protocols to revive tourism and travel. These are challenging objectives, even in good times, and Small States do not have the resources to meet them.
7. The pandemic has exacerbated the debt vulnerabilities of many small economies. Despite efforts at fiscal prudence, many Small States have sizable public debt, due to their narrow and volatile revenue base, combined with low growth and expenditure shocks. COVID-induced GDP losses and higher financing needs will significantly worsen the debt positions of Small States. There is a need to re-engineer the way we will look at debt financing, so it does not become a constraint in dealing with the COVID-19 pandemic and other development issues. In this context, we call for an urgent meeting to address debt burdens and a resolution to the rising debt overhang.
8. Most Small States have limited creditworthiness and access to external private finance. Financing conditions in the past were already tightening due to de-risking and tightened severely with the pandemic. We welcome the relief provided by the Debt Service Suspension Initiative (DSSI), which has benefited twelve Small States so far by freeing up resources to fight the pandemic and its impact. Small States remain committed to enhancing debt transparency and using fiscal space prudently and call on international official creditors to extend the DSSI through 2023.
9. Small States are grateful to World Bank Group shareholders for providing the Group with the capacity to provide strong initial responses to this crisis, including by bringing forward resources from future years. We also acknowledge the response from the International Monetary Fund and

other development partners. Looking ahead, our financing needs for recovering growth, building resilience and human capital, and investing in other public goods will far outstrip available resources.

10. We note the unprecedented nature of the pandemic, which has put global development resources under strain at a time when developed countries are themselves battling the crisis. We call on the international community, and IDA donors in particular, to recognize the uniquely vulnerable situation and the disproportionate impact of the pandemic on small economies and their peoples and to respond to this situation with clear timelines, including by strengthening the financial capacity of IDA by supplementing IDA19 resources.