World Bank Group Engagement with Small States: Taking Stock

Operations Policy and Country Services
September 8, 2016

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WORLD BANK GROUP

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Abbreviations and Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
AIMS	Africa/Indian Ocean Maritime States
ASA	Advisory services and analytics
CARICOM	Caribbean Common Market
CAT-DDO	Deferred Drawdown Option for Catastrophe Risk
CCRIF	Caribbean Catastrophe Risk Insurance Fund
CRW	Crisis Response Window
DNR	Debt-for-Nature-and-Resilience
DPF	Development policy financing
DPL	Development policy loan
DPO	Development policy operation
FCV	Fragility, conflict, and violence
FDI	Foreign direct investment
FSM	Federal States of Micronesia
GEF	Global Environment Facility
GDP	Gross domestic product
GFDRR	Global Facility for Disaster Reduction and Recovery
GP	Global Practice
HIPC	Heavily Indebted Poor Countries initiative
HNP	Health, nutrition, and population
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Financing Corporation
IMF	International Monetary Fund
IPF	Investment project financing
ICT	Information and communications technology
MDTF	Multi-donor Trust Fund
MIGA	Multilateral Investment Guarantee Agency
NCD	Non-communicable disease
NDC	Nationally Determined Contributions
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
PAIP	Pacific Aviation Investment Program
PASO	Pacific Aviation Safety Office
PCRAFI	Pacific Catastrophe Risk Assessment and Financing Initiative
PIC	Pacific island country
PPP	Public-private partnership
PREP	Pacific Resilience Program
PRIF	Pacific Region Infrastructure Facility
PROFISH	Global Program on Fisheries
RAS	Reimbursable advisory services

RMI	Republic of the Marshall Islands
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SIDS	Small Island Developing States
SISRI	Small Island States Resilience Initiative
SMEs	Small and medium-sized enterprises
SREP	Scaling Up Renewable Energy in Low-Income Countries Program
TA	Technical assistance
UN	United Nations
WBG	World Bank Group

Executive Summary

In recent years, small states have taken a collective stand in international fora to highlight the development challenges they face and urge more attention to their concerns. Despite many small states' natural beauty and reputations as luxurious tourist destinations, an increasing number are affected by extreme weather events, natural disasters, and rising sea levels. Their limited resource base and capacity make it difficult for them to respond. These issues are important to the wider world, as small states face climate-related challenges that others will eventually confront.[1] While they are a heterogeneous group, in general small states grapple with a range of similar development challenges which the development community must help them address as part of their commitment to reach the Sustainable Development Goals. At the October 2015 Small States Forum in Lima, Peru, the World Bank committed to take stock of its recent assistance to small states to better inform policy and financing deliberations.

The World Bank Group (WBG) defines small states as countries that (a) have a population of 1.5 million or less, or (b) are members of the Small States Forum. These 50 countries are quite diverse in land area, location, levels of income, and economy. A few are landlocked, while several are island states; some are high-income countries, while many are middle- or low-income countries; a few are fragile and conflict-affected; and some are commodity exporters, while others are service- and tourism-based economies. There are small states in all regions, although most are located in the Pacific, Caribbean, and Africa/Indian Ocean.

This report takes stock of WBG activities, programs, lending, and trust funds targeted at small states. It discusses the range of constraints that small states face and describes the WBG's work to address these constraints through its broad set of financing, analytic and convening instruments, tailoring these for small states through special arrangements, policy exemptions, and innovative financing tools. It gives particular attention to how the WBG has innovatively released additional resources, often in partnership with other development organizations. Because the preparation of this stocktaking report coincided with preparation of an IEG evaluation of World Bank engagement in small states and there was constructive sharing of information and perspectives between the two products, there is significant agreement between the issues and findings of this report and those of the IEG. The paper suggests areas for further analysis and consideration as the WBG seeks to serve the unique needs of its small states members.

The Constraints of Smallness

While many small states' undeveloped natural beauty and remoteness offer unmistakable assets, these same characteristics can constrain small states progress towards the Sustainable Development Goals. Small states are characterized by a small population, limited human capital, and a confined land area. They face labor market and capacity constraints: the limited number of workers and production capacity is often inadequate for local production or export at scale, and few in-country education facilities means a dearth of adequate specialization. A small workforce can affect institutional capacity, and multiple aid programs may overstretch the countries' implementation capacity.

Constrained economic prospects mean relatively few employment opportunities, so skilled labor often migrates to seek an economic livelihood.

1 The United Nation's *Global Environment Outlook: Regional Assessments*, released in May 2016, estimates that more than 25 million people in Bangladesh, over 20 million people in China, and nearly 15 million people in the Philippines are at risk from rising sea levels. Countries such as Indonesia, Myanmar, Thailand, and Vietnam are likewise projected to face increased exposure to extreme weather events.

While this brain drain leaves the country more exposed to labor market shortfalls, it opens the door to remittances and capital inflows. Despite challenges managing remittance income, these flows provide much needed resources to small states. Remittances often exceed levels of foreign aid, boost domestic credit ratings, strengthen the capital account, and—if harnessed properly—can be leveraged to deepen the financial sector.

Private-sector-led growth can be difficult for small states to achieve. The narrow population base means a low demand for goods and services, which limits domestic production and international investment targeted at the local market. Manufactures are primarily for export, but that, too, is constrained by the small workforce. Production costs are generally high because of the lack of economies of scale. The investment climate often needs improvement to ensure appropriate regulations, a level playing field, and good infrastructure. Exports are less competitive because of the countries' remoteness and relative inaccessibility, as well as the costs of operating across multiple regulatory environments.

A diversified economic base can also be difficult to achieve. Geography and demography limit small states' productive base. The few economic sectors may include fisheries, tourism, commodity exports, or financial services, and opportunities for economic diversification are limited. The narrow range of exports can make such states vulnerable to terms-of-trade shocks and extreme weather events. Volatile growth prospects call for a tailored and more customized development response.

Generally, few sources of revenue are available. Less space for land-based economic activity and a constrained pool of human resources limit economic activity and sources of income. Thus the tax base for most small states is small and inadequate to meet the cost of public administration and services. A constrained fiscal envelope makes it hard to manage financial, economic and other forms of volatility. Many small states face endemic debt challenges.

Remoteness adds an economic cost. Many small states are geographically far removed from international trade partners. The Pacific island states are the most remote, situated on average 12,000 kilometers away from the nearest markets. The landlocked African states are similarly cut off from direct access to the sea. The lack of connectivity imposes a tax on trade. External inputs into domestic production are proportionately costlier, while transport expenses make exports less competitive.

Poor IT connectivity affects the service sector. Mauritius and small states in the Caribbean have leveraged their skilled workforce and good IT connectivity to position themselves as service providers. Such a solution is not yet available to small states in the Pacific, given poor Internet broadband and inadequate submarine fiber optic cables, though there are recent efforts to ameliorate the problem.

Providing public services to small scattered populations can be costly. Many small states—notably the Pacific island states—are island archipelagoes with populations dispersed over enormous geographic distances. The prohibitive costs of service delivery across vast swathes of ocean often affect health care, education, social security, and infrastructure services.

Small island states are highly exposed to climate change and natural disasters. This group accounts for two-thirds of the countries that suffer the highest relative losses due to natural disasters (1–9 percent of their GDP each year).[2] The Pacific and Caribbean are frequently hit by storms, earthquakes, volcanic activity, floods, droughts, and landslides. In March 2015, for example, Tropical Cyclone Pam struck Vanuatu, Tuvalu, and Kiribati with unusual force. In Vanuatu alone, the cyclone destroyed much of the infrastructure, resulting in an estimated

2 Based on EM-DAT data as reported in World Bank and United Nations (2010), *Natural Hazards, Unnatural Disasters: The Economics of Effective Prevention*, and modeled annual disaster impacts from World Bank, *Pacific Catastrophe Risk Assessment and Financing Initiative*, Risk Assessment—Summary Report (forthcoming).

US$450 million in damage and losses, equivalent to 64 percent of the GDP. Apart from extreme weather events, climate change adds pressure on fragile island systems through increasing average ocean and land temperatures, changes in the seasonality and duration of rainfall, and rising sea levels.[3] The very existence of the atoll nations of Kiribati, Tuvalu, and Marshall Islands is challenged by sea-level rise and the potential impact of inundation of their scarce fresh water sources.

Recurrent financial, climate, and disaster shocks reduce the fiscal space. With a narrow economic base, small states may have difficulty to spread economic risk across productive sectors. They face more exposure to market shocks that affect income, employment, and expenditure. Changing weather patterns, melting ice caps, and rising sea levels result in frequent coastal inundation, reduced sources of fresh water, and infrastructure damage. Cyclones and drought also affect peoples' livelihood. The public expenditure needed to respond to these shocks constricts the tight fiscal space even further, exacerbating already difficult debt management issues. In larger states, areas that are not affected by a natural disaster can cross-subsidize a disaster-affected zone, but small states have restricted geographic buffers. The fiscal costs of managing these shocks are disproportionately high.

Small states therefore rely on international finance to supplement their fiscal envelopes. However, unless they have commodity exports or a service sector geared to the external market, many small states are not sufficiently creditworthy to raise funds in international capital markets. The local financial sector is similarly less developed, given diseconomies of scale.[4] Several small states are forced to rely on concessional finance; others have significant debt as they draw on their natural resources to graduate from low-income status and lose their access to concessional financing. Overall, climate change and natural disasters heighten debt exposure.

The small states also face challenges in the area of human development. Although many have made progress on infant mortality, there is still an unfinished agenda of low child immunization rates, the reemergence of vector-borne diseases such as dengue, and the challenge of non-communicable disease (high blood pressure, diabetes, cancer, etc.). In general, small states have achieved gender parity at the lower levels of education, and more girls than boys pursue higher levels of education. However, women's employment prospects and earnings are significantly worse than men's, and women have fewer productive and economic resources, so they are more vulnerable to poverty. In many countries rates of violence against women are high. Several small states are on the WBG's list of fragile and conflict-affected situations.

Despite the systematic constraints identified above, there are small state success stories which can offer some lessons more broadly. For example, Bahrain, Brunei, Estonia, Malta, and Qatar have achieved high incomes, making the most of their specific combinations of fossil fuels, strategic location on the crossroads of trade, a highly educated workforce, strong legal systems, and well-developed financial sectors. However, most small states lack these advantages.

Small states do not easily fit the standard development model where low-income and IDA-eligible countries become medium-income and IBRD states, and then transition to self-sufficiency and graduation. Instead, many small states find themselves caught in a gap between eligibility for concessional financing and self-sufficient capacity to take on sustainable financing at market interest rates. To meet small states' unique constraints, international

3 IPCC (2014), Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. Geneva: IPCC.

4 The absence of an enabling environment, the dearth of adequate domestic savings, and the transaction costs undermine the viability of a local banking sector.

development institutions need to develop innovative solutions tailored to address their interrelated development and financing issues.

World Bank Group Program

The Bank employs multiple instruments to channel IDA and IBRD resources to support sustainable development in small states. Development policy financing has been widely used to support policy reforms to enable small states to better adapt to climate change, strengthen disaster preparedness, and provide resources for infrastructure investments. Investment project financing can be processed as a new resilience project, a long-term national or regional resilience program (i.e., a series of projects), or additional financing to an existing project to scale up a pilot or make a sectoral operation climate-resilient. Addressing a range of small states constraints from promoting a conducive private sector environment, approaches to resilience or supporting debt management capacity, technical assistance is widely applied for sector diagnostics, specialized advice, or training. In addition, the World Bank makes use of sector work and reimbursable advisory services and plays a convening role vis-à-vis the development community. IDA interventions are designed to help small states address their fiscal constraints by improving the mobilization of public resources and strengthening financial resilience in the face of exogenous shocks.

Using these and other specially tailored instruments, IDA has been a primary financing platform to support small states. Resources for small states have increased over the last few IDA replenishments in recognition of small state investment needs, limited creditworthiness, restricted financing options, and high vulnerability to natural disasters. Specific IDA provisions relevant to small states include the following:

- The *Small Islands Economies Exception* provides island states that have a population of less than 1.5 million with continued access to concessional IDA finance, even if their per capita income exceeds the ceiling for IDA eligibility.
- The *IDA Performance-Based Allocation* for each country entails a minimum financing envelope. This base allocation has increased since IDA13 to SDR 4 million per year in IDA17 and may increase further in IDA18.[5]
- *Regional IDA* support to small states can be accessed to supplement country-specific IDA allocations. The World Bank enables countries that receive SDR 13 million or less in IDA funds each year—mainly small states—to leverage more financing than regular countries under the Regional IDA Program.
- The *IDA Crisis Response Window* (CRW), in place since IDA 15, has provided critical additional resources for exceptional emergency situations, arising for instance from natural disasters or economic shocks.

Reflecting the IDA grant allocation framework, IDA provides financing to several small states in the form of grants rather than credits, given that these are assessed to be at high risk of debt distress.

Complementing IBRD and IDA resources, the World Bank acts as financial trustee for over 20 financial intermediary funds—large multilateral financial mechanisms that support global initiatives—that are available to small states eligible for IBRD and IDA support. The World Bank also acts as trustee to donor-financed resources—trust funds through which the Bank accepts donor contributions for Bank-implemented or -supported activities. These funds supplement Bank financing for small states and support sector work.

The World Bank Treasury provides financial products and services to small states: asset management services, support regarding the design and implementation of risk and debt management solutions. It works with ministries of finance on public debt and risk management and with central banks, sovereign wealth funds and national pension

5 Subject to the recommendation of the IDA Deputies and the approval of the WBG Board.

funds to provide advisory services to help countries manage foreign currency reserves and other pools of national wealth with prudent risk management and controls. Treasury provides a variety of financial products to small states to help them mitigate financial, commodity, weather and catastrophic risks, and guarantees to help small states leverage the WBG's financial strength to secure additional funding from the private sector at lower costs and/or longer maturities.

IFC, the private sector arm of the WBG, has several interventions targeted at small states to facilitate increased private sector-led development. IFC supports the private sector through its investment and advisory services. IFC's interventions strengthen the project-enabling environment, help companies design viable projects in small states—including, for example, by developing environment and social assessments—and provide comfort to private investors. IFC investments and advisory services largely target infrastructure, financial sector, and small and medium-sized enterprises in small states.

MIGA, the political risk insurance arm of the WBG, supports specific small states by helping bring foreign direct investment into productive sectors.

The WBG is the single largest provider of climate and disaster-resilience-related investment finance. It has supported both disaster preparedness and post-disaster recovery and is a significant player in resilient infrastructure finance. World Bank support for resilience extends to over 25 small states through regional programs: (a) Caribbean Resilience Initiative and Program; (b) Pacific Resilience Program and ongoing national programs; and (c) West Africa Coastal Areas Program and Southwest Indian Ocean Risk Assessment and Financing Initiative. During FY11–15, the total WBG assistance to climate and disaster resilience in these countries averaged nearly US$152 million each year.

The Small Island States Resilience Initiative is a global program launched by the Word Bank. With its dedicated support team, it offers partner countries innovative assistance that includes policy recommendations, support on a range of pioneering financing mechanisms such as debt-for-resilience swaps, exchange of global knowledge, and results-based approaches.

The World Bank supports innovative mechanisms to insure against the cost of natural disasters, releasing funds that would otherwise be used for post-disaster expenditure to finance long-term development instead. Regional catastrophe insurance pools allow small states to (a) secure ex-ante cost-effective financing for a rapid response to an event, and (b) access international insurance on competitive terms. Bank-supported regional catastrophe insurance pools such as the Caribbean Catastrophe Risk Insurance Fund or the Pacific Catastrophe Risk Assessment and Financing Facility can facilitate access to reinsurance markets on competitive terms by pooling country-specific risks into a single, better structured portfolio. Contingent finance facilities, like the Deferred Drawdown Option for Catastrophic Risk (CAT-DDO) program which supports countries with limited bridge financing in the event of a specified low-probability, high-impact disaster, can help some small states implement disaster risk financing strategies.

The Bank has invested in the blue economy, centered on the planet's oceans**.** It hosts the Global Program on Fisheries (PROFISH), a multi-donor trust fund (MDTF) to support fisheries and aquaculture. This provides significant support for small island nations, in particular. PROFISH investments of US$4.5 million have triggered US$1 billion in World Bank lending. The Pacific Islands Regional Oceanscape Program and the Caribbean Oceans and Aquaculture Sustainability Facility are similar Bank-supported initiatives to harness the economic potential of oceans sustainably.

The WBG is one of the largest financiers of clean energy activities in small states, with a total commitment of US$87 million in current and future lending operations and knowledge work. WBG clean energy support is funded by IBRD, IDA, Climate Investment Funds, the Global Environment

Facility, Energy Sector Management Assistance Program, SIDS DOCK Support Program, and the Asia Sustainable and Alternative Energy Program MDTFs.

Investments in transport and ICT address the core structural constraints small states face, reducing economic isolation, lessening barriers to trade, promoting tourism, and improving mobility. The Pacific island states leveraged the regional IDA envelope to finance airport infrastructure. IDA's ability to mobilize these funds simultaneously for participating countries enabled the synchronization of infrastructure investment across the region. World Bank support included the *Pacific Aviation Investment Program*, launched in 2012, to improve safety and security in international aviation; the *Pacific Regional Connectivity Program*, designed to increase the availability of international bandwidth for participating countries; and the *West Africa Regional Communications Infrastructure Project*, intended to increase the geographic reach of broadband networks and reduce costs of communication services in The Gambia, Guinea, and Burkina Faso.

Small states also tap Bank-administered financial intermediary funds for climate adaptation and disaster-related assistance. The World Bank administers the *Global Facility for Disaster Reduction and Recovery* (GFDRR), a global partnership that helps developing countries reduce their exposure to natural hazards and adapt to climate change. Supported by 34 countries and 9 international organizations, GFDRR provides grant financing and technical assistance to mainstream disaster and climate risk management. The World Bank Treasury Department provides financial products to help disaster-prone small states insure themselves against the high costs of post-disaster reconstruction.

The WBG is actively supporting small states in the human development and social sectors as well. Between FY05 and FY15, the Bank provided health, nutrition, and population support to roughly 18 small states. Over this period, the Bank's total financial support to small states in this areas amounted to US$252 million—about 50 percent in IBRD loans, 30 percent in IDA credits and grants, and 20 percent in grants financed by various trust funds. The WBG also sought to develop gender-sensitive disaster responses and gender-inclusive climate adaptation finance in small states. It mainstreamed sensitivity to fragility, conflict, and violence across the small state portfolio to ensure that WBG interventions did not aggravate existing inequities and undermine capacities for resolving local tensions.

Way Forward

Development in several small states may have to be premised on the long-term need for aid. Because many small states are unable to generate sufficient revenue, aid will remain a key source of foreign exchange. The effectiveness and eligibility criteria of such aid should not be measured by standard indicators such as increased rates of growth or GDP but by metrics linked to improved human development outcomes, consumption, regional integration, institutional capacity, and resilience.

IDA 18 discussions are ongoing, so it is premature to judge their outcomes and the level of resources that might be available to small states. However, in addition to proposing an ambitious IDA replenishment in aggregate, many of the agreed IDA themes resonate with issues that small states face. For example, IDA18 has a strong focus on climate change adaptation and resilience. Further, there is a specific focus in IDA discussions on resources for crisis response. Similarly, these ongoing negotiations consider a broad set of characteristics of vulnerability and how IDA resources can mitigate them. Finally, a number of proposals under consideration are of strong relevance to small states, and these proposals would greatly enhance the IDA support to small states in IDA18.

Support for labor mobility and outmigration is key. Increased investment in education, skills development, and health is required for labor mobility, which would reduce local unemployment and increase remittances.

Regional integration is critical, despite political hurdles. The Organization of Eastern Caribbean

States demonstrates that integration among neighboring states creates regional economies of scale. International development assistance could then support (a) shared tertiary education institutions; (b) combined specialized health care facilities; (c) a uniform regulatory framework for education, health care, and labor certification across adjacent small states; (d) market integration; (e) pooled audit, tax assessment, and financial management functions; and (e) where politically feasible, expanded jurisdiction of larger country regulatory institutions to cover adjacent small states, reducing the multiple regulatory regimes that impede regional integration. Investment in telecommunications and transport connectivity will help integrate states, reduce distance, and mitigate the negative consequences of smallness. For this, fiscal incentives and a robust telecommunications and transport regulatory environment are needed.

More support is required to prepare small states for extreme weather events or seismic shocks. This could include investment in climate-resilient infrastructure, improved spatial planning to provide for safe zones, enhanced access to contingency resources in the event of a disaster, and investment in early warning systems. It would also include support for long-term climate adaptation measures such as climate-resilient agriculture or fresh water conservation.

Innovative financing instruments will insure against market, climate, and disaster risk. Small states require risk management strategies tailored to their circumstances. International development partners can support such innovative financing instruments as catastrophic risk insurance, sovereign risk management, a deferred drawdown option, weather derivatives, regional risk pooling, and call options to cap the price of food, fuel and other commodities.

Similar innovation is required to reduce the debt burden of several middle- to high-income small states. Building on existing advisory and technical assistance efforts the World Bank Group provides, this could include measures to restructure the debt by converting short-term and high-interest commercial debt to more concessional and longer-term debt. It could take the form of a partial debt write-off in exchange for improved policy measures for fiscal and climate resilience. Such measures would restore fiscal buffers in the context of unpredictable international markets and climate.

Some small states are ineligible for concessional finance from major multilateral lenders because of their higher per capita income levels. Larger countries at similar income levels face very different sustainable development circumstances. As noted above, many small states are extremely vulnerable to frequent and severe weather events, which can entail heavy recovery costs, and they have different capacities to mobilize resources. A policy consensus would therefore be welcome on factoring in multiple dimensions of vulnerability when apportioning development finance, exploring options for additional, tailored resilience financing or lines of credit.

The Bank is currently exploring options to enhance support for middle income small states. Given per capita earnings that place them firmly in middle income, even upper middle income status, several small states are only officially eligible for IBRD resources. However, because of their high public debt levels, in recent years these countries have not been able to borrow from IBRD.

The IEG review highlighted the possibility that the WBG's new Business Model may make it challenging to fully engage on small states issues with financing, knowledge and convening services. However, to ensure adequate attention the WBG has made the small states agenda a stronger corporate priority. It has established a Small States Advisory Group to foster a consistent approach on small states and facilitate coordination. It has likewise established a Small States Secretariat to coordinate the corporate agenda. Finally, it may be worthwhile to consider a dedicated research program on small states.

As the WBG seeks to remain relevant to all client segments and retain global breadth and depth, it will seek to provide valuable knowledge, finance and convening services to address the unique development challenges of small states members.

1. Introduction

In recent years, small states have taken a collective stand in international fora to highlight the development challenges they face and urge more attention to their concerns. For example, small states are increasingly affected by extreme weather events, natural disasters, and rising sea levels, and their limited resource base and capacity make it difficult for them to respond. These issues are important to the wider world, as small states face climate-related challenges that others will eventually confront.[1] At the same time, small states grapple with a range of other development challenges, which the development community must help them address as part of their commitment to help reach the Sustainable Development Goals (SDGs).

At COP 21 small states demonstrated their political capital in international fora.[2] The small states have requested that climate- and disaster-related exposure be quantified and used in apportioning development finance. The international community is increasingly debating the small states' case for a new metric of vulnerability, and is looking for innovative mechanisms to augment the resources available to such states. Against this backdrop, at the October 2015 Small States Forum in Lima, Peru, the World Bank committed to take stock of its recent assistance to small states to better inform policy deliberations.

The Small States Forum takes place on the sidelines of the World Bank-IMF Annual Meetings. This Bank-organized event convenes the 50 small states members, along with the IMF, UN, OECD, Commonwealth Secretariat, Pacific Forum, Caribbean Growth Forum, Asian Development Bank, and Inter-American Development Bank. Initially scheduled as an opportunity for the President of the World Bank Group (WBG) to meet with the small state delegations in a single session, the Forum has evolved into a vibrant platform for policy debate. The small states have taken advantage of this opportunity to focus on what may well be the core development priority of the next half-century—climate and fiscal resilience.

1.1 Definition

The World Bank Group (WBG) defines small states as countries that either (a) have a population of 1.5 million or less, or (b) are members of the Small States Forum (see Table 1.1). These 50 countries are quite diverse in land area, location, levels of income, and economy. A few are landlocked, while several are island states; some are high-income countries, while many are middle- or low-income countries; a few are fragile and conflict-affected; and some are commodity exporters, while others are service- and tourism-based economies. There are small states in all regions, although most are located in the Pacific, Caribbean, and Africa/Indian Ocean.

1.2 Rationale

Despite their heterogeneity, small states share the constraint of "smallness"—that is, a small population, limited human capital, lack of economies of scale, a constrained domestic market, and increasing exposure to climate change and market shocks. Small states often have small land areas, and their population is generally under 1.5 million. Eight Pacific island countries are in fact micro-states, with

1 The United Nation's *Global Environment Outlook: Regional Assessments*, released in May 2016, estimates that more than 25 million people in Bangladesh, over 20 million people in China, and nearly 15 million people in the Philippines are at risk from rising sea levels. Countries such as Indonesia, Myanmar, Thailand, and Vietnam are likewise projected to face increased exposure to extreme weather events.

2 The small states demonstrated a similar leadership at the 2030 Agenda for Sustainable Development summit where they pushed for SDG 13 on climate action and SDG 14 on life below water i.e. oceans, seas and marine resources.

TABLE 1.1 List of Small States, by Region (2016)

AFR	EAP	LAC	MENA	ECA	SAR
Botswana	Brunei Darussalam	Antigua and Barbuda	Bahrain	Cyprus	Bhutan
Cabo Verde	Fiji	The Bahamas	Djibouti	Estonia	Maldives
Comoros	Kiribati	Barbados	Qatar	Iceland	
Equatorial Guinea	Marshall Islands	Belize		Malta	
Gabon	Federal States of Micronesia	Dominica		Montenegro	
The Gambia	Nauru	Grenada		San Marino	
Guinea-Bissau	Palau	Guyana			
Lesotho	Samoa	Jamaica			
Mauritius	Solomon Islands	St. Kitts and Nevis			
Namibia	Timor-Leste	St. Lucia			
São Tomé and Principe	Tonga	St. Vincent and the Grenadines			
Seychelles	Tuvalu	Suriname			
Swaziland	Vanuatu	Trinidad and Tobago			

populations of less than 200,000.[3] The limited land area and small population explain a number of development constraints. A small area means a proportionately greater exposure to natural disasters, with few or no safe zones to which populations can retreat. It entails increased competition for the use of the same piece of land for various purposes: setback zones, infrastructure, agriculture, residential neighborhoods, and so on. There is limited land area for economic activity, although the oceans may offer increased opportunity. Small populations mean that fewer individuals are available to run the economy and government, markets are smaller, local production is less remunerative, and per capita costs for the delivery of basic services are higher.

This report takes stock of WBG activities, programs, lending, and trust funds targeted at small states. It offers an inventory of WBG engagement, intended to update the Board on the WBG's program in small states. This paper is not a strategy document, an evaluation of the WBG program in small states (that exercise was undertaken separately and concurrently by the Internal Evaluation Group), or a systematic diagnostic of the constraints small states face. It is a stocktaking exercise to be used as background material for strategic discussions on WBG engagement with small states. The concluding chapter of this document identifies future levers, areas of potential deepening, and some strategic issues of relevance.

IEG recently concluded an evaluation of the WBG program on small states. The IEG Overview Report includes an evaluation of the WBG programs in the six Organization of Eastern Caribbean States (OECS) countries and nine Pacific Island countries (PICs). It also assessed four African country programs (Cabo Verde, Djibouti, Mauritius, and the Seychelles). The evaluation used a framework based on two pillars: (a) strengthening resilience, and (b) enhancing competitiveness. The program evaluations raise issues for WBG consideration in its engagement with small states relating to the thematic aspects of engagement and at both the country team and institutional levels. Box 1.1 summarizes the main IEG findings. WBG Management prepared this stocktaking report in a fully collaborative engagement with IEG, seeking and receiving IEG's inputs. Accordingly, the WBG supports the IEG findings. The WBG takes the

3 Federated States of Micronesia, Kiribati, Marshall Islands, Nauru, Palau, Smoa, Tonga and Tuvalu.

Textile Factory in Maseru, Lesotho (2009). Photo by John Hogg, World Bank.

following additional lessons from its engagement with small states and seeks to summarize them in this report.

The paper is divided into three main chapters, covering small states' economy, finance, and institutions; sustainable development; and human development. Each chapter discusses the sector constraints and describes the WBG's work to address these constraints through special arrangements, policy exemptions, innovative financing tools, and investment. Particular attention is given to how the WBG has innovatively released additional resources, often in partnership with other development organizations. Each chapter summarizes lessons learned, and a final chapter draws conclusions and suggests areas for further analysis and consideration. Annexes provide more detailed information.[4]

4 The Annexes draw attention to the IFC Program, levels of Bank financing in small states, trust funds relevant to small states, gender issues in small states, a glossary of funding and financing facilities at the WBG, a list of small state associations, and a tabulation of WBG engagement in energy and extractives in small states.

BOX 1.1 IEG Report, World Bank Group Engagement in Small States: The Cases of the OECS, Pacific Island Countries, Mauritius, the Seychelles, Cabo Verde, and Djibouti (Clustered Country Program Evaluation)

Strengthening Resilience

Debt management: The World Bank has a continuing role in helping client countries determine appropriate fiscal policy stances.

Disaster risk management: The World Bank can continue to fund resilience-building investments, capacity building for preparedness and disaster response, and work to ensure that other threats, such as earthquakes, are more widely addressed.

Access to climate resources: The World Bank has a role in helping countries access climate finance resources. The large number of funds imposes high costs on small states with limited capacity.

Non-communicable diseases: Continued engagement on NCDs will be crucial to strengthen social resilience. Support will be important for the design and implementation of prevention and treatment programs. The World Bank could also help with sustainable health care financing, and the IFC could help catalyze greater private investment in health care services.

Enhancing Competitiveness

Business constraints: The WBG needs a sharper focus on the most binding business constraints, using sector-specific lenses. Many WBG programs already take the approach of diagnosing and addressing constraints to competitiveness in the dominant sectors (fisheries, tourism, and agriculture), and this could prove to be a crucial complement in relieving bottlenecks to growth.

Strengthening regulation and supervision: The World Bank and other partners—notably the IMF—have a vital role in strengthening regulation and supervision and assuring system resilience to shocks. Increased access to finance is a crucial ingredient in enhancing competitiveness (particularly for SMEs).

Private sector participation in infrastructure service delivery (e.g., ICT): Facilitating greater private sector participation in infrastructure service delivery—an area of World Bank Group comparative advantage—deserves continuing effort. The World Bank can also contribute on the policy and regulatory framework needed to encourage renewable energy development, while IFC actively helps attract the necessary private capital to underpin widespread production and use.

Operational Framework for Engaging with Small States

Country level: Contingency planning and the use of contingent financing instruments such as CAT DDOs have a key role to play in enhancing World Bank responsiveness to the shocks that small states suffer. In addition, thematic selectivity and moderating the number of delivery vehicles reduce unit transaction costs and, crucially, reduce the strain on the client country's limited institutional capacity. The WBG also needs to find ways around constraints related to the current business model—in terms of financing envelopes and administrative budgets.

Institutional level: Issues that merit consideration include whether small state IDA allocations can be made more responsive to vulnerability, and whether small states-specific World Bank and IFC financing instruments are worth developing. Consideration could also be given to ways of surmounting the challenges that the World Bank faces in engaging with high-income small states. More intensive knowledge brokering and pursuing partnerships at the institutional level could serve small states well. The Small States Forum, for example, could be modified into a more continuous platform.

2. Small States: Equitable Growth, Finance, and Institutions

This chapter outlines small states' economic constraints, financial shocks, and low institutional capacity to respond to market volatility. It gives particular attention to the region-specific economic constraints in the Caribbean, the Pacific, and the Africa/Indian Ocean region and explains how the WBG has worked to help small states address these hurdles.

2.1 Economic Features

Small states are disproportionately exposed to trade volatility. They have highly concentrated export sectors, an inevitable consequence of small size; and because they export a limited number of products to a handful of trade partners, they are more vulnerable to fluctuating terms of trade—market risks are not diversified. Shifting terms of trade and fewer trade partners result in volatile growth.

Small states are frequently dependent on tourism and remittances for revenue, as the six OECS countries[1] illustrate. Given many small states remoteness and natural beauty, tourism accounts for more than 50 percent of their export earnings, more than 30 percent of their GDP, and 30 percent of total employment. However, tourism depends on the health of the global economy, so these countries are deeply vulnerable to factors beyond their control. The OECS suffered disproportionately during the global financial crisis in 2008, when the number of visitors from the United States declined sharply. The Pacific island countries (PICs) are similarly dependent on remittances and international aid, both of which are vulnerable to global macroeconomic trends.

Remittances provide a lifeline for small states, though these resources require careful management. There are 5 million migrant workers from small states, 69 percent of whom work in OECD countries.[2] Jamaica has some 1.1 million migrant workers overseas, and Guyana has 0.5 million.[3] More Dominicans reside outside Dominica than in the country itself,[4] and 68 percent of Samoa's population has migrated. In 2013, remittances represented US$6 billion in net inflows to small states, significantly higher than aid amounts:[5] for example, Jamaica received US$2.2 billion through remittances in 2013,[6] and remittances represented 23 percent of GDP in Samoa and Lesotho in 2012. Diaspora savings, estimated to be over US$20 billion for small states, can be mobilized for investment. In 2012 Guyana had the highest diaspora savings-to-GDP ratio, at 93.8 percent.[7] However, remittances are also vulnerable to global market conditions and therefore, like other resources subject to fluctuations, need to be carefully managed to mitigate risks.

Remoteness: a tax on trade. Small size, distance from major markets, geographic location away from shipping routes, and low import and export volumes mean that very few shipping lines serve small island states and lead to high costs of trade.[8] Access to global markets is costly, and firms are less able to integrate into global value chains. The PICs are the most remote countries on earth. While the

1 Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and Grenadines.

2 UNDP 2013.

3 The populations of Jamaica and Guyana are 2.7 million and 0.8 million, respectively.

4 Dominicans living overseas now equal 107 percent of Dominicans living in-country.

5 Development Prospects Group, World Bank.

6 World Bank, *Migration and Development Brief 22*, October 2013.

7 World Bank, *Migration and Development Brief 23*, 2014.

8 Pacific Islands Systematic Country Diagnostic, World Bank, 2015.

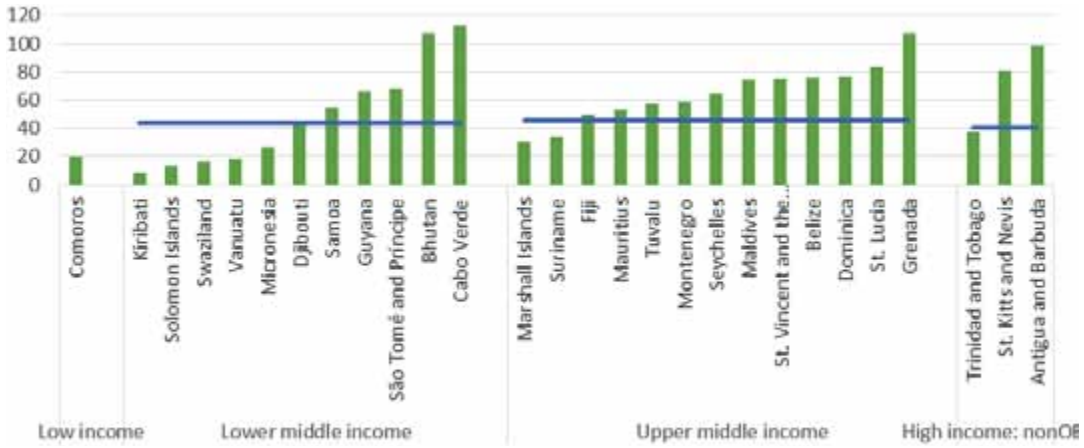
Caribbean islands are 8,000 km, and the Indian Ocean states less than 10,000 km, from centers of economic activity, the Pacific Islands are on average 12,000 km from centers of economic activity.[9] This remoteness means that imported inputs are expensive. In any case, production costs are higher for non-tradable goods, given the absence of local economies of scale; thus local firms face inflated costs for both tradable and non-tradable inputs. The landlocked states in sub-Saharan Africa are subject to similar high costs of remoteness.

Fixed government costs are higher in small remote states. Basic public services—education, health care, basic infrastructure—must be provided regardless of population size. There is a certain level at which this provision cannot be further divided, even if the need for the service is insufficient to fully utilize what is being provided. This makes provision disproportionately costly. Lack of economies of scale pushes up the cost of service delivery, and the relatively small tax base is insufficient to meet that cost.

Small states tend to have high debt levels. The limited potential for domestic revenue generation, combined with high costs of services, may lead to an unsustainable fiscal balance. The public debt of small states as a proportion of GDP is around 9 percentage points higher than the global average for larger states. However, small state debt varies significantly across countries, regions, and income groups. Timor-Leste, for example, has negligible public debt, while Grenada's public debt before its recent commercial debt restructuring was 108 percent of GDP. Public debt levels are highest on average in the Caribbean small states, at 71 percent of GDP; 10 Caribbean countries currently have debt-to-GDP ratios exceeding 60 percent, and three exceed 100 percent. The public debt levels of the Pacific small states average a relatively low 37 percent of GDP, and those of small states in Africa and the Indian Ocean average 57 percent of GDP.[10]

Higher overall levels of debt are more pronounced for countries in the upper-middle-income category (Figure 2.1). In the more developed economies, domestic debt markets have absorbed government borrowing, and domestic debt is an important factor in overall higher debt levels. Low-income small states with access to concessional financing have a larger proportion of their total debt with multilateral and bilateral creditors. Middle-income countries

FIGURE 2.1 General Government Debt as Percent of GDP, and Income Group Averages



Source: Addressing Debt Vulnerabilities in Small States (2016), based on World Economic Outlook data.

9 These distances were calculated based on the average distance from a small state capital to large cities across the globe. The Caribbean states largely trade with North America and with Europe, the Pacific islands with Australia and China, and the Indian Ocean states with Europe and the Middle East.

10 World Bank Discussion Paper: Addressing Debt Vulnerabilities in Small States: The Potential Role of New Financing Instruments. March 2016.

with easier access to international capital markets have more diversified portfolios, with greater reliance on commercial creditors.[11]

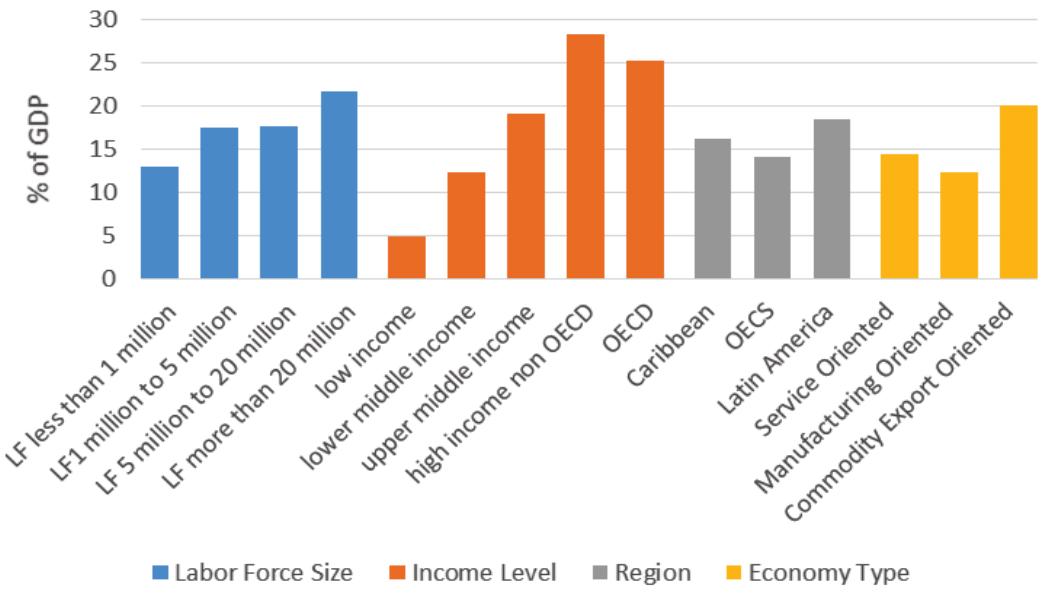
Frequent natural disasters increase debt levels. Natural disasters affect economic activity, reducing revenue and exports and increasing fiscal and external deficits. Investing in disaster preparedness and meeting the expense of post-disaster reconstruction add significant fiscal pressures. However, exposure to natural hazards is not the only driver of debt: small states' debt accumulation has also been driven by large primary and current account deficits, slow growth, and high financing costs.

Countries with a smaller labor force and a lower median income tend to have less savings as a percentage of GDP. Figure 2.2 shows Caribbean savings in comparison to size, income, and regional groupings. It indicates that the OECS countries tend to have less savings as a percentage of GDP than the Latin America region as a whole, while the manufacturing and service-oriented Caribbean states tend to have less savings as a percentage of GDP than the commodity-export-oriented Caribbean countries.

Reduced fiscal space results in low domestic savings. High unit costs and large wage bills limit expenditure compression, and low savings in turn leads to reduced investment, decreased readiness to respond to natural disasters, and higher debt accumulation—and thus lower long-term growth. Therefore, particularly in the Caribbean, sustainable long-term GDP growth is a challenge.

The private sector in small states is less able to benefit from economies of scale. The domestic market is limited by the small population. This

FIGURE 2.2 Long-Run Savings in the Caribbean and Other Regions: 1970–2013



Note: The figure was calculated by first taking the average savings rate across each group in each year. The bar then represents the median value of that series. **Labor force groups**: less than 1 million, 1 million to 5 million, 5 million to 20 million, and larger than 20 million (upper border included in higher category). **Country income groups/levels** are defined as in the World Bank WDI. **Caribbean** includes Antigua and Barbuda, The Bahamas, Belize, Barbados, Dominica, Dominican Republic, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, Suriname, Trinidad and Tobago, and St. Vincent and the Grenadines. **OECS** includes Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. **Service-oriented economies** includes Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. **Manufacturing-oriented** includes Belize, and the Dominican Republic. **Commodity-export-oriented** includes Guyana, Suriname, and Trinidad and Tobago. **Latin America** includes Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador. El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela.

Source: Forthcoming LCR Flagship Report on Growth in the Caribbean, based on the World Bank's World Development Indicators database.

11 Ibid.

pushes up the costs of production, lowers the return on investment, and narrows economic opportunities. It is difficult for local firms to trade internationally, as the costs of compliance associated with operating across multiple jurisdictions are high. Business-enabling environment reforms are therefore less likely to be sufficient to ensure global competitiveness.

The national business environment faces several constraints. The weak policy environment negatively affects competition, the cost of starting a business, market entry and trade, availability of land, and reliability of contract enforcement and systems of legal redress. Lack of access to finance is also an important constraint. The range of banking services is limited, particularly for small and medium enterprises (SMEs) and rural businesses and entrepreneurs. There is little competition in the financial sector. Commercial banks mainly lend to larger, better-established firms with strong balance sheets, so that small firms are often unable to obtain credit for investment in capital equipment. Moreover, the absence of a strong communications and technology base affects local firms. Because small states often have poor Internet access and limited technical capacity, local firms are not well placed to leverage the rapid rise in innovation and use of technology that brings new possibilities for business connections, processing, and transactions.

2.1.1 Caribbean States

The Caribbean states are small open economies that benefit from their proximity to North and South America. Many are middle- to high-income states, and most have transitioned from agriculture or mining to a service-driven economy anchored on tourism and financial services. They differ in size,[12] income levels,[13] poverty incidence,[14] economic structure, and macroeconomic challenges. However, they are subject to frequent natural disasters and the effects of climate change, and are vulnerable to global market volatility. They can be broadly divided into tourism- and service-based economies on one hand, and commodity-exporting states on the other.

Several Caribbean states have experienced weak growth in the last decade. In the early 1990s, the region experienced a dramatic shift in its external trade position when it lost preferential access to European agricultural markets. Since then, annual GDP growth has averaged 2.7 percent for Caribbean Community (CARICOM) countries—at the bottom end globally in terms of growth performance.

Tourism-based Caribbean economies, such as Jamaica and the OECS, were hit hard by the 2008 economic crisis. They have since been trapped in a cycle of low growth, high debt, and limited fiscal space, heightened by external shocks. Tourism, remittances, foreign direct investment (FDI), and official development assistance declined. Growth rates plummeted, debt and fiscal imbalances increased, and labor market conditions deteriorated. Over the last few years, the recovery in the United States brought about a more favorable external environment and a rebound in tourism. Serious structural challenges remain, however: low productivity and competitiveness, a poor investment climate, inadequate skills, high logistics costs, poor transport and ICT connectivity, and one of the highest costs of electricity in the world. Weaknesses in the financial sector impede the ability to invest. Unemployment has grown, especially among youth. Poverty, already high before 2008, has worsened. While Caribbean countries have made overall progress in achieving the SDGs, including in the areas of education and maternal and child health, challenges remain in reducing hunger, increasing access to potable water, and reducing poverty.[15] Gender gaps persist with regard to the labor market, reproductive health, and poverty.

12 From the small islands states of the OECS (600,000 inhabitants in total) to Jamaica (2.7 million people).

13 GDP per capita of US$3,600 in Guyana and US$16,300 in Barbados.

14 From 12 percent of the population living on less than US$4 a day in Antigua and Barbuda to 64.3 percent in Guyana.

15 However, adequate diagnostics are constrained by the scarcity of data.

In contrast, commodity-exporting Caribbean countries such as Guyana, Suriname, and Trinidad and Tobago sustained higher growth rates for the most part. Even so, their dependence on agriculture and natural resources leaves them vulnerable to commodity price fluctuations: in 2014 and 2015 their performance declined in response to lower global commodity prices. Poverty rates in commodity-exporting Caribbean countries improved in the past 8 years,[16] and significant gains were made in health, education, and environmental sustainability. However, the terms of trade turned unfavorable in 2014 and 2015, exposing numerous structural bottlenecks: a suboptimal investment climate, inadequate financial environment, limited access to finance, weak infrastructure, and high energy costs. Significant geographic and ethnic disparities remain.

2.1.2 Pacific Island Countries

The PICs share the characteristics of small size, remoteness, internal dispersion, fragile environments, and high exposure to shocks. Income levels in the PICs grew by barely one percent on average each year over the last two decades—far less than all other regions. It is estimated that less than 50 percent of the PICs' workforce is employed, and in most countries employment levels have declined. Therefore, given low growth and limited employment prospects, remittances and aid are important to the islands' economies. While economic openness is an inevitable feature of smallness, it exposes the PICs to global market fluctuations.

The PICs face high budget and trade deficits. Declining aid inflows and remittances reduce countries' capacity to sustain current levels of income and service delivery. While public expenditure tends to be high relative to the national budget in PICs, the absolute size of the public sector is still very small, and the islands lack the financial and human resources required for adequate public services in education, health care, or social services. If aid from development partners did not fund a large share of public expenditure, there would be an increasing risk of debt distress.

Natural disasters and the impact of climate change threaten the physical and economic viability of several PICs. The frequency and intensity of natural disasters result in significant financial and asset losses. The atoll nations of Kiribati, Marshall Islands, and Tuvalu are particularly vulnerable to rising sea levels; with their highest elevation only a few meters above sea level, these countries may well be submerged by 2100. Since about 60 percent of infrastructure assets in the PICs are within 500 meters of the coastline, other countries are also vulnerable to sea-level rise. The land and marine environments are under pressure from overpopulation, unplanned urbanization, and overexploitation. Several island states that are located in the Pacific ring of fire are vulnerable to seismic activity.

The incidence of extreme poverty varies across the PICs. It is highest in Timor-Leste (47 percent as at 2007) and the Solomon Islands, but Kiribati, Vanuatu, Federal States of Micronesia (FSM), and possibly the Republic of Marshall Islands (RMI)[17] also have rates of extreme poverty (US$1.90 a day in constant 2011 dollars) that are higher than 10 percent. In the other countries—including Fiji, Samoa, Tonga, and Tuvalu—the share of the population living in extreme poverty is 4 percent or less. However, data on the poverty and income trends of the bottom 40 percent are scant and unreliable. Household surveys are typically outdated and difficult to undertake because of the challenge of the geographically dispersed population.

Less extreme poverty (US$3.10 a day in constant 2011 dollars) is more widespread across the PICs. Many poor people live on outer islands, where poverty is structural and persistent. Some inhabited islands in Kiribati are coral atolls where almost no

16 That said, there are insufficient data to adequately assess the incidence of poverty.

17 Data on poverty in RMI are insufficient for a quantitative assessment.

Monk in prayer, Bhutan (1997). Photo by Curt Carnemark, World Bank.

subsistence agriculture is possible. Living on capital islands means greater economic opportunities and improved access to services and infrastructure.

Agriculture and coastal fishing help meet subsistence needs. While opportunities to export agricultural products are likely to be limited, opportunities for small-scale local trade, import substitution to supply the tourism sector, and selected niche and cash crop exports offer possible economic gains. The task of revitalizing neglected agriculture sectors will require sustained and substantial investment. Low-cost and low-quality food imports crowd out domestic production.

Deep sea fisheries offer scope for improved income. Recent gains in revenue generation from fishing licensing through regional approaches need to be sustained, and there is significant scope for strengthening and expanding such arrangements. Important areas of development include enhanced transparency and market-based approaches, such as auctions, for the trade in vessel days. Expanding the scheme to long-line tuna fishing and to Albacore tuna may further increase current account revenue for the PICs and support the sustainable management of fish stocks.

2.1.3 Africa/Indian Ocean States

The African small states can be broadly divided into the continent states[18] on one hand and the island states on the other. Each category faces specific development constraints.

African continent states. Botswana, Lesotho, and Swaziland are small landlocked states with a high poverty headcount and some of the highest income inequality in the world. Namibia, although it has access to the sea, shares these characteristics. These countries have accumulated low levels of fixed assets and have limited human capital for historic and geographic reasons. They have faced economic, pandemic, and climate shocks. Common features include limited implementation capacity, limited fiscal space to cushion against external volatility, geographic constraints to effective service delivery, and fiscal vulnerability due to dependence on commodity exports and revenue-sharing under the Southern Africa Customs Union. These countries face high unemployment, a high disease burden (tuberculosis, HIV/AIDS), water scarcity, and natural resource vulnerability. They are effectively subsidized by South Africa. Southern Africa Customs Union transfers as shares of GDP are 27.5 percent in Lesotho, 18.6 percent in Swaziland, 10.5 percent in Namibia, and 9.7 percent in Botswana; they account for 30–50 percent of the government expenditure in these countries. The projected sharp drop of these flows will necessitate deep fiscal adjustment in the near future. Workers from these countries tend to move to South Africa for better employment prospects; Lesotho, for instance, has 300,000 citizens working in South Africa, and remittances account for 23 percent of its GDP.[19] One other African small state, Guinea-Bissau, is located in West Africa and has one of the lowest GDP per capita rates in the world; more than two thirds of the population lives

18 That is, landlocked and coastal states situated on the African continent.

19 Lesotho's total population is 2 million. Formal sector employment consists of female workers in the apparel sector, male migrant labor, primarily miners who work in South Africa for 3–9 months, and employment in the Government. Lesotho is now the largest exporter of garments to the US from sub-Saharan Africa

below the poverty line. An extended period of political stability has resulted in increased macroeconomic balances.[20] Djibouti, while located in the African continent, is mapped to the MNA region of the Bank. It offers a fascinating set of challenges. While its geopolitical significance and port facilities generate significant external support, poverty and inequity remain pronounced. It is very small and has few natural endowments.

African island states. The African island states—Cabo Verde, Comoros, Mauritius, São Tomé and Principe, and Seychelles—face the generic challenges of smallness: limited land, high food and fuel imports, and vulnerability to devastating natural disasters. Energy costs are high, and lack of land limits the use of solar and wind energy. Limited access to energy reduces competitiveness, and limited capacity to cope with natural hazards translates into fiscal costs. Fragility is a particular concern in Comoros, given its history of political instability and the 21 coups/coup attempts since independence in 1975. Mauritius managed a transition to domestic manufacturing, albeit confined to textiles and ICT; it hopes to graduate to higher-value-added manufacturing. The ICT revolution has opened new avenues there for global competition in services. Mauritius is also a financial hub. However, the inadequacy of economic opportunities has spurred significant migration overseas. Seychelles, initially a plantation economy, has positioned itself as a niche for high-end tourism, but its reliance on tourism makes it prone to global volatility. Cabo Verde, in spite of having few natural resources and being a semi-desert, boasts the highest living standards in West Africa. It has one of the fastest growing tourism industries in the world and has a significant fisheries sector.[21]

The blue economy offers opportunity. In the Seychelles, for example, the fisheries sector accounts for an estimated 8.4 percent of GDP, employs 10 percent of the workforce, and is one of main sources of foreign exchange earnings. Fisheries are mostly industrial and are centered on tuna catches and tuna processing. Almost 300,000 tons of tuna are reported to be fished each year inside the more than 1.3 million km^2 Exclusive Economic Zone, primarily by licensed foreign vessels. Nevertheless, the artisanal fisheries are of paramount importance to the Seychelles, especially in terms of food security, as fish proteins account for 47.6 percent of the country's total intake of animal proteins. The potential for aquaculture remains seriously underexploited.

There are small state success stories. Members of the Small States Forum include countries such as Bahrain, Brunei, Cyprus, Estonia, Iceland and Malta which have for various reasons been able to successfully manage the constraints of smallness.

- Bahrain, with a population of 1.3 million, has one of the fastest growing economies in the Arab world and one of the freest economies in the Middle East. Its banking and financial services sector benefitted from the regional boom that was driven by oil. The country is also a center of petroleum production and processing, and it is well connected to its neighborhood.
- Brunei, with a population of 415,000, is a wealthy economy where crude oil and natural gas production accounts for about 90 percent of GDP. Substantial income from overseas investment supplements revenue from domestic production. Brunei is also well linked to its immediate neighborhood.
- Cyprus, with a population of 1.1 million, had a GDP per capita of approximately US$26,000. Integration with the European market provided room for economies of scale which would otherwise have been absent. It is situated on shipping routes close to the European market. Tourism

20 With a population of 1.6 million, Guinea-Bissau is considered by experts to be at risk of becoming a narco-state where cocaine is transshipped from Latin America to Europe, generating illicit revenue.

21 It merits attention that the island states have extensive maritime exclusive economic zones. Mauritius and Seychelles intend to develop their ocean economy. Mauritius, for instance, is going forward with the Deep Ocean Water Applications to replace energy-intensive traditional air conditioning systems. Seychelles is working on a Debt Swap Initiative for marine protected areas.

Female student of the Windhoek Vocational Training Centre in Khomasdal, Namibia (2007). Photo by John Hogg, World Bank.

revenue, largely from Russia and the United Kingdom, accounts for about 10% of GDP. Cyprus is currently positioning itself as a base for offshore business given its low tax rate.

- Estonia, a high-income country with a population of 1.3 million, is often described as a "Baltic tiger." Its proximity to north European markets, its location between eastern and western Europe, its competitive cost structure, and its highly skilled labor force explain its economic success.
- Malta, with a population of under 450,000, is well linked to continental Europe and North Africa, and benefits from its proximity to the Suez Canal and the transshipment business. With its highly educated workforce and strong legal system, it is a global player in cross-border fund administration.

2.2 Macroeconomic Context

A brief outline of the current macroeconomic context pertaining to small states is provided (see Table 2.1). This summarizes aggregate macro-fiscal trends in recent years.[22]

Lower oil prices offer a modest growth boost for oil importing small states. The recent drop in oil prices and other factors led to slight upward revisions of real GDP growth in 2016–17 in most cases, compared with late-2015 projections. The strengthening economic recovery in North America benefited tourism in the Caribbean, while some Indian Ocean and Pacific tourism destinations (Mauritius, Fiji, Maldives, Seychelles, and Vanuatu) have seen strong growth in tourist arrivals from Australia and

22 The section is based on data extracted from the IMF's April 2016 World Economic Outlook (WEO).

TABLE 2.1 Aggregate Macro-Fiscal Trends for Small States, 2009–2018

Current WEO, small states	2009–13	2014	2015	2016	2017	2018
Real GDP growth	1.8	2.9	2.6	2.9	3.2	3.4
Real GDP per capita growth	0.5	1.1	1.4	1.4	1.5	1.9
Inflation, CPI percent change	4.0	2.1	1.4	2.6	2.6	2.8
General government net lending/bowrrowing, in percent of fiscal year GDP	–1.7	0.2	–2.1	–4.1	–3.3	–2.7
Current account balance, in percent of GDP	–10.6	–9.0	–7.8	–9.7	–9.6	–9.0
Public debt, in percent of GDP	56.7	58.5	60.9	63.5	63.6	63.1
Import of goods and services, in percent of GDP	64.7	64.3	63.9	62.6	61.6	60.6
Export of goods and services, in percent of GDP	40.8	40.9	39.4	39.1	39.6	39.8
General government revenues excluding grants, in percent of GDP	28.0	30.7	31.1	29.8	29.7	29.6
General government expenditures, in percent of GDP	37.8	38.0	40.5	41.0	39.7	38.4
Current expenditures, in percent of GDP	29.3	30.1	32.5	31.0	30.7	30.1

Real GDP growth, small states	2009–13	2014	2015	2016	2017	2018
All small states	1.8	2.9	2.6	2.9	3.2	3.4
Regional groups						
Caribbean	0.4	2.5	1.3	2.0	2.5	2.6
Asia Pacific	2.6	2.9	3.3	3.3	3.3	3.7
Africa	3.2	3.8	3.2	3.4	4.0	4.2
Europe	0.2	1.8	4.1	4.7	2.5	2.5
Analytical groups						
Commodity exporters	3.5	2.2	1.9	2.0	2.9	3.0
Tourism based	0.7	3.3	2.4	2.8	3.0	3.1

Inflation, CPI percentage change, small states	2009–13	2014	2015	2016	2017	2018
Small states	4.0	2.1	1.4	2.6	2.6	2.8
Regional groups						
Caribbean	3.0	1.7	0.6	3.4	2.6	2.8
Asia Pacific	4.1	2.2	1.4	1.9	2.4	2.8
Africa	5.9	3.0	2.8	2.8	3.0	3.0
Europe	2.6	–0.7	1.6	0.9	1.3	1.6
Analytical groups						
Commodity exporters	4.7	2.6	1.5	6.6	4.3	3.8
Tourism based	3.2	1.3	0.7	0.9	1.8	2.3

China. After a slight decline in 2015, per capita GDP growth in tourism-based small states increased to 2.25 percent in 2016, and is projected to remain around 2.8 percent in 2017–18. A few tourism-based economies fared even better: Mauritius has had sufficient policy space to support growth through expansionary domestic policies while the Seychelles is benefitting from a program of strong structural reform initiatives.

Inflation in small states is projected to remain generally low, reflecting the anchoring role of pegged exchange rates and lower international commodity price.[23] After temporary spikes in

23 Eighteen small states (primarily but not only in the Caribbean) peg to the US dollar or use the dollar as legal tender; three African small states peg to the Euro; and five PICs peg to baskets of major currencies. Only two small states follow a floating exchange rate regime (see 2014 Annual Report on Exchange Arrangements and Exchange Restrictions).

inflation in 2008 and 2011 driven by international food and fuel prices, inflation averaged 2.5 percent in 2013 and 2014. Across small states, differences in inflation tend to reflect demand strength, with slow-growing tourism-based economies experiencing the lowest inflation on average. Inflation declined further in 2015, mostly as a result of lower global oil prices, before increasing slightly in 2016.

2.3 World Bank Group Program

The WBG has sought to help small states strengthen their sustainable fiscal and debt management through numerous activities aimed at improving public revenue and expenditure policies and management, debt management, and broader public sector performance. This section provides an overview of WBG programs to help small states address macroeconomic constraints and mitigate exposure to volatile global markets. It summarizes the WBG instruments to support small states, then highlights how the WBG applies those instruments through the work of the International Development Association (IDA), the Trust Fund Department, the WBG Treasury, and the International Finance Corporation (IFC).

2.3.1 World Bank Instruments to Address Small State Structural Constraints

The World Bank has several instruments available to channel IDA and IBRD resources to small states: development policy financing (DPF), investment project financing (IPF), sector work, and technical assistance and reimbursable advisory services (RAS). In addition, the Bank plays a convening role vis-à-vis the development community. (Annex F provides a glossary of WBG funding/financing facilities and instruments that are available to small states.)

DPF has been used extensively to promote economic resilience to market volatility. DPFs have been the primary instrument in Seychelles and Mauritius. In Mauritius the focus has been on enhancing competitiveness and promoting the private sector through a programmatic series of four DPFs; in Seychelles the main focus was on fiscal sustainability, part of the Bank's reengagement after the 2008 debt crisis. The DPF instrument has also been important for Comoros, with a focus on public financial management. Other examples—Grenada, Jamaica, Tonga, and Kiribati—are illustrated below. The most recent DPL in Jamaica is a policy-based guarantee, intended to leverage additional private funding on better terms than Jamaica would be able to raise on its own.

Economic and sector work is widely used in small states to fill knowledge gaps and provide strong analytical bases and sector knowledge for lending operations. Recent examples include a Development Financial Sector Assessment in Jamaica, a Country Economic Memorandum in the OECS, Systematic Country Diagnostics in Belize and in the Pacific, and strategy documents such as the forthcoming Regional Partnership Framework for the Pacific. In the OECS, Bank inputs to help build capacity for debt management were leveraged as part of a larger effort coordinated through the Eastern Caribbean Central Bank (ECCB) and involving the IMF and other partners. Capacity at both the ECCB and in the individual countries for debt management assessments, medium-term strategies, and sustainability analysis was strengthened. Separately in the OECS, the Bank introduced the Comprehensive Debt Framework, a general framework for approaching debt management in small states that articulates the multiple policy levers affecting public debt—including growth and the underlying business climate, the fiscal position, resilience to natural disasters, and active debt portfolio management—and their interconnectedness.[24]

Regional technical assistance (TA) and analytic work is becoming increasingly important, and RAS are gaining a higher profile. While the World Bank's TA and analytic work in the Caribbean has

24 Independent Evaluation Group: *World Bank Group Engagement in Small States: The Cases of OECS, Pacific Island Countries, Mauritius, Seychelles, Cabo Verde and Djibouti: Clustered Country Program Evaluation: Overview Report*. May 25, 2016.

traditionally been country-specific, in recent years an increasing part has focused on regional issues to promote increased attention to regional solutions. Examples include TA toward (a) improving the capacity for debt management, specifically through the World Bank's Debt Management Facility, a multi-donor trust fund adopting a programmatic approach providing debt management technical advisory in 17 small states; (b) the establishment of a regional public-private partnership unit; (c) the preparation of a regional trade facilitation strategy; and (d) initiatives to reduce crime and violence. The Bank is currently undertaking "Pacific Possible," a series of research initiatives to explore potential new areas of transformation such as deep sea mining, labor mobility, or the knowledge economy. RAS are widely used in Seychelles and increasingly in Mauritius. In fact, the Seychelles government paid for multiple RASs, which significantly contributed to the success of WBG support there.

Convening by the WBG is critically important in small states. The Caribbean Growth Forum (see Box 2.1), an innovative policy platform championed by Caribbean prime ministers, is an example of TA leveraging the WBG's convening power, knowledge, and ability to mobilize financing in small states. The WBG has also worked with Australia and New Zealand to support the Pacific Islands Forum Secretariat.

2.3.2 IDA and Small States

Applying these instruments, the WBG seeks to provide IDA financing for eligible small states. IDA financing for small states has increased over the last few replenishments in recognition of small states' investment needs, limited creditworthiness, restricted financing options, and high vulnerability to natural disasters. IDA measures that are relevant to small states are (a) Small Island Economies Exception, (b) minimum base allocation, (c) Regional IDA, and (d) IDA Crisis Response Window. The first two are described in this section; Regional IDA and the IDA Crisis Response Window are described in the next chapter under the rubric of climate resilience, disaster response, and infrastructure investment.

BOX 2.1 The Caribbean Growth Forum

The Caribbean Growth Forum (CGF) is a policy platform launched by Caribbean heads of state in 2012 to accelerate inclusive private-sector-led growth reforms and foster greater focus on results, transparency, and accountability. The first-ever regional public-private dialogue platform of its kind, the CGF is anchored on collective action from governments, the private sector, and civil society to implement pro-growth reforms and lift countries out of crippling debt.

With the CGF, the WBG has helped achieve significant results by using its convening power and global knowledge in the context of limited lending envelopes. The WBG facilitated high-level policy dialogue on the difficult question of how to accelerate growth in small states, generated quality knowledge on relevant issues, mobilized funding from regional institutions and other development partners, and worked toward the creation of sustainable PPD platforms to anchor the future growth agenda of Caribbean countries. The CGF approach can be used as a model for other small states confronted with similar challenges.

Through the involvement of more than 2,500 people across 15 countries of the Caribbean, the CGF is helping to establish a region-wide social compact by engaging citizens as well as business and community leaders. The CGF's innovative methodology has led to the identification of 495 reform actions. To date, over 100 reforms have been implemented in 12 Caribbean countries to improve the business climate, boost skills, and enhance connectivity.

The CGF is also a knowledge platform around three themes: investment climate, skills and productivity, and logistics and connectivity. It has fostered peer learning and mobilized small states experts within the WBG and academia as well as trade negotiators and private investors from around the globe.

The Small Island Economies Exception, introduced in 1985, provides small island states that have a population of less than 1.5 million with continued access to concessional IDA finance, even if their per capita income exceeds the IDA operational cut-off. The exception recognizes that these small islands (a) have economic characteristics similar to those of low-income countries (narrow economic base, weak institutions, high transportation costs, and limited skills base); (b) are exposed to frequent exogenous economic shocks; (c) are vulnerable to natural disasters; and (d) have marginal creditworthiness. Of the 15 countries that have access to IDA under the exception, 10 are classified as IDA-only and 5 have Blend status.[25] The terms of IDA credits[26] were revised for IDA 17, but the small island states retained more favorable terms—that is, longer maturities and grace periods—than regular IDA credits. IDA credit terms for small island economies include a 40-year maturity, 10-year grace period, and a principal repayment profile of 2% principal repayment annually in years 11–20 and 4% annually in years 21–40. This implies a higher grant element for small island states of 61 percent, versus 53 percent for regular IDA credit.

Minimum base allocation. The IDA Performance-Based Allocation for each country entails a minimum financing envelope. This base allocation has increased since IDA13 to SDR 4 million per year in IDA17.[27] The increase provides small island states higher per-capita financing than they would be entitled to otherwise.

Most small island states are assessed to be at high risk of debt distress. Reflecting the IDA grant allocation framework, IDA provides financing in the form of grants rather than credits to FSM, Kiribati, Maldives, RMI, São Tomé and Principe, and Tuvalu.[28]

IDA financed several development policy operations (DPOs) in the Pacific, Caribbean, and African/Indian Ocean small states to address fiscal constraints through improved public financial management. In the Pacific, the DPF instrument proved important for effective donor alignment in support of dialogue around a common reform agenda.

- In Tonga, the fiscal situation had worsened in part as a consequence of the global food and fuel price crisis and the global financial crisis of 2008, and debt was rising sharply to be above 40 percent of GDP by 2010.[29] Following an energy sector DPO of approximately US$5 million in FY11, IDA supported two programmatic series of two DPOs each in Tonga from FY12–15,[30] with a total value of approximately US$21 million, to improve the mobilization and use of public resources and facilitate the recovery of the economy and public finance. The two series also continued to support the Tonga energy road map and private sector development. Australia, the Asian Development Bank (ADB) and the European Commission provided budget support aligned with these operations.
- In Kiribati, IDA similarly delivered a programmatic series of two DPOs[31] with a total value of approximately US$8 million. This was intended to improve fiscal sustainability in the context of declining revenue, improve medium-term

25 The countries entitled to the Small Island Economies Exception are Cabo Verde, Dominica, Grenada, Kiribati, Maldives, RMI, Micronesia, Samoa, São Tomé and Principe, St. Lucia, St. Vincent and Grenadines, Tonga, Tuvalu, and Vanuatu.

26 Beginning with IDA 17, credits for IDA-only countries have a maturity of 38 years with a 6-year grace period, with a straight-line amortization of principal. The lending terms for small island countries remain unchanged.

27 A proposal to increase this further is under consideration in the IDA18 Replenishment Process subject to the recommendation of the IDA deputies and approval of the WBG Board.

28 Bhutan, Cabo Verde, Djibouti, Dominica, Grenada, Guyana, Lesotho, St. Lucia, St. Vincent and the Grenadines, and Timor-Leste were recipients of IDA credits under IDA17. Kiribati, RMI, FSM, São Tomé and Principe, and Tuvalu were recipients of IDA grants under IDA17. Comoros, The Gambia, Guinea-Bissau, Maldives, Samoa, Solomon Islands, Tonga, and Vanuatu were recipients of a mix of IDA credits and grants in this period.

29 Independent Evaluation Group: *World Bank Group Engagement in Small States: The Cases of OECS, Pacific Island Countries, Mauritius, Seychelles, Cabo Verde and Djibouti: Clustered Country Program Evaluation: Overview Report*. May 25, 2016.

30 Tonga Economic Reform Support DPO.

31 Kiribati Economic Reform DPO.

revenue performance and expenditure quality, and strengthen public services. New Zealand and the ADB provided budget support aligned with this operation.

- In Solomon Islands, IDA financed a programmatic series of DPOs totaling approximately US$9 million to improve the management of public expenditure and debt, and address fiscal and balance of payments pressure. The IDA engagement is also intended to strengthen the management of extractive industries and improve the financial management of state-owned enterprises. The ADB, Australia, New Zealand, and the European Commission provided added support aligned with the IDA program.
- In Grenada IDA financed a US$44 million resilience-building DPO series to improve public resource management, strengthen fiscal resilience in the context of natural disasters, enhance targeting of social safety nets, and improve debt restructuring and debt management.
- In Jamaica, the First Competitiveness and Fiscal Management Programmatic DPO, with a value of US$75 million, was intended to sustain fiscal consolidation and enhance public financial management.

2.3.3 Trust Funds and Small States

The World Bank acts as financial trustee and provides financial management services for over 20 financial intermediary funds—large multilateral financial mechanisms that support global initiatives available to small states that are eligible for IBRD and IDA support. The World Bank also acts as trustee to donor-financed resources—trust funds through which the Bank accepts donor contributions for Bank-implemented or -supervised activities. Box 2.2 provides some examples of trust funds that small states can access in support of economic adjustment and expenditure rationalization. (Annex E provides more details.)

The Bank has also leveraged significant trust fund resources from both Australia and New Zealand to support PICs—for example, (a) the Pacific Facility IV, an MDTF managed by the Bank that provides core funding for Bank-executed activities such as lending, supervision, and analytical work and advisory services; and (b) the Australia Pacific Islands Strategic Partnership Trust Fund, a single-donor trust fund established in FY16 that supports recipient-executed activities across all sectors for a number of PICs. Other trust funds that support the Bank's program on macroeconomics are the Diagnostic Facility on Shared Growth, the Institutional Development Fund, and the Poverty and Social Impact Analysis MDTF.

2.3.4 Treasury Program

The World Bank Treasury provides financial products and services to small states: asset management and related advisory services, support on the design and implementation of risk management solutions including disaster risk management, and debt management.[32] The advisory service is aligned to the geographic remoteness, time zone isolation, and lack of both soft and hard infrastructure that these nations face. The Treasury has programs in several small states, including Cabo Verde, The Gambia, Mauritius, Namibia, Seychelles, and Swaziland in AFR; Fiji, Kiribati, Samoa, Solomon Islands, and Tonga in EAP; Jamaica, St. Lucia, Suriname, and Trinidad and Tobago in LCR; Montenegro in ECA; and Bhutan and Maldives in SAR.

The World Bank Treasury provides advisory services to public sector investment managers to help countries manage foreign currency reserves and other pools of national wealth with prudent risk management and controls. Many small states lack capacity, institutional mechanisms, and financial infrastructure to manage their financial assets. The financial infrastructure for asset management has

32 There is significant fragmentation of public funds in the Pacific. A country may opt to set up multiple funds for various pools of wealth, each managed with limited expertise and inadequate financial infrastructure. Alternate approaches to asset management, such as shared infrastructure or pooling of resources, can help generate efficiencies, improve access to international markets, and reduce transaction costs.

BOX 2.2 Examples of Bank-Held Trust Funds Available to Small States

Debt Relief Trust Fund (DRTF). The DRTF was established in 1996 under the World Bank and IMF Heavily Indebted Poor Countries (HIPC) Initiative to relieve poor countries with good policy performance, including small states, from unsustainable debt. The DRTF provides financial support to eligible multilateral creditors to enable them to write off their agreed share of eligible country debt under the HIPC Initiative. In 2008, the DRTF was authorized to accept contributions from the IBRD and other donors to finance the cost to IDA (and 11 other creditors) of debt cancellation and clearance of arrears of eligible HIPCs. The role of the World Bank is to receive contributions from contributors, hold and invest contributed funds, and mobilize donor contributions to eligible creditors. The sources of funding include 25 contributor countries as well as the African Development Bank Group, Banque Ouest Africaine de Développement, European Commission, IBRD, and Nordic Development Fund.

Debt Management Facility (DMF). The Debt Management Facility is a multi-donor trust fund that adopted a programmatic approach to support capacity building initiatives in developing countries and IDA-eligible small states. Active in 17 small states, the work program has included diagnostic mission to assess the debt management policies and functions, advise on governance and institutional arrangements, support borrowing policies, formulate debt management strategies, generate debt reports and ensure operational risks are mitigated through proper debt recording and business continuity policies. In Fiji, for instance, the DMF built on a diagnostic evaluation to develop a comprehensive program including improvements in institutional structure, strengthened capacity for analysis of debt management options, and medium-term debt strategies including improved cash management.

Japan Social Development Fund. This fund was established by the Government of Japan and the World Bank in 2000 as a grant mechanism to provide targeted assistance to groups made vulnerable by the Asian financial crisis in low- and lower-middle-income countries, including small states. It now provides support for innovative, multisector poverty alleviation programs. It disbursed US$26 million in small states between FY09 and FY15.

Japan Policy and Human Resources Development Fund. This fund was established in 1990 as a partnership between the Government of Japan and the World Bank. By financing technical assistance, it aims to develop human resources in developing countries, including small states, and to help developing countries formulate and implement development policy. It disbursed US$13 million in small states between FY09 and FY15.

high fixed costs—expensive systems are needed to manage risks, monitor performance, and execute transactions in global markets. Small states need systems that are tailored to their small size and isolation from the global financial architecture. Treasury, drawing on its experience with asset management, developed the Portfolio Analytics Tool through the Reserves Advisory and Management Program (RAMP) and deploys it in countries that cannot afford private sector systems. RAMP provides fully cost-recovered advisory services to public asset management institutions with assets generally greater than US$800 million—central banks, sovereign wealth funds, and national pension funds—including a few engagements in small states with assets between US$600 and US$1 billion. To recover its costs, Treasury manages a portion of the assets (no more than 20% of the total assets), and the asset management fees are reinvested in technical advisory and capacity building. Countries can also choose fee-for-service arrangements. Treasury has not developed a scalable business model for funds with assets significantly below US$800 million despite ongoing demand from the Pacific small states; however, it does provide assistance on an ad hoc, fee-for-service basis. In Kiribati, RAMP assisted the government in a competitive bidding process for selecting market counterparts, including asset managers and global custodians, which resulted in substantial cost reduction for the fund. In real terms, this could mean a US$1 million annual savings for a country with a US$6 million annual IDA envelope.

The World Bank Treasury provides support to small states in public debt management. Some small states' ability to build a domestic debt market

is limited by their shallow investor base, lack of diversification, and low savings rates. The Bank is currently supporting countries at the national and sub-sovereign levels on upstream work such as the design and implementation of debt and risk management strategies. Treasury works closely with partners across the WBG, such as the Finance and Markets GP and the Macroeconomic and Fiscal Management GP, to deliver tailored training and technical assistance. The debt management TA in Cabo Verde, for instance, included a comprehensive diagnosis of debt management, design of a reform plan, and support to develop capacity to assess cost/risk trade-offs and design a longer-term debt management strategy. Treasury helps several small states manage their public debt portfolios.

Treasury also provides financial products to small states, including guarantees to leverage the WBG's financial strength to secure additional funds. In 2012, for example, Treasury structured a policy-based guarantee that helped Montenegro access markets for the first time as a sovereign issuer and raise €100 million. Treasury can determine suitable instruments and execute transactions in close coordination with Bank clients, private investors, and financial intermediaries. Structuring finance for small states may require extensive capacity building on the use of products and markets, and road shows with market participants to effectively introduce a country to the markets, especially for a first-time issuer or an infrequent borrower.

2.3.5 International Finance Corporation

As has been noted, the domestic private sector in small states is constrained by lack of access to finance, lack of economies of scale, high cost of imported inputs, limited domestic opportunities, and high transaction costs in trade. International investors hesitate to invest in the local economy for similar reasons. IFC, the private sector arm of the WBG, has several interventions targeted at small states in the Caribbean, the Pacific, and Africa/Indian Ocean to help address these constraints and create an enabling environment for increased private-sector-led development. (Annex A presents the IFC program in considerable detail.)

IFC supports the private sector in small states through its investment and advisory services. IFC's presence provides comfort to private investors. IFC's technical, advisory, and structuring interventions strengthen the project-enabling environment and help companies design viable projects in small states—including, for example, by developing environmental and social assessments. For example, IFC is working with a New Zealand firm to co-develop the first independent power producer in Fiji's history—a 44 MW hydropower plant in the highlands of the main island, Viti Levu. The project will increase overall power generation capacity by 17 percent and hydro capacity by 35 percent. The project is expected to cost US$250 million, with IFC investing US$2.5 million for development work.

IFC and the Caribbean. In the Caribbean's 12 small states, most middle- to high-income, the small market size and the constrained financial situation of most commercial banks limit investment opportunities. IFC investments and advisory services target infrastructure, financial sector, and SMEs. The overarching emphasis has been on extractives, privatization, and access to finance, all with the intent of improving private-sector-led growth and job creation. A few brief examples follow (for details, see Annex A).

- ***Guyana.*** During FY09–15, IFC committed US$71 million and mobilized an added US$140 million in Guyana. IFC has two active projects and four active advisory services projects. For example, an IFC investment in the mining sector supports private sector investment. Payments in the form of royalties and taxes paid to the Government are estimated at US$210 million.
- ***Jamaica.*** IFC has a current portfolio of US$262 million in investments and eight advisory service projects valued at US$10.7 million. Engagement in Jamaica is focused on key areas of infrastructure (energy, transport), access to finance (MSMEs, trade financing, and local capital

markets), growth sectors (agribusiness and ICT), and education. To help improve access to credit, IFC is advising on Credit Bureau legislation, as part of a regional harmonization plan, and will support microfinance institutions to better adapt loan products to the local market, opening access to finance to previously underserved market segments. The IFC-supported Air Jamaica privatization leads to fiscal savings each year equivalent to 1.2% of GDP.

- ***Antigua and Barbuda, Saint Lucia, Grenada, St. Kitts and Nevis, Dominica.*** Central to IFC's work in these countries are crisis response; job creation and inclusive growth; innovation, competiveness, and integration; and climate change. During FY09–FY14, IFC committed six projects for US$165.6 million in these countries. In advisory services, IFC has a current portfolio of US$14 million focusing on investment climate and public-private partnerships. Examples of IFC-supported public-private partnerships (PPPs) include an international airport in Saint Lucia and a hospital in Grenada.

IFC and the Pacific. Of the 12 small states in the Pacific, 11 are islands. IFC supports sustainable economic growth across the Pacific region by financing private investment, mobilizing capital, and advising businesses and governments on projects that generate returns for investors and provide benefits to communities. Australia, New Zealand, and IFC work together under the Pacific Partnership to stimulate private investment. The IFC program in the Pacific is broadly targeted at infrastructure, energy, mobile banking, and tourism, with projects in Fiji, Kiribati, Samoa, Solomon Islands, Timor-Leste, Tonga, and Vanuatu. In Timor-Leste, for example, it is supporting the development of the Tibar Bay Port; in Fiji, it provides project equity to a solar energy project; in Solomon Islands, it is supporting the country's largest infrastructure PPP venture; in Samoa it is helping establish an integrated solid waste management system; and in Tonga and Vanuatu it is supporting tourism projects. There is also support for mobile banking throughout the Pacific (for details, see Annex A).

IFC and Africa/South Asia. In Africa's 14 small states, IFC project size is modest as market size is small. The primary focus is advisory services—that is, investment climate diagnostics, PPPs in infrastructure, and financial inclusion projects. IFC has a modest investment portfolio in five states only—Gabon, The Gambia, Mauritius, Namibia, and São Tomé and Principe—in such areas as oil, gas, and mining; investment climate; tourism; health and education; regional investment; and financial institutions (for details, see Annex A). It does not have an investment portfolio in the other countries, but provides advisory services. Going forward, IFC hopes to invest in financial institutions, transport, energy, agribusiness, fisheries and tourism.

2.3.6 Multilateral Investment Guarantee Agency

As has been noted, international investors hesitate to invest in small states on account of the lack of economies of scale, high cost of imported inputs, limited domestic opportunities, and high transaction costs in trade. Small states attracted just 4.4 percent of total FDI into developing economies from 2005 to 2014. Nevertheless, FDI plays a major role in small states, where domestic resource mobilization is limited. FDI averaged 8.4 percent of GDP in small states, but 3.1 percent in all developing economies over the same period of 2005–2014.

MIGA, the political risk insurance arm of the WBG, supports small states by helping bring FDI into productive sectors. Most small states are members of MIGA. Reflecting the small size of the economies, MIGA has a modest portfolio of US$144 million of guarantees in small states, primarily in the infrastructure sector. Especially useful in small states is MIGA's Small Investment Program, designed to facilitate investments into SMEs that are involved in the finance, agribusiness, manufacturing, and services sectors. MIGA collaborates closely with the World Bank and IFC, and is actively looking to partner with the IFC, including in Fiji for its first independent power producer; and in Solomon Islands for the country's largest infrastructure PPP venture.

2.4 Lessons Learned

The Bank's economic engagement in small states has generated several lessons.

- ***Promote cross-sectoral engagement.*** The complexity of issues has led the Bank to work increasingly in a cross-sectoral manner. A key example of this is the Comprehensive Debt Framework the Bank developed to address Caribbean countries' debt issues. It is structured around four pillars to address the interdependent causes of high debt and low growth in small island states: promoting private-sector-led growth, strengthening fiscal management, building resilience to natural disasters, and reducing debt.
- ***Mobilize supplementary resources.*** Given the IDA envelopes and IBRD constraints, the Bank seeks to leverage grant trust funds wherever possible to forestall added indebtedness. A total of US$185 million in trust funds is under implementation in the Caribbean, and a similar amount has been mobilized for the Pacific. The Bank has also learned to be very selective and strategic in its focus in the Caribbean and the Pacific.
- ***Facilitate regional solutions.*** Regional solutions and approaches help achieve economies of scale, enhance effectiveness, and secure economic returns; regional integration provides access to larger markets, broader skills, cheaper imported products, and investment; and regional alignment and harmonization of regulatory frameworks and services helps reduce the costs of distance. The Bank's portfolio includes a number of regional lending operations, non-lending initiatives, and economic and sector work among small states and their neighbors. In addition, the Bank increasingly coordinates with regional bodies. It is important to capitalize on the possibilities offered by regional integration. For example, it was not possible to attract a qualified consultant to engage in the small-scale national survey for St. Lucia in isolation, but competent firms would have been interested in conducting this survey for the entire region.
- ***Generate better data.*** Insufficient data and statistics precludes effective evidence-based policymaking in the Caribbean and the Pacific. The Bank has raised significant trust fund financing to work on data gathering, statistical analyses, and capacity building for statistical bureaus in the Caribbean.
- ***Enhance impact.*** The Bank has moved to support fewer but larger projects to mitigate the higher fiduciary costs and high fixed costs of doing business with the Bank. It is preparing regional, multi-GP projects and combining its support with IFC's to achieve significant long-term results (for example, the privatization of Air Jamaica is leading to fiscal savings equivalent to 1.2 percent of GDP annually). The Bank has sought to complement its lending operations with significant institutional strengthening TA, and has provided systematic training to counterparts and project implementation units on fiduciary requirements.
- ***Leverage extractives, fisheries, and tourism.*** In the absence of strong manufacturing and export service sectors, small states can utilize natural resource industries—tourism, fisheries, mining, and logging—to a greater extent than countries with a broader range of export options. Because natural resource wealth is geographically fixed, investment can be attracted to natural resource industries despite the higher costs in small states.
- ***Keep it simple.*** In a small, multiple-island country with limited human resources, complexity in project design poses a higher-than-average risk. Coordination of multiple stakeholders is transactions-intensive. Institutional design and planned capacity-strengthening need to take this into account. In addition, to ensure the long-term sustainability of the investment, TA projects that involve training need to anticipate the attrition of capacity that has been built, and to plan for its mitigation.
- ***Ensure greater selectivity and a continued focus on long-term engagement.*** Several learning reviews of country strategy implementation highlight the importance of taking a strategically selective approach to ensure the effectiveness of the program, focusing on core sectors and building long-term relationships with key partners rather than fragmenting the portfolio. Given the small states' fluid political and development context, however, the WBG must also remain flexible

and stand ready to seize opportunities to address emerging risks.

- ***Develop small-states-specific financing and delivery mechanisms.*** Given the limitations of current Bank instruments, dedicated approaches need to be developed to help small states deal with the challenges they face. The WBG should explore alternative models that might be appropriate to deliver long-term development benefits to small states, instead of the standard model of project and program aid, with huge outlays for oversight, capacity substitution, and conventional capacity-building attempts.

2.5 Looking Ahead

Public expenditure poses uniquely challenging problems in small states, given the fixed cost element in government functions. The WBG has a continuing role to play in helping client countries determine appropriate fiscal policy stances, including the underlying revenue and expenditure policies. Beyond this, the Bank has a role to play in helping country policymakers understand and address other drivers of fiscal and debt unsustainability—weak growth as a result of deficiencies in competitiveness and reconstruction expenditure as a result of vulnerability to natural disasters—that are uniquely acute in the small state context. The Bank may also want to assume a more hands-on role with the donor community regarding the need for debt restructuring in some contexts.[33]

The WBG would work with its development partners to increase the financing envelope available to small states. Increases to base allocations during IDA15 and IDA16, IDA's Regional Program, and its Crisis Response instruments all proved invaluable in enabling tailored and scaled-up IDA support to small states. A number of ambitious proposals to enhance access to IDA are being discussed as part of the ongoing IDA18 Replenishment Process, scheduled to be completed in December 2016. The concluding chapter of this paper has a more detailed discussion on this subject.

The WBG would emphasize the deepening of the financial sector and address de-risking challenges faced by the commercial banking sector in small states. The phenomenon of financial institutions terminating or restricting business relationships with clients to avoid, rather than manage, risk is known as *de-risking*. One bank, frequently an international bank, ceases banking services to another, often local, bank. This affects clearance and settlement, cash management services, international wire services, and trade finance. Money transfer operators can no longer access banking services. Remittance companies, small and medium domestic banks, and medium-sized exporters in small states are undermined.

In response to the Caribbean Ministers' calls for stronger advocacy by the Bank on their behalf, the WBG undertook a survey to gather systematic data on the scale, scope, and nature of the changing trends. This was to establish whether the anecdotal and limited publicly available data reflect a global trend, are relatively isolated instances, or are not borne out by more comprehensive data. The findings, which the WBG released in late 2015, confirmed that the Caribbean appears to be the region most affected by de-risking. Several large American and European banks had cut ties with institutions in small developing countries, a decision that appears to be correlated with the imposition of heavy regulatory fines for infractions associated with the recent global financial crisis and violation of geopolitical embargoes. These developments are reactions of international banks to evolving international standards,

33 Independent Evaluation Group: *World Bank Group Engagement in Small States: The Cases of OECS, Pacific Island Countries, Mauritius, Seychelles, Cabo Verde and Djibouti: Clustered Country Program Evaluation*: *Overview Report*. May 25, 2016.

given increased requirements for transparency in support of anti-money laundering and combating terrorist financing.

The WBG will give de-risking high priority in the interest of financial inclusion. The Bank will deepen and widen its engagement with borrowing and non-borrowing members in building capacity for the strengthening of country regulatory systems towards compliance with international standards for tax policy and administration. Capacity building would be pursued in the areas that will allow countries to effectively collaborate on regulatory compliance and financial inclusion at international fora in the interests of creating a level playing field.

3. Small States: Sustainable Development

3.1 Climate Change and Natural Disaster Constraints

Small states face disproportionate challenges of poor infrastructure, exposure to natural disasters, and climate change. This chapter describes the challenges, outlines the WBG response, and concludes with lessons learned.

Small island states are exposed to natural disasters—earthquakes, volcanic eruptions, tsunamis, and tropical cyclones—that affect the long-term development agenda. Indeed, the five most disaster-prone countries in the world are Pacific and Caribbean island countries. Individual events can results in major losses overnight. Major hurricanes hit the Caribbean once every two and a half years and the Pacific once every two years. Other types of catastrophic events are less frequent but can be as devastating—for example, the volcano that destroyed most of the island of Montserrat in 1995 or the tsunami that partly devastated Samoa in 2009.

Scientific evidence points to increasing climate-change-induced risks. The 2014 report of the Intergovernmental Panel on Climate Change concluded that "current and future climate-related drivers of risk for small islands . . . include sea level rise, tropical and extra-tropical cyclone, increasing air and surface temperatures, and changing rainfall patterns." If there are no adaptation measures, the Caribbean region could suffer climate change impacts equivalent to 5 and 10 percent of GDP by 2025 and 2050, respectively.[1] Similar impacts equivalent to 5–13 percent of annual GDP by 2100 have been estimated for the Pacific.[2] Most small island states have begun to experience the impact of more intense and irregular climate events (see Figure 3.1). For instance, changes in cyclone paths and intensity recently affected Kiribati, which is normally outside the cyclone belt. The prospects are daunting for low-lying atoll states, as the interaction of waves with sea-level rise could lead to recurrent flooding of freshwater reserves, forcing the abandonment of some atolls.[3]

Climate change and natural disasters disproportionately affect poor people, who often live in marginal or exposed lands—for example, such distinct communities as the indigenous Carib in Dominica, the Angolares fishing communities in São Tomé Island, and recent migrants from the outer islands to crowded South Tarawa, capital island of Kiribati; vulnerable households headed by the elderly, women, widows, or the handicapped; and subsistence farmers.

Climate change imposes economic costs. The average annual losses from tropical cyclones alone are estimated at US$835 million in the Caribbean and US$178 million in the Pacific.[4] This does not include the rising costs of storm surges, heat waves, or other disasters such as earthquakes and tsunamis. Exposure to such recurrent events hinders growth. Modelled results suggest that Jamaica, for example, would have achieved growth rates close to 4 percent per year in the absence of cyclones, rather than the 0.8 percent it did achieve each year between 1970 and

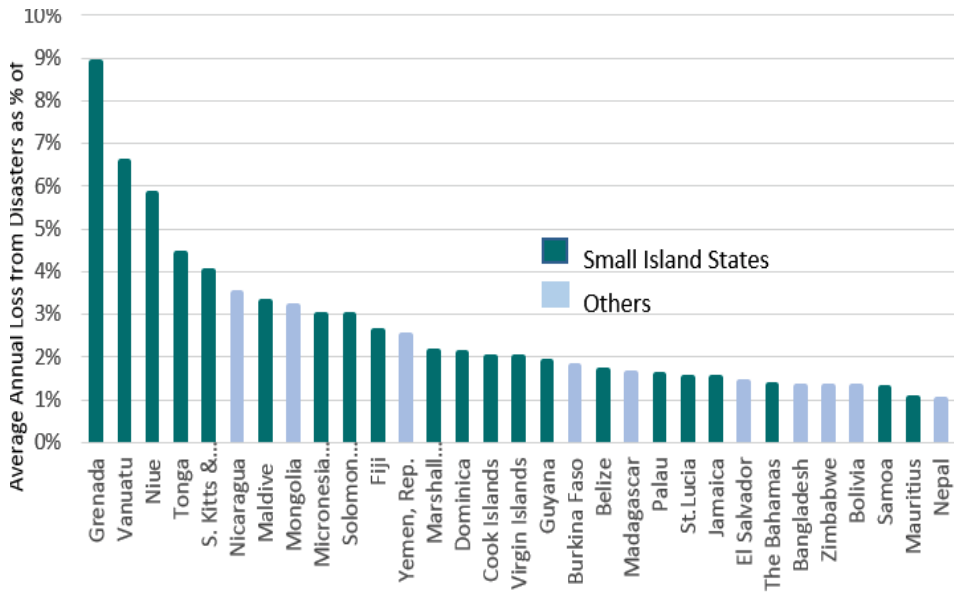
1 Bueno et al. (2008). The Caribbean and Climate Change: Costs of Inaction. Stockholm Environmental Institute and Global Development and Environmental Institute, Tufts University, May 2008.

2 ADB (2013). "The Economics of Climate Change in the Pacific."

3 Storlazzi, C., E.P.L. Elias, and P. Berkowitz (2015). "Many Atolls May be Uninhabitable within Decades Due to Climate Change." Sci. Rep. 5

4 Estimates from the Caribbean are from the Caribbean Catastrophe Insurance Facility (CCRIF), and those from the Pacific are from the Pacific Catastrophe Risk Assessment and Finance Initiative.

FIGURE 3.1 Average Annual Loss from Disasters Relative to Gross Domestic Product



Estimates are based on (a) reported disaster damages or (b) modeled annual losses from cyclones, earthquakes, and tsunamis.

Sources: World Bank (2012) and Harmeling and Eckstein (2013).

2008.[5] The costs of reconstruction impose a direct fiscal burden, while elevated debt ratios and high debt service limit capital investment and the maintenance of public infrastructure. As a result, essential infrastructure becomes more vulnerable and post-disaster reconstruction considerably costlier.

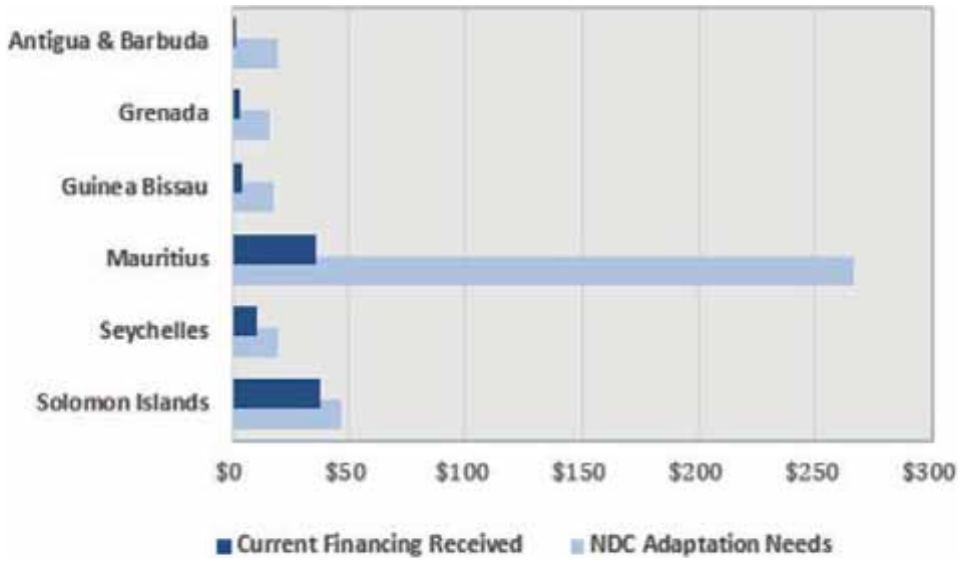
Specific policy measures and investment are required to reduce the impact of climate change—for example, making transport systems and urban drainage climate-resilient, building disaster-responsive social safety nets, and introducing risk-informed urban spatial planning. In identifying climate adaptation resource needs, small states have prepared Nationally Determined Contributions (NDCs), or adaptation plans. The investment projections in the NDCs suggest that increased financing is required for a resilient future. For many small island states, the investment needs set out in NDCs are two to three times larger than their current annual resilience investments (Figure 3.2). Belize, for example, estimated that it would require US$430 million to retrofit its transport infrastructure to safer levels.

Small states have limited financial capacity to respond to adverse natural events and have generally relied on financing from international donors to address their post-disaster needs. Larger countries are more able to absorb the impact of such events, using revenue from unaffected regions to subsidize the affected region. Without this type of geographic diversification of risk, small states are less able to respond effectively to natural disasters. Although post-disaster funding from bilateral and multilateral agencies is an important component of a catastrophe risk management strategy, overreliance on such assistance has limitations. Donor assistance can take time to materialize and usually supports specific infrastructure projects. A critical challenge confronting small states in the aftermath of a disaster is the need for short-term cash to maintain essential government services until additional resources become available.

Small states' access to traditional catastrophe insurance and reinsurance markets is limited. The transaction costs of coverage are high because

5 Hsiang, Solomon, and Amir Jina (2014). "The Causal Effect of Environmental Catastrophe on Long-Run Economic Growth: Evidence from 6,700 Cyclones." National Bureau of Economic Research, Working Paper 20352. Cambridge, Massachusetts.

FIGURE 3.2 Current Annual Financing for Climate and Disaster Resilience and NDC Expressed Needs (US$ million/year)



Sources: SISRI Database (for current annual financing) and National NDCs as downloaded from www.unfccc.org.

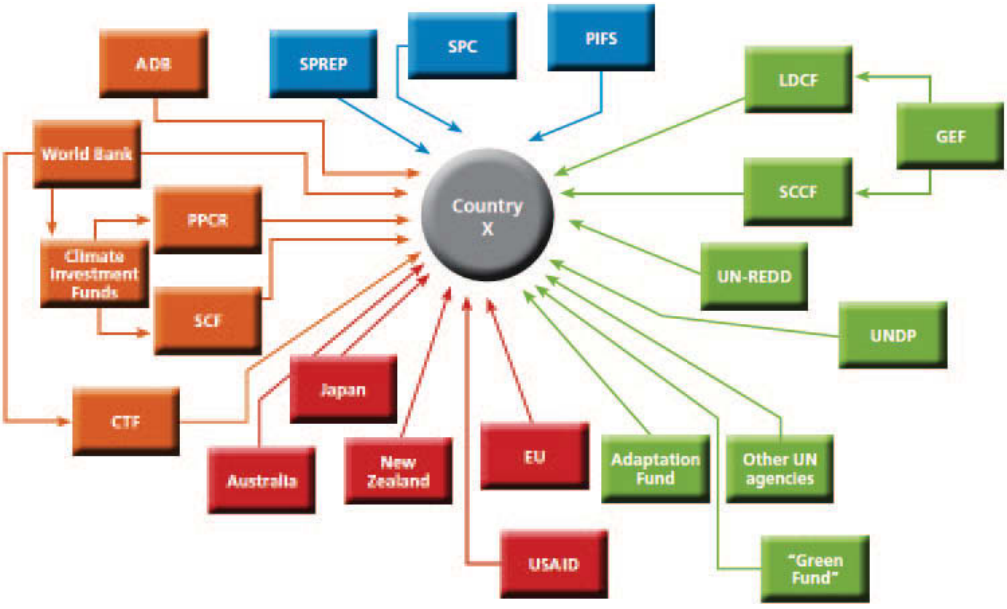
of the relatively small amount of business brought to the reinsurance market. In the absence of well-functioning domestic catastrophe insurance markets, governments and households bear most of the economic loss of these natural events, with a disproportional impact on the poor.

Fragmented aid. Small island states receive an estimated US$868 million each year in climate and disaster resilience support. Around 65 percent of current financial flows for resilience is provided through bilateral sources, 24 percent through multilateral development banks, and 11 percent by global climate funds and other multilateral sources. Levels of funding per country are not clearly linked to vulnerability; they appear to be influenced by factors such as income classification, geopolitical considerations, recent occurrence of disasters, and absorptive capacity. Resilience funding varies widely across countries and is not clearly linked to needs. Some fragile countries like the Comoros, and middle- to high-income countries, receive particularly low funding, despite their high vulnerability. Moreover, funding for climate and disaster resilience is channeled to small states through more than 26 bilateral donors and 12 multilateral agencies (see Figure 3.3); some small states, particularly those in the Pacific, manage more than 10 projects each.[6] This dilutes national capacity and often results in duplication and high transaction costs.

Small states have repeatedly sought help to access climate finance. At the 2013 Small States Forum, participants urged the World Bank "to explore how climate change funds can be leveraged more effectively for sustainable development in small states," and "called on donors to urgently work towards recalibrating their climate-related financial instruments to help small states with limited capacities to develop greater resilience, adaptation and mitigation." At the UN Conference on Small Island Developing States (SIDS), held in Samoa in 2014, UN member states noted that "complex application procedures have prevented some SIDS from accessing those funds" and called for "continued support to address gaps in capacity in accessing and managing climate finance." The WBG has begun to play a mediating role in easing the flow of climate funds to

6 The proliferation of donor activities, including 1,731 projects between 2011 and 2014 alone, is illustrative of fragmentation.

FIGURE 3.3 Fragmented Funding for Climate and Disaster Resilience in Small States



relevant small states through the Small Island States Resilience Initiative (SISRI).

3.2 Infrastructure Constraints

Small states' economic activity and growth are also impeded by poor internal and external connectivity and inadequate access to energy. Small states are often isolated, with limited access to reliable transportation systems. Remote island states are removed from economic activity by the sea, but landlocked states lack direct access to sea routes and therefore to major transportation networks that connect centers of trade and production.

Maritime transport. Remote island states face long transport routes. They are not always linked to major shipping networks and also face unreliable domestic inter-island shipping services. Small cargo volumes and smaller vessels lead to high unit costs per container. Added costs for outer island transport limit prospects for business development and service delivery in the periphery. Port infrastructure is frequently inadequate in terms of capital assets, maintenance plans, and skilled staff. The lack of maritime connectivity hits nation states defined by the sea particularly hard, leading to economic isolation and reduced opportunity.

Air transport. Air transport, which is important for tourist arrivals and domestic inter-island mobility, entails the capital-intensive infrastructure investment that small states often lack. Poverty in small states reduces the domestic market for air transport; reduced traffic limits the financial wherewithal to invest in a fleet and make the airline sector financially remunerative or maintain assets; and high air transport costs and limited services constrict tourist destination choices in-country.

Land transport. Landlocked states such as Bhutan, Botswana, Lesotho, and Swaziland lack direct access to the sea lanes that carry freight over long distances to and from overseas markets and suppliers, a factor that impedes global economic integration. Landlocked states need adequate national road networks—and improved road safety and security—to improve connectivity internally and with neighboring states, reduce damage of goods in transit, and open the way for export expansion.

Agriculture on Thoddoo Island, Maldives (2015). Photo by AWRM AIO SIDS, Public Domain.

Domestic fossil fuel sources are limited in most small states. While many small states have significant renewable energy potential, it remains largely untapped in many. They are therefore vulnerable to high and volatile electricity costs: the power generation mix is dependent on costly imported oil, a situation that erodes economic competitiveness and impedes growth. While the recent drop in international oil prices has been helpful, future price projections suggest that this is a short-term phenomenon. Actions to diversify power generation options are needed to hedge against oil price volatility. At the same time, energy efficiency measures can reduce fuel imports and the need for added generation capacity.

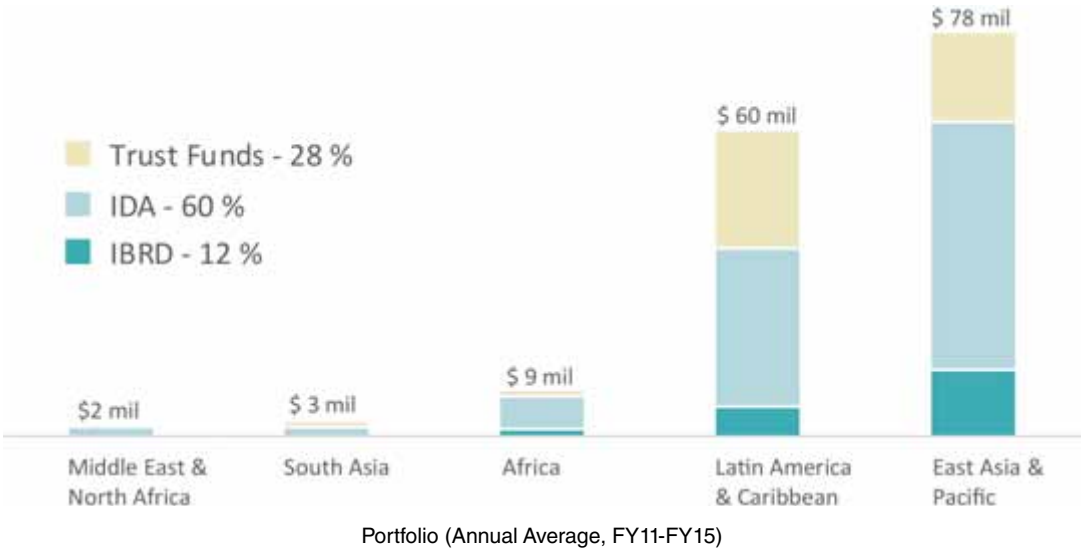
3.3 World Bank Group Response

The WBG is the single largest provider of climate and disaster-resilience-related investment finance. It has supported both disaster preparedness and post-disaster response, and is a significant player in resilient infrastructure finance. This section describes the SISRI/GFDRR and the IDA, trust fund, and Treasury programs in this area.

3.3.1 Resilience and Adaptation

The World Bank committed more than US$152 million a year to small states in support of climate and disaster resilience. The vast majority of this funding

FIGURE 3.4 Composition of Funding for Climate and Disaster Resilience Financing to Small States in the World Bank



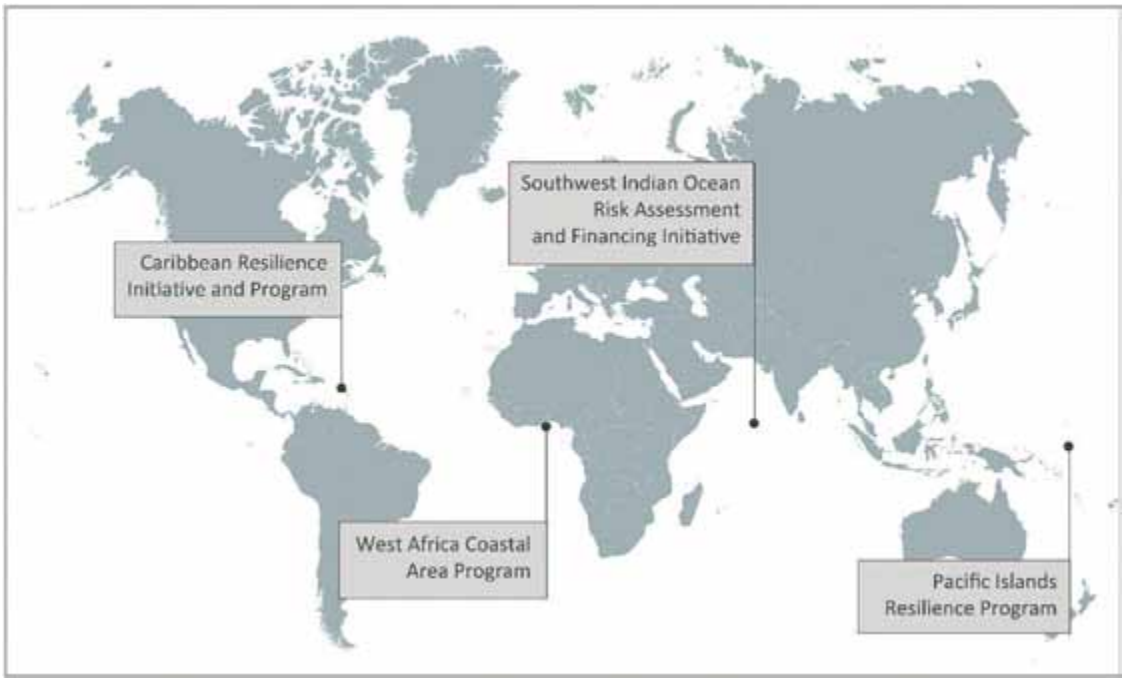
is provided through IDA grants and credits, which accounted for an average of 60 percent of WB annual funding between FY11 and FY15 (US$90 million) (see Figure 3.4). This funding was heavily concentrated in two regions—East Asia and Pacific (US$78 million per year) and Latin American and the Caribbean (US$60 million)—which together received more than 92 percent of annual resilience funding extended to small states. This imbalance is partly due to regional initiatives in both the Pacific and Caribbean Islands—the Pacific Resilience Program (PREP), the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), and the Caribbean Region Disaster Vulnerability Reduction Program.

The World Bank also provides expertise in climate and disaster risks to promote resilience in small states. Capacity limitations represent a major impediment to small states in developing and implementing strategies for resilience. TA provided by the Bank to small states helps to address these constraints and covers a wide range of topics, such as catastrophe risk financial planning, vulnerability assessments, forecasting and early warning, and contingency planning. The Caribbean Resilience Program is a recent initiative that addresses disaster risks at both the policy and technical level, with support to implement a disaster risk insurance program and capacity building in conducting risk assessments. The Africa and South Asia Regions also have several ongoing national programs, including the West Africa Coastal Areas Program and Southwest Indian Ocean Risk Assessment and Financing Initiative (see Figure 3.5).

The resilience portfolio in small states uses a wide range of financial instruments. IPF is the most commonly used instrument, but both the Pacific and the Caribbean have used horizontal program frameworks that combine regional and country-level projects. DPF is used in the context of mature national approaches to resilience. A climate or disaster risk management DPF, like Grenada's, allows for budgetary support for a range of reforms linked to resilience policies. Seychelles has demonstrated the benefits of Deferred Drawdown Option for Catastrophe Risk (CAT-DDO) financing, an IBRD instrument that offers a strong platform to entrench policy and institutional frameworks to manage risk from natural hazards and provide access to immediate liquidity in case of an event.[7] Lastly, a promising

7 Seychelles, for instance, is also considering a potential development policy guarantee in support of a blue bond.

FIGURE 3.5 World Bank Portfolio in Climate and Disaster Resilience in Small States (FY11–FY15), in US$ Million



Grand total	Total	Middle East & North Africa	South Asia	Africa	Latin America & Caribbean	East Asia & Pacific
Total number of projects	80	2	5	12	20	41
Total commitments (US$ millions)	$762	$9	$16	$45	$298	$394
Annual commitments (US$ millions)	$152	$2	$3	$9	$60	$78
No. of countries engaged*	25	1	2	7	7	10

**Not including regional initiatives.*

Note: Does not include Bank-executed technical assistance.

Debt-for-Nature-and-Resilience (DNR) initiative offers a new DPF-based instrument to mobilize adaptation financing in the context of high debt levels (see Box 3.1).

The Small Island States Resilience Initiative (SISRI). This pioneering initiative is a global programmatic framework launched by the World Bank at the UN SIDS Conference in September 2014. It was established in response to calls by SIDS for greater and more effective support to improve climate resilience. SISRI builds on the World Bank's program of assistance for climate and disaster resilience in small island states, averaging US$152 million a year—the largest in the world. SISRI aims to scale up investment for climate and disaster resilience by aggregating and leveraging multiple funds. It offers innovative assistance to partner countries:

- *Just-in-time policy, technical, and operational support,* based on global best practices of adaptation and disaster risk management in island contexts, customized to countries' individual needs.
- A range of *financing instruments*, including innovative DNR swaps, helping small island states build capacity.
- A *dedicated support team* of over 45 Bank staff, specializing in the needs of small islands.
- *Exchange of global knowledge*, allowing field practitioners to share experiences across countries and regions.

BOX 3.1 Debt-for-Nature-and-Resilience Financing

Approach. *Use policy-based budget support approach to retire high-cost commercial or bilateral debt while simultaneously strengthening the policy and institutional framework for environmental sustainability and climate resilience*. The savings obtained through the debt reduction transaction are absorbed by the budget, creating additional fiscal space to finance current or capital expenditure.

Rationale. *The proposed approach would help well-performing island countries address their debt overhang while leveraging some of the significant climate change funds pledged by developed countries to enhance their resilience.*

Instrument. *The instrument of choice is the DPF, given its fast-disbursing nature and specific purpose of providing policy-based budget support to countries with an adequate macroeconomic policy framework and a clear medium-term reform program*. Any DPF operations provided under the DNR framework would follow the procedures outlined under the World Bank's OP/BP 8.60, *Development Policy Financing*, including the requirement associated with the adequacy of the country's macroeconomic policy framework.

How it would work. *The DNR framework would involve three critical factors:* (a) a country that is willing to implement policy and institutional reforms for environmental management and climate resilience; (b) the identification of debt that could be bought back, preferably at a discount, or replaced by cheaper and longer-maturity debt (i.e., under IBRD terms); and (c) potentially, a donor or group of donors (for instance through a climate change fund or global initiative) that can help with additional funds for the debt buyback operation against implementation of reforms to improve the country's debt sustainability. (A modification of this model involves providing a World Bank guarantee rather than budgetary support to allow countries to carry out the debt swap.)

- *Results-based approaches* to measure the progress of resilience and the impact of financing.

SISRI is producing a series of knowledge products addressing challenges common to small island states: coastal resilience, management of population retreat, and social and financial protection. The SISRI team is also assisting selected countries to design a pipeline of scaled-up resilience investments and is liaising with development partners to improve the coordination of such aid.[8]

3.3.2 Disaster Risk Mitigation

The Bank also supports innovative financing instruments that insure against the cost of natural disaster, releasing funds that would otherwise be used for post-disaster recovery to finance long-term development. Regional catastrophe insurance pools allow small states to (a) secure ex ante cost-effective financing for a rapid response to an event, and (b) access international insurance on competitive terms. Governments are often hesitant to purchase insurance from private agents, and insurers are reluctant to start a business relationship with a government since changing annual budgets and political regimes mean that a long-term commitment is unlikely. World Bank-supported regional catastrophe insurance pools, such as the Caribbean Catastrophe Risk Insurance Fund (CCRIF) or Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI), can facilitate access to the reinsurance markets on competitive terms by pooling country-specific risks into a single, better structured portfolio. These pools create new business opportunities for the insurance industry, which might not approach these countries individually, given the high transaction costs.

Risk pooling amalgamates imperfectly correlated risks to make the overall risk more stable and attractive to the insurance market and reduce the cost of insurance. Since natural disaster risks among the small island states are not perfectly correlated

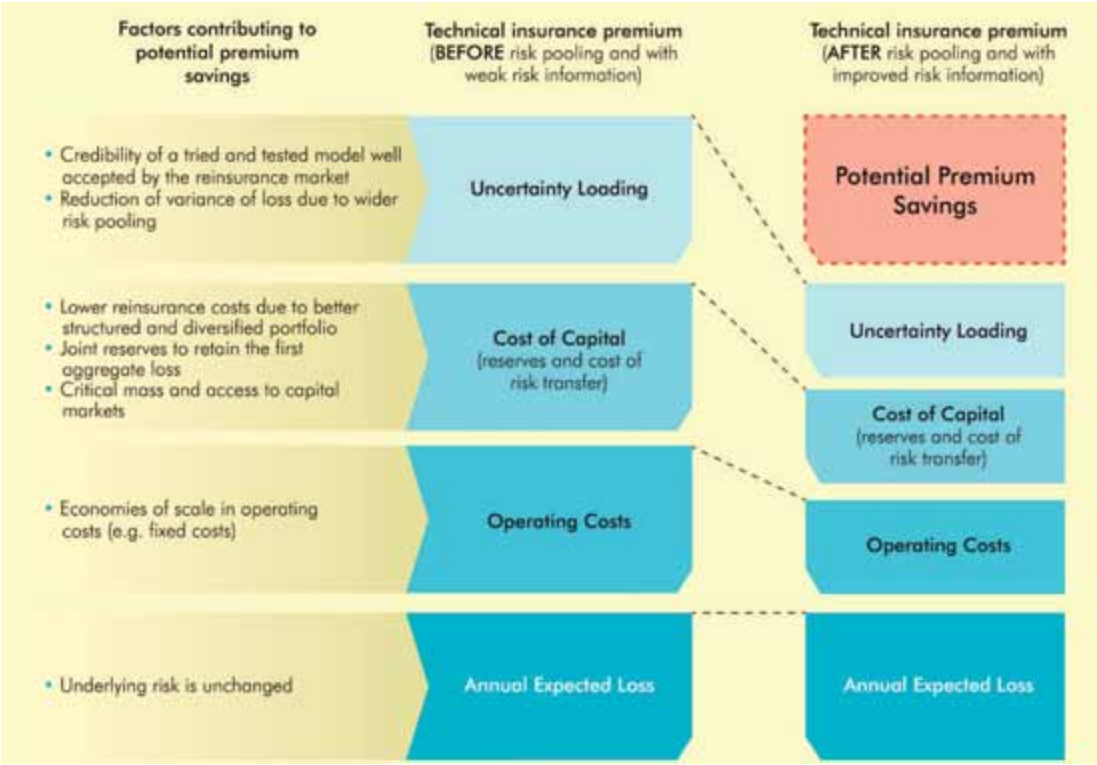
8 As a basis for this, SISRI is collaborating with OECD in analyzing the overall financing landscape for resilience in small island states, which is expected to be launched at the Small States Forum in October 2016.

(the probability of having two islands or more hit by the same event is low), the variability of the risk of a broader portfolio of state-specific catastrophe risks is less than the combined variability experienced by individual states. As the left-hand side of Figure 3.6 shows, the cost of catastrophe risk insurance (premium), can be disaggregated into the annual anticipated loss, the operating costs, cost of capital (that is, the cost of holding capital to be able to pay claims in full), and the uncertainty loading (due to imperfect knowledge about the underlying risk). By pooling imperfectly correlated risks as per the law of large numbers, the overall risk decreases: the portfolio of risk is less volatile and hence the insurer needs to hold less capital (per unit of risk), which reduces the cost of capital. In addition, the insurer can benefit from economies of scale that will reduce operating costs, and the level of uncertainty of the portfolio decreases. Overall, this leads to a lower cost of insurance, as demonstrated on the right-hand side of Figure 3.6. It is estimated that regional catastrophe risk pooling through such programs as CCRIF or PCRAFI reduces the cost of insurance (premium) by more than 50 percent.

To illustrate the impact of risk pooling, Figure 3.7 shows the aggregate probable maximum loss for a 1-in-250-year event before and after risk pooling, using data from the PCRAFI program. The 250-year probable maximum loss is the loss that will be exceeded if a disaster occurs once every 250 years or less frequently. If each country holds enough capital to sustain such a loss, the aggregate amount is depicted on the left-hand side of Figure 3.7. If countries pool their risks into one single portfolio, risk pooling reduces the 250-year probable maximum loss by 65 percent; this means that the countries collectively need to hold 65 percent less capital for the same level of financial sustainability than if each country holds its own capital individually. This leads to significant savings in premiums.

CCRIF—the world's first multi-country catastrophe risk pooling mechanism—was established in

FIGURE 3.6 Cost of Catastrophe Risk Insurance Pricing and Risk Pooling

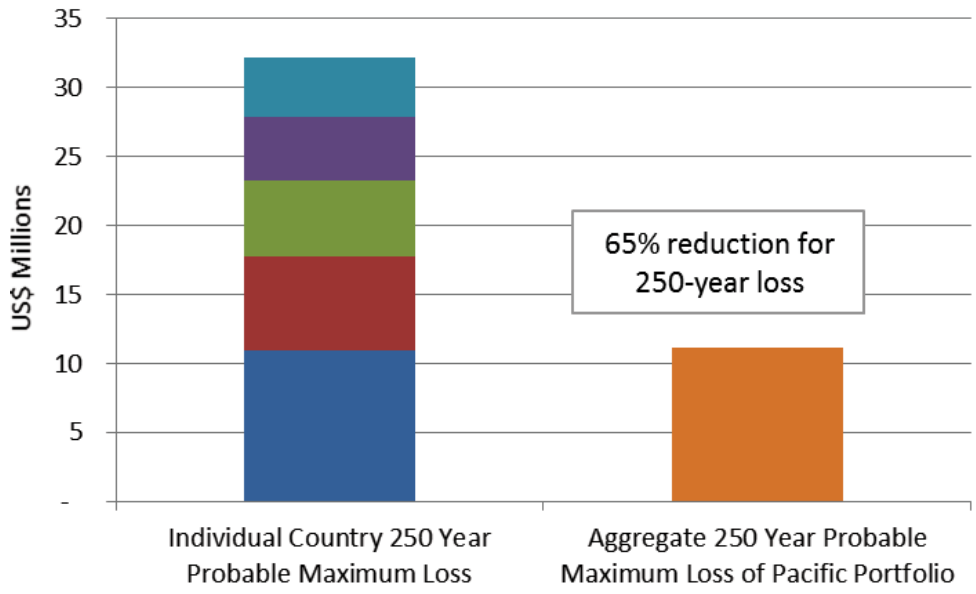


Source: WB-GFDRR Disaster Risk Financing and Insurance Program (2012).

2007 by the Caribbean island states with Bank support. CCRIF acts as a mutual insurance company, providing its members with parametric insurance coverage against major tropical cyclones and earthquakes. It covers 16 Caribbean island states and has paid out a total of over US$32 million to its current members (see Box 3.2).

Building on the successful example of CCRIF, in 2012 the PICs launched their own catastrophe risk insurance program. In collaboration with several partners, the Bank helped establish the PCRAFI insurance program, which currently covers Samoa, Tonga, RMI, and Vanuatu. PCRAFI also uses parametric insurance to inject limited but immediate cash following a major cyclone, earthquake, or tsunami. PCRAFI made payouts to Tonga ($1.3 million following Cyclone Ian in January 2014) and to Vanuatu ($1.9 million following Cyclone Pam in March 2015) within 10 days after each disaster.

FIGURE 3.7 Illustration of Catastrophe Risk Pooling



BOX 3.2 The Caribbean Catastrophe Risk Insurance Facility

CCRIF is the first insurance facility to successfully develop parametric policies backed by both traditional reinsurance and capital markets. Registered as an insurance company in the Cayman Islands, CCRIF functions as a joint reserve mechanism and enhances its members' financial resilience to natural hazard events, such as hurricanes and earthquakes, by providing financial liquidity when a policy is triggered. By providing a policy payout in 14 days or less—in the event of a tropical cyclone or earthquake of sufficient magnitude—based on a pre-agreed policy trigger, CCRIF represents an efficient instrument to provide short-term liquidity, as part of a country's broader disaster risk financing and insurance strategy.

CCRIF is a Caribbean-owned parametric insurance pool, supported by IDA,that offers participating countries access to international reinsurance and capital markets. It is a self-sustaining entity, relying on its own reserves and reinsurance for its financing. Each country pays a premium ranging from US$200,000 to US$4.5 million, depending on the size of the payout it considers necessary in the event of a hurricane. Possible payouts range from US$1 million to US$100 million.

PCRAFI is part of the broader Pacific Resilience Program (PREP), which provides technical assistance and financing to improve resilience, early warning/preparedness, and disaster risk financing for participating countries. As part of PREP, the Bank supports the establishment of a facility to manage the PCRAFI to help ensure its sustainability and provide increased financial resilience.

PREP is intended to strengthen countries' resilience to natural disasters. IDA, GEF, Pilot Program for Climate Resilience, and GFDRR finance this program. PREP initially provided assistance to RMI, Samoa, Tonga, and Vanuatu and supported the Secretariat of the Pacific Community and the Pacific Islands Forum Secretariat. It is intended to (a) strengthen early warning and preparedness; (b) retrofit key public assets in line with international resilience standards; (c) establish a framework for smarter investment in resilience activities; and (d) improve financial resilience by access to an immediate injection of cash for post-disaster recovery. Financial resilience is being improved under the program through PCRAFI, and additional financial products will be designed to complement PCRAFI insurance.

The Bank-supported disaster risk insurance pool products are market-based instruments. Their structures include risk transfers to reinsurers and international capital markets. The financial terms vary depending on risks covered, financial structure, and investor appetite for such risks and products at any given time. Donor funds were applied to both pools to reduce the financial costs of these instruments and lower the premiums for members;[9] in a few cases, donor funds have subsidized premiums.

Contingent finance facilities, like the CAT-DDO program in Seychelles, can help small states handle emergency needs and fiscal shortfalls immediately following a disaster. Policy exceptions may be required to make financing/risk management products adaptable to small states' needs. For the Seychelles CAT-DDO, the Board granted a policy exception to the volume limit of 0.25 percent of GDP. This waiver brought coverage from about US$3 million to US$7 million for a potential disaster response.[10]

Regional IDA support to small states can be accessed to supplement country-specific IDA allocations. The Bank enables countries that receive SDR 13 million or less in IDA funds each year—mainly small states—to leverage more financing than regular countries under the Regional IDA Program. Under IDA17, such countries are required to contribute only 20 percent of their national annual IDA allocation toward a regional project, with the remaining amount covered under the regional IDA envelope. This provision adds significantly to IDA's financing volume and has benefitted several small states. For instance, in FY15 the entire regional IDA envelope in the EAP Region was targeted toward small states in the Pacific, with six regional projects focused on regional aviation, disaster risk management, fisheries, and regional ICT. The total national contributions of SDR 30 million leveraged an added SDR 100 million from the regional IDA envelope.

While regional IDA has been an important means to boost access to IDA, it may come at the price of country-specific strategic priority. Eligibility for regional IDA may unwittingly bias the selection of resilience activities towards those that are regional in scale, such as pooled insurance risk assessment and early warning systems, over reduction of vulnerability, which is national by nature. Because of the generous terms for regional IDA applicable to small states, US$2 million in national IDA in the Comoros leveraged an additional $29.5 million in regional IDA for projects in telecommunications and fisheries. The opportunity to achieve this kind of financial leverage was important but does run the risk of favoring regional activities over national investments that might make an even greater contribution

9 This allows the instrument to cover more risk and reduces the need for reinsurance.

10 There is a proposal under IDA18 to extend the CAT DDO to IDA countries. This is subject to a recommendation by the IDA Deputies and approval of the WBG Board.

TABLE 3.1 Use of IDA CRW Resources by Small States (US$ million)

IDA16	
Samoa (cyclone)	20
Tonga (cyclone)	12
St. Lucia (floods)	17
St. Vincent (floods)	19
Djibouti (Horn of Africa drought)	10
IDA17	
Solomon Islands (floods)	10
Vanuatu (cyclone)	50
Tuvalu (cyclone)	3
Total	**141**

to the local economy as part of a power sector investment project.[11]

The IDA Crisis Response Window (CRW) also provides concessional financing, for small states to respond to an exceptional financial crisis or a natural disaster. It provides supplementary resources to respond to unexpected emergency situations. Small states are able to tap this additional IDA resource when a crisis occurs. During IDA17, Solomon Islands received CRW support in the aftermath of floods, and Tuvalu and Vanuatu obtained support after cyclones (see Table 3.1). Djibouti obtained access to CRW to respond to the Horn of Africa drought.[12]

3.3.3 The Blue Economy

Although small states may have a limited economic platform on land, they are often stewards of vast tracts of ocean that can be leveraged to expand economic opportunities. Kiribati, for instance, is geographically splintered, with 33 islands spread over 3.5 million square kilometers of ocean, an area the size of India. Solomon Islands is similarly geographically splintered, with 1,000 small islands spread over 1.3 million square kilometers of ocean. They have vast maritime economic zones.

Therefore, economic diversification beyond land-based activities is critical to lowering poverty, boosting shared prosperity, and achieving long-term development outcomes in small states. The WBG supports investments in the "blue economy"—that is, fisheries, aquaculture, coastal tourism, marine biotechnology, renewable ocean energy, and ports—to leverage the freshwater, coastal, oceanic, and maritime sectors. Marine resources are the base upon which small coastal and island economies are built. Fisheries offer opportunities for both women and men: men traditionally engaged in deep sea fishing, while women sorted and processed the fish catch on land. The Bank's program in support of the blue economy, sustainable fisheries, and marine ecosystems is growing. It launched a "Blue Economy Development Framework" in April 2016.

The Bank hosts the Global Program on Fisheries (PROFISH), an MDTF to support fisheries and aquaculture. To reduce poverty, improve economic growth, strengthen nutrition, and enhance economic opportunities for women, PROFISH aims to improve the environmental sustainability and economic performance of the world's fisheries, including those in small states, with a focus on the welfare of poor and fish-farming communities in the developing world. PROFISH financed seminal studies that established the economic case for improving fisheries and aquaculture. PROFISH provides significant support for small states, small island nations in particular, through its three platforms to help grow the blue economy: a pre-investment facility, investment roundtables and access to finance, and knowledge and global dialogue. PROFISH investments of US$4.5 million in research, analysis, and technical support have triggered US$1 billion in World Bank lending.[13]

11 There are funding constraints. Under the OECS RPF FY15–19, no regional IDA funding was available for the OECS because of high demand for regional IDA17 funds elsewhere in LCR.

12 The CRW may not always be sufficient to ensure responsiveness to shocks as it is at times unpredictable, limited in value, and difficult to access quickly.

13 PROFISH financed seminal studies, including *The Hidden Harvest* (2012), *Fish to 2030* (2013), and the forthcoming *Sunken Billions Revisited*. These studies established that fisheries and aquaculture employ 120 million workers and contribute US$500 million to global GDP, quantified the supply gaps, and identified the US$83 billion of forgone revenue each year from mismanaged fisheries. PROFISH created Allfish, which leveraged US$1.5 million from the GEF to secure an additional US$18.5 million in IFC and private investment.

The Caribbean Oceans and Aquaculture Sustainability Facility is a PROFISH partnership facilitated by the Bank that is designing a new index insurance product to ensure that small-scale fisheries are privileged for reinvestment before and following climate-change-related weather changes.

The Pacific Islands Regional Oceanscape Program is a regional program, funded through US$32.97 million in grants and credits from IDA, designed to strengthen the capacity of regional and national institutions to manage oceanic fisheries and ensure that the benefits of those fisheries are shared by Pacific Island countries.[14] The project will support sustainable coastal fisheries by linking coastal fish products to regional markets and will protect critical fishery habitats through conservation of the growing number of protected marine areas.

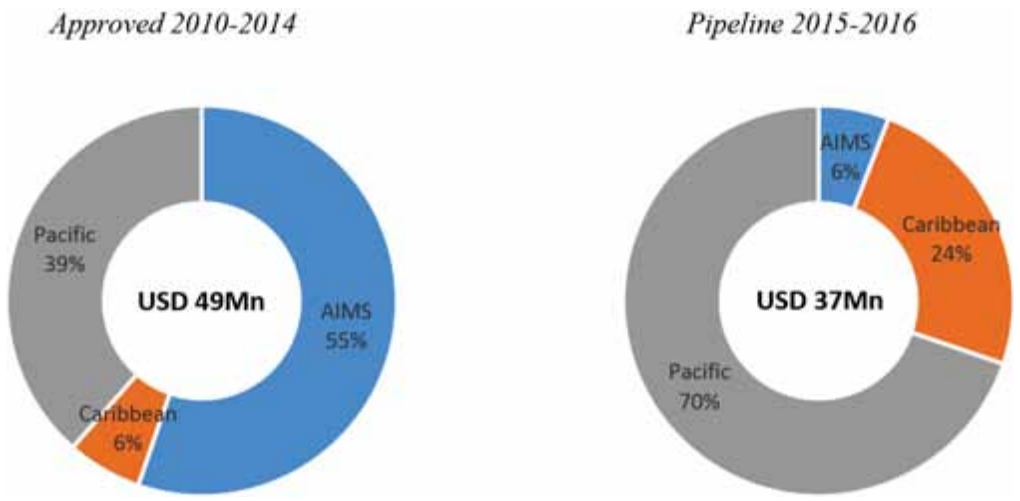
3.3.4 Energy

The WBG is one of the largest financiers of clean energy activities in small states, with a total commitment of US$87 million in current and future lending operations and knowledge work (see Figure 3.8). WBG support is administered through several programs and facilities. In addition to projects financed by IBRD and IDA, WBG clean energy support is funded by the (a) Climate Investment Funds, (b) GEF, (c) Energy Sector Management Assistance Program, (d) SIDS DOCK Support Program, and (e) the Asia Sustainable and Alternative Energy Program MDTFs.

WBG-facilitated energy assistance to small states covers a broad spectrum of activities, of which the largest share has been committed to solar PV projects, hydropower, and improving energy efficiency.

- ***Scaling up Renewable Energy in Low-Income Countries Program (SREP).*** The US$796 million SREP, a funding window of the Climate Investment Funds, was established to deploy renewable energy solutions in the world's poorest countries. SREP financing aims to pilot low-carbon development pathways, building on national policies and existing energy initiatives. It has financed the Pacific Regional Program for Solomon Islands and Vanuatu and clean energy projects in Kiribati and Maldives.
- ***Global Environment Facility.*** The GEF has supported more than 790 investment activities in 120 countries. GEF grants directly support actions to combat climate change and stimulate green growth in small states. GEF is currently

FIGURE 3.8 WBG Energy Funding in Small States[15]



14 This includes FSM, RMI, Solomon Islands, and Tuvalu.

15 AIMS refers to Africa/Indian Ocean Maritime States.

cofinancing a geothermal development project in St. Lucia.

- ***SIDS DOCK Support Program.*** The US$29.5 million SIDS DOCK Support Program was launched by the World Bank's Energy Sector Management Assistance Program with funding from the Government of Denmark and Japan and in partnership with the United Nations Development Programme (UNDP). The program is designed to help achieve the transformation of the energy sectors in SIDS. It has funded more than 20 projects, including TA for energy sector development in Vanuatu and Tuvalu and renewable energy scale-up in Seychelles and Mauritius.
- ***Asia Sustainable and Alternative Energy Program.*** This World Bank program has been helping the East Asia and Pacific and South Asia regions transition to sustainable and low-carbon green growth paths. Focused on operational support and project preparation for World Bank and GEF projects, the program has financed projects in Tuvalu, Maldives, and Tonga.

International cooperation. In the power sector in Comoros, the Bank has developed a formal cooperation arrangement with the African Development Bank (AfDB). The Bank's support to the sector is relatively small compared with that of other donors—US$5 million compared with US$23 million from the AfDB, US$10 million from Qatar, and a line of credit of US$41.6 million with the Export-Import Bank of India. Within this framework, the Bank has focused on reform and capacity building of the ministry and the utility, while other partners focus on investments in generation and distribution. While this coordinated approach has helped to increase the effectiveness of all partners' activities, there is a risk that progress on improving utility governance and commercial management could be held back or cancelled out if complementary investments in key areas like generation and grid rehabilitation are delayed.

3.3.5 Transport and ICT

The regional IDA envelope was used to finance airport infrastructure in the Pacific islands—investment that is beyond the resources available from the country-specific national IDA allocation. IDA's ability to mobilize these funds simultaneously for participating countries enables the synchronization of infrastructure investment across the region. This approach elevates International Civil Aviation Organization compliance ratings in the Pacific, ensures provision of critical airfield assets, and helps ensure safe air travel. Such investments address the core structural constraints PICs face, reducing economic isolation, lessening barriers to trade, promoting tourism, and improving mobility. The Pacific Aviation Investment Program (PAIP) was launched in 2012 to improve safety and security in international aviation in the Pacific. The initial investment was in Kiribati, Tonga, and Tuvalu, and the program now includes Samoa and Vanuatu.

- Through a regional series of IDA projects totaling US$188 million, PAIP finances the upgrade and maintenance of critical air transport infrastructure and supports technical assistance with master planning, air services agreements, and aviation sector strategies.
- PAIP aims to strengthen the regulatory environment through support to the Pacific Aviation Safety Office (PASO).
- The Vanuatu Aviation Investment Project, part of the PAIP, helps upgrade runways, terminal infrastructure, and air traffic control management for Vanuatu's three international airports. In addition, the project will strengthen Vanuatu's aviation regulator by developing an Airport Master Plan and an Aviation Sector Strategy. An IDA credit provided US$59.5 million for the project, and US$3.8 million was set aside for the emergency reconstruction of airports damaged by a Category 5 cyclone in March 2016.
- The Pacific Region Infrastructure Facility (PRIF) MDTF enabled PAIP to continue regional aviation safety and security oversight in eligible states through the IDA-financed PASO Reform Project. The funding allowed grant recipients to purchase regulatory oversight advisory services to meet international aviation requirements and standards. The Tonga PRIF grant facilitated the preparation of a new business plan for delivery of PASO services and implementation of aviation reforms.

The Pacific Regional Connectivity Program is designed to increase the availability of international bandwidth for participating countries. It supports the development of a wide range of ICT applications throughout the Pacific region, including support for fiber-optic submarine cables to increase access to high-speed Internet, facilitating business development, service delivery, and e-government. US$85 million has been committed under this program for Kiribati, FSM, Palau, Tonga, and Samoa.

The Bank has several transport and ICT interventions in African small states. The West Africa Regional Communications Infrastructure Project is intended to increase the geographic reach of broadband networks and reduce costs of communication services in the Gambia, Guinea, and Burkina Faso. Implemented on the lines of a horizontal adaptable program loan, IDA grant funds total US$92 million. The Cabo Verde Transport Sector Reform Project provides US$17.7 million in IDA financing to improve the efficiency and management of Cabo Verde's national road assets and lay the ground work for transport sector reform. The Botswana Integrated Transport Project, a US$186 million IBRD loan, is intended to enhance the efficiency of the transport system by building modern business management capacity and improving the strategic planning aspects of inter-regional and critical transport infrastructure.

3.3.6 Bank Instruments to Support Sustainable Development in Small States

DPF has been widely used to support policy reforms to enable small states to better adapt to climate change, strengthen disaster preparedness, and provide resources for infrastructure investments. In certain instances, it was the preferred instrument to support reforms that require policy and institutional reform. For example, two sector investment TA operations were launched in Mauritius to support competitiveness, but were canceled early in their implementation and replaced by DPLs. The CAT-DDO has also been used frequently; for example, a CAT-DDO is being prepared in Saint Lucia and the Dominican Republic to allow for immediate liquidity in the event of a natural disaster. The DNR financing initiative is another form of DPF: funds are disbursed against policy and institutional reforms to strengthen environmental sustainability and climate resilience.

IPF is the other most common financing instrument small states use to fund public investment. Examples include several disaster risk management projects, such as the Regional Disaster Vulnerability Reduction Project in the OECS, which supports the financing of resilient infrastructure and related institutional strengthening. An increasingly large share of the Bank's IPFs are regional in scope, including IDA-supported projects being prepared in the OECS—OECS Regional Tourism Competitiveness, and OECS SME Guarantee Facility.

IPF has been used to address livelihood-related issues. One example is the Solomon Islands Rural Development Program, which is designed to provide economic opportunity in rural areas by expanding community infrastructure and strengthening smallholder access to markets. The program provides benefits to 65,000 households—approximately 357,500 people, or 65 percent of the national population of 550,000 people. The majority of these households (about 48,000) benefit from improved community-driven rural services such as water supply, health and education facilities, transport, and energy.[16] Another example is the Pacific Islands Regional Oceanscape Program, described elsewhere in this paper.

Technical assistance is widely used in small states for sector diagnostics, specialized advice, or training. While other instruments are executed directly by the national governments, most TA in the Caribbean is executed by the World Bank or by regional

16 Approximately 17,000 smallholder farming households, agribusiness owners, and contributors to agriculture value-chains benefit from investments to improve agricultural productivity, marketing, and income. The grant of US$9 million from IDA includes US$4 million from the CRW, which is used to repair or rebuild small-scale infrastructure, agriculture, and livestock assets damaged or lost in the April 2014 floods. Other donors have co-financed this program.

organizations. The GFDRR has been a major conduit of technical assistance to small Caribbean states. Between FY11 and FY15 it provided 26 grants totaling US$9 million. Regional TA and analytical work is increasingly important. Recent examples include TA towards the establishment of a regional energy platform to support the implementation of a regional energy strategy for CARICOM. The Bank likewise supported sector work on "Building the Ocean Economy" in Mauritius. RAS are widely used in Seychelles and increasingly in Mauritius, when there is a premium on speed.

Risk pooling mechanisms, such as the CCRIF, have been used to help small states address key vulnerabilities. An example now under preparation is the Caribbean Oceans and Aquaculture Sustainability initiative, which aims to establish a regional fisheries insurance mechanism.

3.3.7 Sustainable Development-Focused Trust Funds and Small States

The Bank has supplemented IDA resources with trust-funded interventions to address climate change, natural disasters, and infrastructure, especially in the Caribbean and the Pacific: the Pacific Facility, which underwrites Bank administrative expenses in that region; the Pacific Regional Infrastructure Facility to fund sector work; the Australia Pacific Islands Strategic Partnership Trust Fund; and the Timor-Leste Strategic Partnership MDTF. Two other examples of trust funds targeted at small states are described below.

- ***Least Developed Countries Fund (LDCF).*** The LDCF was established in 2001 through funding contributions from 25 donors, to address the needs of least developed countries whose economic and geophysical characteristics make them vulnerable to the impact of global warming and climate change. As of the end of 2015, approximately 68 percent of LDCF financing had been directed to countries in Africa, and approximately 29 percent to those in Asia and the Pacific. The 12 current and former least developed countries that are also SIDS accessed US$172.6 million from the LDCF, or approximately 19 percent of total approvals.
- ***Guyana REDD+ Investment Fund (GRIF).*** The GRIF represents an effort to create an innovative climate finance mechanism that promotes national sovereignty over investment priorities while ensuring that REDD+ funds adhere to the highest internationally recognized standards for financial, environmental, and social safeguards. The GRIF was established in October 2010, with the World Bank as Trustee, following an agreement signed between Guyana and Norway in November 2009, in which Norway agreed to provide Guyana up to US$250 million by 2015 in performance-based payments for avoided deforestation.

Small states may also tap World Bank-administered financial intermediary funds for climate adaptation and disaster-related assistance.

- ***Green Climate Fund.*** Targets 50 percent of its support for climate change adaptation to least developed countries, SIDS, and African states.
- ***Adaptation Fund.*** Intended to help developing country parties to the Kyoto Protocol that are vulnerable to the adverse effects of climate change meet the costs of adaptation and climate resilience; it has approved over US$300 million in grants to date.
- ***Climate Investment Funds.*** The Clean Technology Fund aims to scale up investments in low-carbon technologies, and the Strategic Climate Fund supports programs to pilot innovative approaches to climate action. The World Bank administers the two trust funds and is one of six Implementing Agencies.
- ***Global Environment Facility (GEF).*** Established in 1991 by the World Bank to help protect the global environment, the GEF provides grant and concessional funding to help achieve global environmental benefits in the areas of climate change, biological diversity, international waters, ozone layer depletion, land degradation, and persistent

organic pollutants. The GEF consists of 182 participating countries and 10 Implementing Agencies.

The World Bank administers the Global Facility for Disaster Reduction and Recovery (GFDRR), a global partnership that helps developing countries reduce their exposure to natural hazards and adapt to climate change. Supported by 34 countries and 9 international organizations, GFDRR provides grant financing and technical assistance to mainstream disaster and climate risk management.[17]

3.3.8 Treasury Program

The World Bank Treasury Department provides financial products to help disaster-prone small states insure themselves against the high costs of post-disaster reconstruction. For small states, financial leverage, blending of concessional and non-concessional funds, and pooling of financial resources to enhance market access and private sector participation can support doing more with less. The Treasury Department supported the design, structuring, and implementation of the disaster risk insurance pools CCRIF and Pacific Disaster Risk Financing and Insurance Program. Treasury also deploys its capital markets expertise on behalf of small states. A key benefit is the cost savings and market access they gain; the World Bank acts as intermediary with the markets, using its triple-A credit rating to leverage additional funds.

3.3.9 The World Bank's Procurement Framework

Streamlined arrangements for small states. The Bank's New Policy for Procurement in Investment Project Financing and Other Operational Procurement Matters became effective in July 2016. The new framework provides clients much more choice with respect to procurement approaches and selection methods, and increased procurement support based on risk. The optimum procurement approach for each operation will be based on the findings from an analysis of project needs, market risks, and other influencing factors identified through a Project Procurement Strategy for Development. Procurement arrangements in Bank-financed operations will now be context-specific, and requirements that could lead to an increased burden on borrowers have been reduced. The new framework allows for tailored procurement approaches in small states.

The Bank will provide hands-on expanded implementation support to countries that (a) are in urgent need of assistance because of a natural or man-made disaster or conflict, or (b) have capacity constraints because of fragility or specific vulnerabilities, including for small states. *Hands-on expanded implementation support* does not mean that the Bank will execute procurement on behalf of the borrower; rather, it means that the Bank will give much more physical support to the borrower to advance a procurement. The new framework also emphasizes the need to prioritize capacity building—particularly in situations of fragility and conflict, small states, and IDA countries—and to provide adequate funding for building capacity where needed. This will help provide more certainty and capacity in the procurement process, speed up delivery, encourage more businesses to bid, improve quality in the highest-risk and lowest-capacity situations, and provide more added value from the Bank.

Other features of interest to small states: (a) use of the alternative procurement arrangements of another multilateral development bank, bilateral or international organization, or borrower agency; (b) flexible use of Framework Agreements, including a borrower's existing Framework Agreement; use of the Bank's Framework Agreement with a UN organization; and use of Framework Agreements for selecting consultants; (c) flexible use of UN agencies;

17 Over the past 5 years, GFDRR has provided close to US$40 million in technical and implementation assistance for resilience in small island states through its European Union-funded Africa, Caribbean and Pacific Program.

and (d) use of e-reverse auctions. This flexibility is expected to help small states use Bank financed IPFs more effectively.

3.4 Lessons Learned

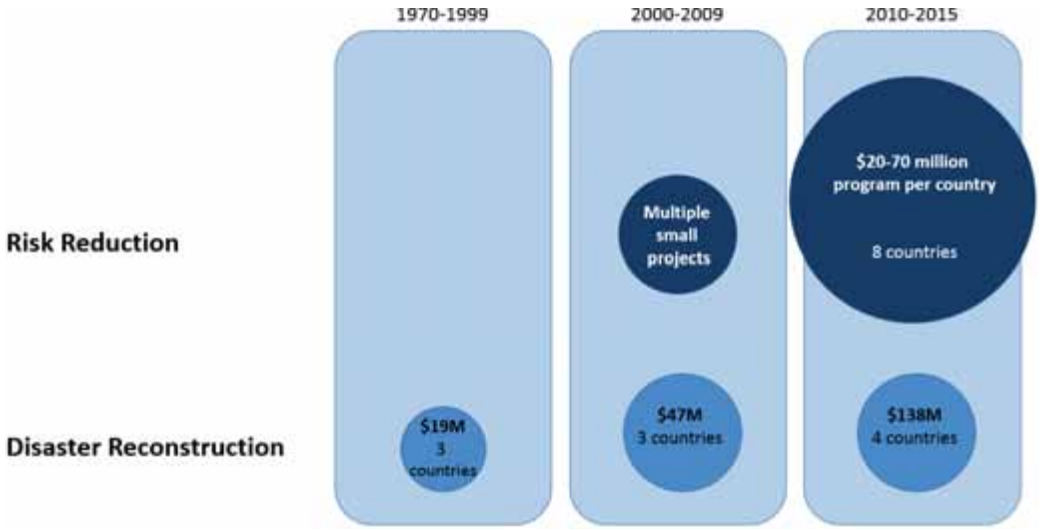
The WBG's resilience investments have increased. Starting with disaster response operations dating back to the 1970s, the WBG was engaged in ex-ante disaster risk management investments in the early 2000s, with initial operations in Kiribati, Samoa, and Saint Lucia. Three factors explain the continuing rise in disaster operations:

- The establishment of GFDRR allowed for intensive technical and fiduciary assistance to clients and dedicated teams in the Caribbean and Pacific.
- Placing program coordination and fiduciary management under a single government unit, often located in the Ministry of Finance or Office of the President, facilitated policy reforms across sectors.
- The introduction of programmatic operations that combined several sources of financing—IDA, IBRD, or Pilot Program for Climate Resilience funding—increased the financial envelope.

Aggregating funding sources ensured scale and lowered transaction costs. Both PREP and the Caribbean Resilience Initiative and Program pooled national and regional IDA, Pilot Program for Climate Resilience, GEF, and GFDRR funding. This had the advantage of leveraging much larger sums, reducing administrative burden, and using grant components to soften IDA or IBRD terms. By using a single set of procedures and a single coordinating unit, countries were better able to manage larger amounts of financing. This reinforced proactive climate and disaster risk management. Many Caribbean countries embarked on comprehensive and multisector programs that address key risks to citizens and lower contingent risk to the public finances.

While implementation capacity in small states is a bottleneck, experience demonstrates that it can be addressed. In the 2000s, most Caribbean countries were managing multiple small projects of US$1 million to $5 million each. A decade later, thanks to intensive, hands-on implementation support to central coordinating units, eight countries[18] were directly managing climate and disaster resilience projects of US$20 million to $70 million (see Figure 3.9). The cost of this dedicated support in the

FIGURE 3.9 Timeline to Scale up Resilience Investments and Build Implementation Capacity in the Eastern Caribbean



18 Dominica, Dominican Republic, Grenada, Jamaica, Saint Vincent and the Grenadines, and Belize.

Caribbean was approximately US$3.3 million per year. The approach is to be expanded under SISRI to help raise implementation capacity in other regions, including the African/Indian Ocean islands.

High-level and centralized coordination helped ensure commitment across line ministries, facilitated policy reforms, and placed small states firmly in the driver's seat when implementing donor-funded projects. Several countries, including Samoa, Tonga, Belize, Saint Lucia, and Kiribati, have combined mandates for disaster risk management and climate adaptation, using a single program management unit across projects and elevating coordination to a high-level ministry—the Ministry of Finance or the Office or the President.

Both IDA's CRW and regional programs have proven extremely valuable in providing tailored and scaled-up support to small states. In the Pacific, regional programs have helped overcome the economies-of-scale constraint and deliver improved development outcomes (i.e., in the areas of telecommunications, fisheries, aviation, and disaster risk management). It will be important to further strengthen these windows in IDA18. Tailored operational approaches, such as piloting flexible procurement procedures, can be useful when dealing with small markets and conditions of low capacity. Options should be explored to provide financing support to small island states, such as Palau and Nauru, which are "gap" countries—that is, they do not receive support from IBRD or IDA. Small states with weak capacity would benefit from a dedicated IDA preparation facility that would finance project identification and development. While the CRW has been a very effective mechanism through which to access incremental funding following a significant disaster, it can only be accessed in very specific instances. IDA could be more responsive during recovery efforts if it had a specific facility and could release a limited amount of IDA funding on a fast-tracked basis.

Social safety nets help build social resilience in small states. Climate change leads to shocks that can push households into poverty. Natural disasters cause asset loss and disability, health shocks, and crop or food price shocks. Poor households are disproportionately affected as they often reside in marginal lands, have less robust housing, and lack savings or access to financial intermediation. Social safety nets can prevent recourse to such negative coping strategies as withdrawing children from school or selling tools or livestock. Jamaica demonstrated the potential gains through a conditional cash transfer program that allowed for rapid payments to vulnerable households following Hurricane Dean in 2009 and Hurricane Sandy in 2012.

Coastal resilience requires a combination of engineering, policy, and environmental solutions. Small island states have a high ratio of coastline to land area and a large share of population living near the sea. Atoll nations have limited availability of sand and coastal aggregates, limited options to relocate populations and assets inland, and uncertainty about how coastal processes such as erosion will materialize. There is an emerging body of knowledge on engineering options for atoll nations and the use of environmental approaches, such as the use of mangroves and coral reefs to shield settlements from waves. Robust principles can be defined to help small, island states decide whether to protect or retreat from coastal areas at risk. The Bank has a role in disseminating global experiences and scaling up solutions that blend these approaches.

Safe land use requires effective urban spatial planning, accurate risk information, and community engagement. Land use regulations can ensure that development is confined to places that are safe or can be effectively protected using infrastructure. In small island states, the availability of hazard and exposure information has improved through such regional risk pooling initiatives as CCRIF and PCRAFI. Samoa and São Tomé and Príncipe are among small island states that have successfully used risk information for participatory community planning while moving infrastructure and settlements away from hazard zones.

The Bank provided hands-on support to Caribbean countries, using a dedicated team of Bank

experts—largely supported by trust funds—who were able to provide day-to-day implementation support to national institutions. As one example, the World Bank assisted Belize in undertaking an extensive risk assessment of its transport network in 2013, classified by flood susceptibility. The Ministry of Economic Development incorporated the findings into a National Climate Resilience Investment Plan, with a targeted investment of US$430 million. By 2014, the Government had mobilized multiple sources of funding, and had nearly closed its financing gap. By having a clearly articulated investment plan, Belize gave donors the confidence to collectively support its strategy.[19] In the broader Caribbean area, for a decade the World Bank organized annual operational training for country practitioners, bringing procurement, financial management, safeguards, and technical staff together to share experiences and form a community of practice. It organized technical training sessions on specialized areas such as geospatial data management, risk assessment, post-disaster needs assessment, community-based landslide risk reduction, disaster risk financing, and insurance. Instead of requiring costly external audits, the World Bank helped strengthen national Auditor General offices and encouraged more experienced Caribbean countries to assist weaker ones, thus fostering south-south learning.

Growth in power generation has been very slow despite the abundance of renewable energy resources in many small states. This may be attributable to several challenges—concerns about the high up-front costs of renewable energy alternatives; concerns about the intermittency of (some) renewables and the impact on small grids; and the reluctance of some utilities to change their current generation model, which has proven lucrative over many years. The capacity of utilities to engage in renewable energy development is limited. The time to conceptualize and implement a sound renewable energy roadmap in a small state is too long in comparison with political time-line, which always leads back to the conservative solution of thermal power generation.

Tailor WBG operations to the very limited capacity in small states. The implementation of projects in fragile environments faces such challenges as weak government ownership, lack of knowledge of WBG procedures, and limited availability of skilled technical staff. A greater effort needs to be made to ensure project readiness before implementation begins and to accommodate the very limited capacity to implement Bank procedures. Teams should explore project readiness filters that can help ensure that a project can be up and running soon after effectiveness. Periodic joint portfolio reviews (government/implementing agency and Bank) can also help identify bottlenecks and put in place actionable plans to improve project performance. Having Bank staff in the field is key to understanding the political economy context and providing hands-on implementation support to Bank operations.

3.5 Looking Ahead

The WBG would explore options with its development partners to scale up innovative financing instruments to address climate change and natural hazards. This would include debt-for-nature swaps, improved small state access to climate funds, scaled-up disaster risk insurance pools, strengthened disaster preparedness, and more closely aligned climate adaption and poverty reduction policies.

The transition to locally produced renewables could do wonders for small states, given the fiscal cost of imported fossil fuels. Many countries have significant geothermal reserves in multiple countries, and many more could take advantage of distributed solar and wind power, but they do not exploit these sources because of budget constraints. The WBG would play a helpful and intermediary role by brokering public-private partnerships and getting the appropriate regulatory context in place.

19 To achieve this, the Bank had to increase its implementation support team from 2 dedicated staff visiting countries twice a year in the early 2000s, to 12 full-time staff, visiting 4–6 times a year.

This would lessen fiscal pressures, reduce input costs for domestic light industry, boost competitiveness, and alleviate energy poverty.

The blue economy is a global public good. Several small states are stewards of vast marine territories. Their growth prospects can be strengthened with an emphasis on a sustainable fishing economy. This, however, would require appropriate oceans governance to ensure sustainability, avoid over-exploitation, and guarantee equity in the use of shared resources. The WBG stands ready to work with the UN and regional development banks to help the global community address issues of international fishing and better define norms of oceans governance.

There will be continued focus on improved transport and IT connectivity along the lines of what is already happening in the Pacific in partnership with Australia's Department of Foreign Affairs and Trade.

The WBG would work to facilitate a policy consensus on whether and how resilience and vulnerability indices could be factored in while apportioning concessional aid. It would partner with the UNDP and the Commonwealth Secretariat in this regard. The issue is discussed in greater depth in the concluding chapter of this paper.

4. Small States: Health, Gender, and Conflict

4.1 Health

Small states face significant health sector challenges. While small states have made progress on standard health indicators such as infant mortality, there is still an unfinished agenda of low child immunization rates, the reemergence of vector-borne diseases such as dengue, and the challenge of non-communicable diseases (NCDs). The seven countries in the world that have the highest share of overweight adults—around 80 percent—are in the Pacific. There is a high incidence of diabetes, cardiovascular diseases, and cancer. The proportion of premature deaths from NCDs in the Pacific is far higher than average for lower-middle-income countries. Health sector resources are being channeled toward coping with urgent late-stage care rather than addressing NCD risks at an earlier state. Micronutrient diseases are also common in the Pacific, where a World Health Organization study found a fifth of children and pregnant women to be anemic. There are issues of poor health sector delivery, lack of economies of scale, a relative shortage of medical practitioners, and high costs for pharmaceuticals. In small states of southern Africa, the spread of pandemics like HIV/AIDs has stretched already thin capacity, affecting the labor market and fiscal balance.

The Pacific countries have achieved progress in health over the past 20 years, but women are still at risk. Despite encouraging trends in decreasing child mortality rates and improving maternal health in the Pacific countries, women face challenges because of persistent gender inequalities in access to education and in income, social protection, health care, and decision-making. In addition, rates of violence against women are high. In the Pacific, NCDs[1] particularly affect women: women are consistently more likely to be obese than men[2] and, in some countries, to die of NCDs.

Small states in the African continent and the Caribbean region suffer from system-wide problems in the health sector. This is a result of such factors as the lack of minimum infrastructure and equipment in health care facilities. There are also financial and geographic barriers to health care access. There are poor referral systems between health centers and hospitals, which are often regional or even outside the countries. Labor costs are high because of the lack of skilled workers trained in maternal and child health. For example, Lesotho has one of the worst ratios of health workers to population in sub-Saharan Africa, with just over one health professional per 1,000 persons. There is also typically no formal medical education system in the countries, aside from nursing schools.

The inadequate number of health care workers translates into a low utilization of health care facilities. The limited access to emergency obstetric and neonatal care affects maternal mortality indicators. In Swaziland, Lesotho, and The Gambia, weaknesses in health care performance have contributed to worsening outcomes in maternal and newborn health. Likewise, in Djibouti, health indicators remain among the lowest in the world. Several small states also have the highest HIV adult prevalence rates in the world—Swaziland at 26 percent and Lesotho at 23 percent—contributing to a considerable decline in life expectancy at birth.

1 The main NCDs affecting the PICs are cardiovascular diseases (including high blood pressure, heart attacks, cerebral strokes), diabetes, and cancers. Of the top 10 diabetes-prevalent countries in the world (as percent of 20- to 79-year-olds, 2013)—Tokelau, FSM, RMI, Kiribati, Cook Islands, Vanuatu, Saudi Arabia, Nauru, Kuwait, and Qatar (International Diabetes Federation: International Diabetes Atlas, 6th Edition, 2013)—7 are in the Pacific region. NCDs account for around 70–75 percent of all deaths in the PICs.

2 Bending the Non-communicable Diseases Cost Curve in the Pacific, draft, World Bank, January 2016.

4.2 Gender

The gender dynamics in small states are particularly relevant to human development outcomes. There are frequent gender-based discrepancies in the education sector and in the labor market. While there is often gender parity at lower levels of education in the Caribbean, for instance, more girls than boys pursue higher levels of education. The gender parity index for tertiary school enrollment is 2.05 for the Caribbean small states, considerably higher than the 1.28 regional average for Latin America and the Caribbean. However, greater female education does not translate into labor market opportunities. In 2015 in Belize and Guyana, the female labor force participation was 52 percent and 45 percent, respectively, compared to male labor force participation of 85 percent and 82 percent, respectively. Further, women on average receive lower wages than men. When women in small states do start to participate more widely in the labor market, it is often due to push rather than pull factors, as illustrated in sub-Saharan African small states. Since the early 1990s the number of opportunities available in South African mines for Basotho men declined dramatically, while the preferential trade terms of the United States Africa Growth and Opportunities Act facilitated the expansion of the garment export sector in Lesotho, opening opportunities for women. This development notwithstanding, households tend to experience large increases in welfare only with male migration. While the rate of female labor participation in Bhutan is almost as high as men's (67 percent vs. 72 percent), women tend to be concentrated in lower-paid, less secure jobs and to hold fewer managerial or professional positions. Occupational segregation is a major barrier to women's employment in the Maldives. The fishing industry is a major source of income, but women are not employed in this industry; in tourism, another large employer, men account for 87 percent of the employment. Women are concentrated in the lowest-productivity and lowest-skills sectors. Domestic labor markets are small in many small states, and the few opportunities that exist tend to be concentrated in urban centers. Women have fewer opportunities to move overseas. Legal migration opportunities in the context of seasonal worker programs in Australia and New Zealand, for instance, have been limited for women in the Pacific: female participation rates are less than 20 percent in both programs. (Annex C discusses the subject of gender and small states in more depth.)

Health outcomes in small states have a gender dimension as well. The small Caribbean states are generally characterized by close to universal access to prenatal care and births attended by skilled staff, although the maternal mortality rates vary substantively: from under 30 maternal deaths per 100,000 live births in Belize and Barbados, to 155 in Suriname and 229 in Guyana. Botswana, Lesotho, Namibia, and Swaziland are characterized by high levels of HIV prevalence, with women making up more than 50 percent of those infected. Women are not only disproportionately affected by HIV in terms of infections but also in terms of the burden of care that is placed on them by traditional gender roles. This reduces women's ability to engage in income-generating activities. The low-income small states in Africa (Comoros, Gambia, Guinea-Bissau) are still struggling with basic human development issues. For example, with regard to maternal mortality, these countries have an average rate of 530 deaths per 100,000 live births, compared to averages of 216 and 269, respectively, for the lower-middle- and upper-middle-income African small states. (Annex C provides more information.)

Women are often under-represented in the political process. In terms of women's parliamentary participation, the small Caribbean states (19 percent) lag behind the LCR average (28 percent). In Botswana and Mauritius, two upper-middle-income countries in the African small states group, women hold only 9.5 percent and 11.6 percent of parliamentary seats—less than half the sub-Saharan African average of 23.4 percent. Women's political representation in parliament in the Pacific is the lowest of any global region (at 13.4 percent), compared to an average of 20 percent across all developing nations.

Gender-based violence is endemic in most small states. In the Caribbean, men and women engage in different kinds of risk behaviors: males are more

Basket weavers in Ongula, Namibia (2012). Photo by Philip Schuler, World Bank.

likely to drop out of school, enter the workforce prematurely, demonstrate violent behavior, and engage in substance abuse, while females engage in early and risky sexual activity. In Jamaica, inadequate economic and employment opportunities, limited participation in post-secondary education, weak family connections, and the absence of fathers create an environment in which aggressive masculine identities prevail. Violence in partnerships is common in Jamaica, with 17 percent of women reporting physical abuse by a partner or ex-partner and nearly one in two young women categorized as having had coerced first sexual intercourse. Gender-based violence is also high in the Pacific countries. Beyond the human costs, violence incurs major economy-wide costs such as expenditure on service provision, forgone income for women and their families, decreased productivity, and negative effects on human capital. A recent World Bank study estimates that the costs of intimate partner violence annually are close to the average that developing country governments spend on primary education.

A significant gender-related constraint that appears to affect a wide range of small states, regardless of income level, is access to land. This is especially relevant in sub-Saharan Africa, where agriculture accounts for a large portion of earnings, particularly for the poorest people. These countries are characterized by dual legal systems: while statutory law includes provision for gender equality, customary law and practices—which often dictate what happens in reality—tend to discriminate against women with regard to land inheritance and ownership. Research suggests that women's less secure access to land is an important constraint because it may reduce the incentives for women to make productivity-enhancing investments. Similarly, in the Pacific the vast majority of formal businesses are owned and controlled by men. In the PICs, almost all land is customarily owned and transferred through traditional cultural systems, under which women and men access land through customary arrangements and not through purchase. Women do not have a right to access land independent of a male relative, but only as an extension of socially constructed gendered roles as

daughters, wives, or mothers. In Pacific countries where land is communally held, the asset is often administered by a person in a position of traditional authority—nearly always a man. Women have much less access to assets than men in the Maldives, partly because of gender-differentiated property rights under Shari'ah Law. In Bhutan, however, about 60 percent of rural women have land registered in their names, and 45 percent of property titles in urban areas are registered to women.

Exclusion, discrimination, and lack of protection inhibit growth. Exclusion and violence based on sexual orientation and gender identity are extensive in several small states, in particular in the Caribbean.[3] In addition to allowing serious rights-based violations, this situation costs the economy greatly, including lost labor time and the inefficient allocation of human resources through discrimination in education and hiring practices, which in turn affects broader economic output. Although data are limited, there is a clear link between lower GDP outcomes, on one hand, and discriminatory laws and fewer protections for lesbian, gay, bisexual, and transgender (LGBT) persons, on the other. A combination of discriminatory laws, fewer legal protections, and social stigma creates numerous protection gaps and specific vulnerabilities—for example, in accessing health care, housing, and employment[4]—limiting an LGBT person's equality of opportunity, and thus hindering the country's key economic development outcomes.

4.3 Conflict

Not all small states suffer from conflict, the traditional source of fragility. The Caribbean states tend to be middle- to upper-income states where British colonial institutions have taken firm root. They have few instances of overt conflict. The Pacific and African/Indian Ocean states, however, are climate-fragile and often lower-income, and as a result more fractured. Fiji, Solomon Islands, Timor Leste, the Comoros, Djibouti, The Gambia, and Guinea-Bissau have all suffered coups and conflict. Others, such as small PICs (Tuvalu, FSM, Kiribati, RMI, Samoa, Tonga) show no indicators of violence or political instability; fragility risks in those countries are mainly linked to weak capacity; climate change threats, which can exacerbate competition over resources (water, arable land, fisheries); livelihood insecurity; migration flows; financial uncertainty; and food insecurity. In a similar vein, context-specific forms of internal migration are contributing to rapid urbanization, which in turn can generate unemployment, precarious living, poverty housing, health problems, and diminishment of land tenure systems. At the same time, it is worth mentioning that several small states—mono-ethnic states such as Samoa, Tonga, and Tuvalu, as well as many of the Caribbean island states—enjoy a large degree of social cohesion, an asset that can be leveraged for improved development outcomes.

Some small states are affected by drivers of fragility such as weak governance. The governance drivers of fragility range from state legitimacy and institutional fragility to the dynamics of patronage and rent-seeking. Some small states have weak rule of law and also face a plurality of governance orders and tensions between conventional and more traditional forms of dispute resolution mechanisms—all of which affect the capacity to effectively deliver services, respond effectively to shocks, and fulfill the social contract between state and citizens. With the expected acceleration of investment in tourism, agriculture, infrastructure, and natural resources in small states, the volume and intensity of land transactions will increase. Nontransparent leasing operations can intensify social conflicts by virtually dispossessing groups of land or by imposing unfair leasing terms. In particular, where land governance is unclear or safeguards against elite capture are weak, social contests over the distribution of profits

3 Some countries in Central America, and in particular the Caribbean sub-region including Guyana, are not advancing toward inclusion and have punitive and discriminatory laws against LGBT identities. In LCR, countries that have made homosexual acts illegal and can be considered as regressing include Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Source: Latin America and Caribbean Region, *Addressing Social Exclusion based on Sexual Orientation and Gender Identity*, 2016, p. 15.

4 Draft: Combined Country Gender Action Plan for the PIC9 Countries, 2016, p. 30.

and benefits can be expected to rise. This is also true for urbanization, as several small states experience migration from rural areas or outer islands and their institutional capacity to deal with the challenges is weak. In addition, there are ethnic fractures in such small states as Fiji, Guinea-Bissau, Guyana, and Solomon Islands.

Several of the PICs, as well as The Gambia and Guinea-Bissau, are on the WBG's list of fragile and conflict-affected situations.[5] Others—Djibouti, Fiji, and the small Caribbean states—are not officially on the list but also exhibit key fragility, conflict, and violence (FCV) characteristics: (a) weak capacity, lack of economic viability, and aid dependency (e.g., small PICs); (b) urban-rural divide, unemployment, and youth bulge driving urban violence (e.g., Solomon Islands, Timor-Leste, Caribbean states); (c) poor governance of natural resources and land transactions (Vanuatu, Solomon Islands, Timor-Leste, African states); (d) unfinished political transition and elite capture (e.g., Djibouti, Guinea-Bissau, Fiji); (e) inequitable access to justice and culture of impunity (Djibouti, Guinea-Bissau); and (f) gender-based violence (most prominently in the Pacific and Caribbean).

Climate change leading to natural disasters and environmental degradation is not just a stress factor, but a threat multiplier, exacerbating fragility risks. Climate-change-related migration or loss of access to natural resources and arable land can lead to increased competition over scarce resources, especially in contexts with overlapping land regimes and unclear land rights. Conflicts stemming from livelihood insecurity can lead to increasing stress on weak institutions, further undermining state legitimacy and social cohesion. Additionally, where women's rights and socioeconomic status are not equal to those of men, women are particularly vulnerable to the effects of natural disasters and climate change.[6]

4.4 World Bank Group Response

Between FY05 and FY15, the Bank provided health, nutrition, and population (HNP) support to roughly a third of all small states (18 of the 50 countries) (see Figure 4.1). Over this period the Bank's total HNP financial support to small states amounted to US$252 million—about 50 percent in IBRD loans, 30 percent in IDA credits and grants, and 20 percent in grants financed by various trust funds. This represented 1.3 percent of total HNP lending over the same period (US$19.7 billion) but 8.2 percent of the total number of HNP projects (31 of the total 379 projects). Support to small states has generally reflected the overall HNP portfolio in terms of thematic focus (see Figure 4.2). The FY16–17 lending pipeline to small states includes an additional US$115 million for four projects in Botswana, Gambia, Montenegro, and Gabon. In accordance with the overall HNP agenda of increasing support for integrated health services, these projects will focus on enhancing health system performance and will include investments in child health and nutrition.

In terms of advisory services and analytics (ASA), 26 tasks were delivered in HNP (FY05-15) in 16 small states, and another 12 are due to be delivered in FY16–17. Of the total 38 tasks, 13 were in seven countries that did not receive Bank financing for operations (5 of these are being delivered in FY16–17). As Figure 4.3 shows, the ASA tasks in small states focus predominantly on health system performance issues. The focus on other areas is similar to that in Bank-financed operations in terms of overall volume. As with project financing, there is no special emphasis on NCDs. The Bank provided extensive support to the health sector in Mauritius, including various health sector assessment missions and a Public Expenditure Review.

5 The small states that are on the World Bank's list are Comoros, FSM, The Gambia, Guinea-Bissau, Kiribati, RMI, Solomon Islands, Timor-Leste, and Tuvalu. Other countries also have pockets of fragility.

6 World Bank (2016). *Pacific Engagement Note: Gender*, February 11, 2016.

FIGURE 4.1 HNP Lending in Small States, FY05–15

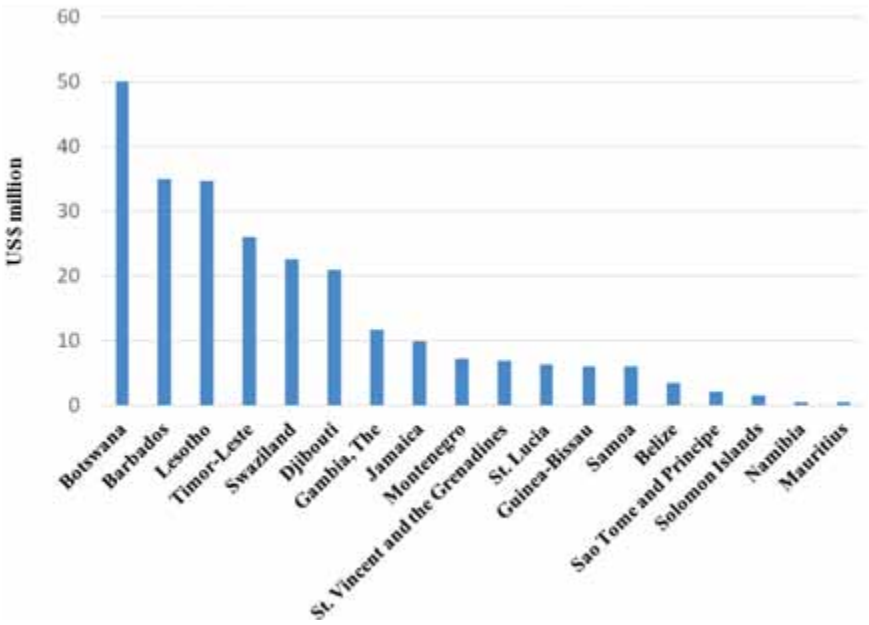
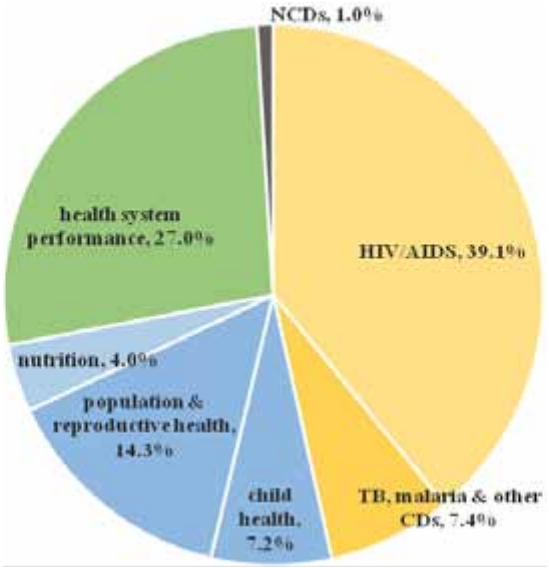


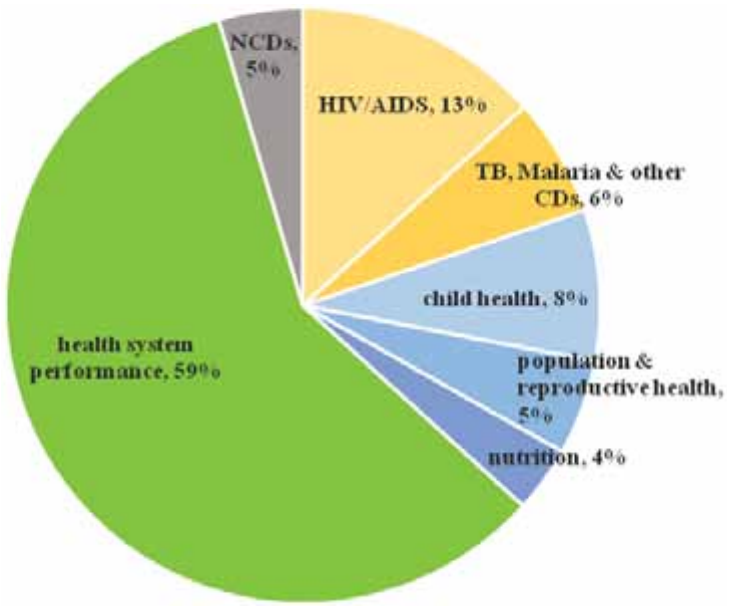
FIGURE 4.2 HNP Lending to Small States (FY05–15), by Theme



The WBG seeks to develop gender-sensitive disaster responses. In Saint Lucia under the Disaster Vulnerability Reduction Project, a model for gender-sensitive post-disaster response and gender-inclusive climate adaptation finance is being developed. The gender-inclusive climate adaptation financing facility is a new product to Saint Lucia; it will be designed to allow distilling lessons learned from the Saint Lucia context, which can then inform and be applied to projects in other country contexts—particularly in the Caribbean and other small states.

It also seeks to integrate gender in small states programs. The 2016 WBG Gender Strategy lays out the following strategic objectives: (a) improving human endowments, (b) removing constraints for more and better jobs, (c) removing barriers to women's ownership and control of assets, and (d) enhancing women's voice and agency while engaging boys and men. For small states, the particular focus on NCDs, the school-to-work transition, particularly for young women, and the focus on designing social safety nets that consider gender vulnerabilities will be particularly important. Equally relevant is the focus on removing obstacles to better jobs, such as lack of child care services, unsafe transport, and occupational sex segregation, coupled with increasing women's access to finance and control of assets. Finally, the strategy emphasizes tackling gender-based violence and increasing the voice and agency of women, for example through community-driven development interventions or increasing the representation of women on local water governance

FIGURE 4.3 HNP ASAs—Small States (FY05–17), by Theme



boards.[7] Several of the community-driven initiatives for small states are designed to ensure women's leadership, participation, and decision-making. For example, in the Rapid Employment Project and the Rural Development Project in Solomon Islands, gender-disaggregated result indicators are tracked to ensure gender equity in project activities.

The Jamaica Next GENDERation Initiative, FY13–16, aimed to help reduce violence in Jamaica by learning how norms play into violent behavior among youth, promoting a positive dialogue around gender stereotypes, and raising awareness of the link between perceptions of gender roles and violence among youth. The initiative included research and consultations and a highly participatory and youth-centered awareness campaign, with social media, school- and community-based dialogues, and engagement of civil society and government stakeholders involved in violence prevention. The awareness campaign, April 2015 to January 2016, reached more than 600,000 users through social media, with a total social media reach for the period exceeding 4.5 million impressions. Almost 6,000 youth were directly engaged through youth outreach activities. The live broadcast of the Next GENDERation youth forum on gender and violence had over 600,000 viewers. The initiative was funded by Bank budget and the Umbrella Facility for Gender Equality, and built on a strong partnership with the Planning Institute of Jamaica; the Bureau of Women's Affairs; the Ministries of Youth and Culture, Education, and National Security; and a network of youth and youth leaders.

Fragility, conflict, and violence. A major change in the WBG approach to the FCV agenda was motivated by the 2011 WDR, which concluded that development efforts must begin by identifying stress factors and drivers and then use this understanding to devise solutions that best fit the particular context of a country. This has led to the more systematic use of fragility assessments in designing WBG strategies and operational responses. Such assessments have been carried out for Djibouti, Guinea-Bissau, Comoros, and the small PICs (see Box 4.1). In several countries, the WBG has also undertaken more in-depth studies of sources of growth for post-conflict recovery (Solomon Islands), local-level justice problems, crime and violence (e.g., Solomon

7 Gender strategy, 2016, p. 29.

BOX 4.1 Guinea-Bissau: A Fragility Assessment in a Small State

In June 2015, a joint team of the WBG and the UN prepared a fragility assessment for Guinea-Bissau. Along with highlighting the key drivers of fragility and setting out recommendations on ways to manage these drivers, the assessment also offered a fresh perspective in support of a successful application under IDA17's Turn-around Regime.

Guinea-Bissau is among the poorest and most fragile countries in the world. It ranked 177 out of 187 countries on the Human Development Index in 2014, and almost half of the population lives in extreme poverty. Political instability has been a defining feature for the country since its independence in 1974. The most recent coup d'état, in April 2012, occurred in the midst of the run-off of the presidential election. Almost all international partners pulled out, and the bad cashew harvest hit country's biggest source of foreign revenue. Free and fair elections were held in 2014, and the international community pledged US$5.1 billion in assistance.

The Fragility Assessment identified five key drivers of instability: (a) an unfinished political transformation and a disconnect between state and society; (b) military interference in the political and economic spheres; (c) impunity and a weak justice sector; (d) captured economy and poverty; and (e) lack of institutional capacity and rural-urban divide. The assessment made the following recommendations to promote peace and stability:

- Accelerate delivery of the existing WBG program in ways that directly benefit the population, especially outside Bissau. Priority could be given to social assistance programs, cash transfers, and programs that can showcase the benefits of peace and stability outside the capital.
- Address drivers related to justice and rule of law to increase the population's access to justice, strengthen the social contract, and encourage private sector growth.
- Support security sector reform within the WB mandate by providing technical support for improving financial management of the security sectors, monitoring the wage bill and procurement, and making the security sector more cost-effective.
- Develop a donor coordination system that can facilitate modalities to deliver programs in rural areas and use third-party implementation to address weak institutional capacity.

Islands, Papua New Guinea), grievances associated with land transactions (Vanuatu, Timor-Leste), extractives and benefit-sharing aspects (Solomon Islands, Timor-Leste, Papua New Guinea), and political clientelism and elite capture (Comoros).

Operational approaches to addressing the drivers of fragility. WBG programming in this area could fit in three broad categories:

- *Mainstreaming sensitivity to FCV across the WBG portfolio to ensure that WBG interventions* do not aggravate existing inequities and undermine capacities for resolving local tensions. Examples include targeting underserved populations under the infrastructure and rural service delivery programs in Solomon Islands and ensuring equitable distribution of benefits under EITI-supported initiatives and infrastructure service delivery in Solomon Islands.
- *Activities addressing the direct outcomes of FCV.* Such initiatives include activities related to the rapid creation of employment in Solomon Islands and the creation of short-term employment in Comoros in response to the emergency political crisis and external economic shocks; and financing community-driven development approaches in Djibouti and Guinea-Bissau.
- *Programming that tackles FCV with preventive lenses to mitigate the risks of violence and conflict.* Examples of such interventions include support for more equitable and transparent governance of resources derived from extractive industries in Timor-Leste, Solomon Islands, and Guinea-Bissau; policy dialogue and advice for improving the regulatory framework for land transactions

BOX 4.2 Solomon Islands: The Community Governance and Grievance Management Project

Bank analytic work documented the stresses arising in Solomon Islands from economic transformation and political reordering. By making it difficult for public and community institutions to handle grievances and disputes, the changes were affecting economic development, welfare, and social cohesion. Key drivers of fragility and conflict included (a) land and natural resource transactions; (b) social order problems, in which disputes around logging rents and royalties featured highly in the disintegration of long-standing norms about relations between men and women, youth and elders, and the obligations of chiefly and religious leadership; and (c) competition for development spending, including aid, and public services.

The project aims to strengthen community governance capabilities and enhance the effectiveness of linkages with government. Over four years, the project will support the selection by communities and the recruitment by province governments of "community officers" who will benefit citizens by (a) contributing to increased community cohesion and stability; (b) providing increased awareness around national and provincial government policies, programs, and activities; and (c) serving to connect citizens with provincial and national agencies, including the police.

After the first year of implementation, results are promising: provinces and village authorities are reporting positive engagement by community officers in conflicts around land, alcohol abuse, and youth violence. In villages where community officers are active, there has been a marked reduction in disputes arising from the distribution of humanitarian relief in response to El Niño drought in the region. Local, national, and provincial parliamentarians have begun to regard community officers as significant positive players among local authorities.

Nonetheless, significant challenges remain: there is mounting pressure to scale up the project. Not only could this outstrip the authorities' capacity, but the fiscal capacity of province governments to sustain their obligations to remunerate and otherwise support community officers are far less certain at scale or over time. It is also clear that the key drivers of local conflict arise from the actions of national regulatory and spending agencies, and by the foreign nationals that control the operations of logging and mining companies.

in Vanuatu to ensure the protection of the rights of vulnerable groups; and provision of justice services to mitigate the risks of local-level conflict escalation in Solomon Islands (see Box 4.2).

4.5 Lessons Learned

A relatively small HNP project can leverage a much larger reform agenda. The Solomon Islands Health Sector Support Project is one example. Although such projects were of high risk and had high transaction costs, the Bank added value across core domains in the sector. This influenced the entire health sector, including the preparation of a new health sector strategy and improved planning and budgeting systems.

When monitoring small population sizes, measuring achievements using actual figures, in addition to or instead of percentages, provides a clearer picture of outcomes. In the Barbados Second HIV/AIDS Project, the targeted population of HIV+ pregnant women (denominator) was small, and therefore the failure of just two women to complete treatment significantly affected the overall achievement measured in percentage terms.

Mainstream conflict sensitivity into Bank operations. In-depth studies such as fragility assessments, along with efforts to understand local-level conflicts and sources of tensions, have provided strong evidence for designing fragility-sensitive operations. Such operations should be more systematically integrated into WBG approaches in small states, and conflict sensitivity should be mainstreamed into broader sectoral operations.

Complex issues such as land and gender have been more effectively addressed through project/program modalities than through stand-alone interventions. For example, while the complexities of reaching sustainable agreement with landowners

to use customary land for development has been a significant obstacle in Solomon Islands, the Tina River Hydro Power Project has worked with indigenous leaders to identify rightful landowners and negotiate an agreement for acquisition and compensation. The government engaged intensively with project communities over five years to define a process that would be satisfactory to landowners and in line with the country's laws. The process is now being used as an example for other development projects in the country and may ultimately result in a modification of the legal provisions for land acquisition. By contrast, a small IDF grant to support front-line service providers for victims of gender-based violence suffered from limited World Bank implementation support and inadequate linkages to the wider portfolio. The issue of gender-based violence has been more effectively addressed in Solomon Islands through such operational engagements as the Rapid Employment Project.

4.6 Looking Ahead

The WBG would deepen its engagement on the frontier issue of health care finance. This would include the design of tertiary health care in such a way that the best and most cost-effective use of such facilities across national boundaries could be achieved in small states.

Continued engagement on NCDs will be crucial. The Bank would emphasize ways to address the shift in the health care burden to non-communicable diseases. It has played an important role in raising awareness about the NCD threat, including promoting inter-sectoral ways to address the problem—taxation of foods contributing to obesity, and support for the design and implementation of prevention and treatment through the appropriate policy framework or individual programs. Multisector prevention programs will span fiscal measures, education, health, infrastructure and agriculture to address risk factors such as poor nutrition, alcohol and tobacco use, and lack of exercise.[8]

The cross-cutting issue of gender equity and sensitivity would continue to be prioritized. Emphasis would be given to youth violence and its gender ramifications, and violence against women and its economic costs, with a view to deepening the policy dialogue with small state clients on the topic.

8 IEG, *World Bank Group Engagement in Small States: The Cases of the OECS, Pacific Island Countries, Mauritius, Seychelles, Cabo Verde and Djibouti. Clustered Country Program Evaluation Overview Report*. May 25, 2016.

5. Development Partnerships

This chapter is intended to document how the WBG has worked with its development partners on the small states agenda. Looking ahead, the WBG would continue to coordinate efforts with the IMF, the Regional Development Banks and the Commonwealth Secretariat on issues of debt sustainability and improved debt management. It would collaborate with the UNDP, the Commonwealth Secretariat and OECD on vulnerability and resilience indicators discussed in greater detail in the next chapter. It would seek ways to address the current fragmentation of aid flows to small states in consultation with OECD and other partners. The WBG would partner with Australia and New Zealand to operationalize the recommendations of the ongoing work under the 'Pacific Possible' initiative while also seeking to strengthen labor mobility in the Pacific. The WBG would work with CARICOM, the Caribbean Development Bank and the IDA on issues of trade facilitation, energy coordination, regional financial sector strengthening and de-risking. The WBG would continue to collaborate with the UN on the SDGs.

5.1 Partnerships in the Caribbean

The Bank has had significant collaboration with the Caribbean Development Bank (CDB), the Inter-American Development Bank (IDB), and the IMF in various international assistance packages to Caribbean countries. Grenada and Jamaica are examples. The Caribbean Growth Forum described elsewhere in this report is an example of a high-profile partnership between multilateral and bilateral donors in which the WBG is active. The Bank worked with other multilaterals to achieve greater impact through lending. The coordinated energy sector loans with the European Investment Bank and the IDB in the Dominican Republic illustrated an increased alignment. The Bank is likewise exploring co-financing operations with the CDB in the OECS.

The Bank also collaborated with regional agencies to support the design of regional strategies and coordination mechanisms. Examples include (a) preparation of a Regional Trade Facilitation Strategy with CARICOM; (b) support for the Regional Education Strategy in the OECS with the OECS Commission; (c) implementation of an energy coordination platform with CARICOM; and (d) design of a regional financial sector strengthening strategy with the ECCB.[1]

The Bank has worked with bilateral donors to support regional or country-specific initiatives. For instance, DFID and Canada's Department of Foreign Affairs, Trade and Development supported various World Bank activities in the Caribbean related to financial sector strengthening, public financial management, innovation and entrepreneurship, growth, and public-private dialogue. The Bank had a key role in providing the technical expertise for the CCRIF's design. It provided start-up finance and helped mobilize funding from bilateral providers. The Bank has also been the implementation agency for a number of donor trust funds in the Caribbean—for instance, a large trust fund financed by the Canadian Government to support entrepreneurship and innovation in the Caribbean.

The Bank participates in regular meetings of development partners in the Eastern Caribbean in Barbados. Canada, the EU, the UK, the IMF, and the Bank meet bimonthly in Barbados in support of public financial management in the Caribbean. The Bank worked closely with the ECCB, the IMF, and Canada in debt management. It partnered with the IMF, ECCB, and the UK in the financial sector. The World Bank and IDB have likewise worked to

1 IEG, *Cluster Country Program Evaluation on Small States: Organization of Eastern Caribbean States (OECS) Regional Program Evaluation (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines)*. Volume 1. March 25, 2016.

develop knowledge and learning on climate change in the Caribbean.

5.2 Partnerships in the Pacific

To support PICs, IDA leveraged significant trust fund resources from both Australia and New Zealand, including (a) the Pacific Facility IV, an MDTF managed by the Bank that provides core funding for such Bank-executed activities as lending, supervision, and ASA; (b) the Pacific Region Infrastructure Facility, an MDTF established in 2009 to support infrastructure development in the Pacific; (c) the Australia Pacific Islands Strategic Partnership Trust Fund, a single-donor trust fund established in FY16 that supports recipient-executed activities across all sectors for PICs (except Timor-Leste); and (d) MDTFs for Timor-Leste, including the Strategic Partnership MDTF, 2013–2018, and the MDTF for the Health Sector Strategic Plan Support Project, 2008–2016.

The Bank and the ADB have made special efforts to coordinate their engagements in infrastructure in the Pacific, including by designating a lead institution in particular sectors in particular countries. In the energy sector, the Bank takes the lead in Tonga and Vanuatu, while ADB leads in Samoa. When the two institutions cofinance projects, they have worked to harmonize procedures. In the Fiji road project, the Bank provided US$50 million of cofinancing and ADB US$100 million, and it was decided to use ADB's procedures for the project. The DPO instrument has made a significant contribution to more effective donor coordination in the Pacific. The experience with budget support in Tonga is an example of policy coordination among the ADB, the EU, Australia, New Zealand, and the Bank. Underpinning the growth of WBG engagement in Tonga and Samoa are joint liaison offices established with the ADB in 2009. The Bank provides the funding for the staff of the Samoa office, while ADB funds the Tonga office. There are joint liaison offices in Kiribati and

Students at Tailulu College in Nukua'lofa, Tonga (2013). Photo by Tom Perry, World Bank.

Vanuatu.[2] The World Bank has also partnered with the ADB and Secretariat of the Pacific Community to provide PICs with disaster risk modeling and assessment tools through the PCRAFI.

5.3 Partnerships in the Africa Region

The Mauritius Country Partnership Strategy was prepared jointly by the Bank and EU. This effort had to be abandoned after a few years as it became clear that synchronizing and coordinating efforts between the two institutions was unworkable, given their differing internal requirements. The Bank and the AfDB participated jointly in preparing each other's programmatic operations in Mauritius. During implementation, the DPLs were used as a vehicle to harmonize development partner policy dialogue with the Government. With relatively modest financing and limited on-the-ground presence in Comoros, the Bank coordinates its efforts closely with other development partners; the most active development partners are France, the EU, UN agencies, the United Arab Emirates, and the IMF. The Bank also developed a formal cooperation arrangement with the AfDB, Qatar and the Export-Import Bank of India in the power sector in Comoros.

5.4 Partnership with the International Monetary Fund

The IMF has begun to incorporate the impact of climate change and natural hazards in its assessment of the macro-fiscal environment of small states and in its Article IV consultations, with a view to better understanding the required fiscal buffers and capital inflows. The Article IV reports for Kiribati and Tonga in 2014 and for Samoa in 2015 illustrate this emphasis on climate and disaster shocks on the fiscal environment and debt.[3] The new emphasis also offers an opportunity for enhanced coordination between the Bank and the IMF. For example, the Bank, IMF, and the Pacific Islands Forum have worked together to explore how best natural disaster risks can be incorporated into the fiscal planning process in the Pacific states. There has been good cooperation between the Bank and the IMF on the design of reform programs. The Seychelles is another example: with the global financial crisis of 2008, Seychelles initiated a program of macroeconomic stabilization and structural reforms that were supported both by the IMF's Standby and Extended Fund Facility arrangements and by the Bank through a series of DPLs. Both institutions provided valuable support to the Government in negotiating generous debt relief from other creditors. A third example is the "Supporting Economic Management in the Caribbean" initiative, under which the Bank and the IMF administered US$19 million in financing to support strengthened public financial management in 12 Caribbean countries. Further, the Bank coordinated with the IMF to provide a HIPC package to Guyana in 2009–2012. These are some of the examples that illustrate a broad cross-regional partnership. The next chapter lays out proposed future collaboration in the area of climate finance.

5.5 Partnership with the United Nations

The WBG partners with the Office of the High Representative for Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, and the UN Department for Economic and Social Affairs, the two offices mandated to advocate and plan activities for areas concerning SIDS. The WBG is committed to the Samoa Pathway, a landmark action plan adopted by world leaders in 2014 that outlines issues such as climate change, sustainable energy, disaster risk reduction, and sustainable use of marine resources. The

2 IEG, *Cluster Country Program Evaluation on Small States: Pacific Island Countries Program Evaluation (FY05–15)*. Volume 1. March 30, 2016.

3 IMF assistance includes a broad range of urgent balance of payments needs arising from natural disasters. It includes the Rapid Credit Facility, the Rapid Financing Instruments, and the IMF Catastrophe Containment and Relief Trust.

WBG hosted the joint WBG-UN High-Level Dialogue on Advancing Sustainable Development in SIDS to prepare for the Samoa conference and provide an opportunity for a substantive dialogue between the UN Permanent Representatives of SIDS, the WBG Executive Directors, and technical experts from both organizations. The program covered key issues that were featured at the Samoa conference, including resilience, climate change, energy policy, and oceans. The Samoa conference led to the registration of several partnerships addressing a range of priority areas, 29 of which have the WBG as either the lead or supporting agency. Notable examples include SISRI and the Global Partnership for Oceans. In 2010 the WBG signed a Memorandum of Understanding with the UNDP, the Alliance of Small Island States, and the Government of Denmark to work collaboratively in ensuring programmatic and policy coherence in the areas of renewable energy and/or energy efficiency investments. This partnership formed what is now known as SIDS DOCK, a program to support SIDS in making the transition to low-emission, climate-resilient development and demonstrate a pathway to limiting temperature rise to 1.5 degrees C.

5.6 Partnership with the Commonwealth Secretariat

In July 2011, the Commonwealth Secretariat and the Bank signed a Memorandum of Understanding to initiate technical work on small state development issues. Core activities included a technical working group meeting in September 2011 in Washington DC, experts meeting in Malta in 2011, technical deliberations at the Commonwealth's Global Biennial Conference on Small States in London in 2012, further discussions of the Technical Working Group in September 2012 in DC, and joint publication and dissemination of commissioned papers (e.g., *Tourism and Inclusive Growth in Small Island Developing States*.) In December 2012, the Commonwealth Secretariat partnered with the Bank to explore ways of improving small states' data and statistical capacities. In 2015, the Secretariat engaged the Bank on measures to address debt vulnerabilities, with the World Bank President committing to work with the Secretariat to operationalize these proposals. The Secretariat, in partnership with the Bank, Office of the UN Secretary General, and the United Nations Economic Commission for Latin America and the Caribbean, is currently piloting a debt swap project. In 2015, the Commonwealth Secretariat convened a multi-stakeholder expert forum to understand the drivers and consequences of "de-risking" and develop solutions. This was supplemented by a survey of Commonwealth Central Bank Governors on de-risking in collaboration with the Bank. The issue was the subject of discussion at the 2015 Commonwealth Finance Ministers. The Secretariat and the Bank, through the G20 engagement, will continue deliberating on policy solutions.

5.7 Partnership with the OECD

Recognizing the special financing and development challenges faced by SIDS, the Bank is working with OECD to produce a report that details the complex landscape of climate and disaster resilience financing to SIDS. The report will tabulate sources of financing, SIDS recipients, emerging policy challenges, and recommendations for follow-up actions by the international community. The WBG is also involved in technical discussions with OECD, the UNDP, and the Commonwealth Secretariat to reach consensus on vulnerability measures that can perhaps be used to enable small states to access increased levels of concessional aid.

6. Way Forward—Delivering the Small States Agenda

This stocktaking of WBG activities to support small states fulfills the commitments made at the 2015 Small States Forum in Lima, Peru. It tabulates WBG programs in small states. It describes sector-specific constraints in the economic, sustainable development, and human development areas. It outlines WBG engagement in each of the three areas and the lessons learned from that engagement. It is not intended to be a strategy, a systematic diagnostic, or an evaluation of the WBG program. Rather, it was envisioned to provide background for future strategic deliberations on how the WBG can better respond to the development challenges in small states. This concluding chapter is intended to set the stage for that forward looking discussion.

As the paper highlights, the WBG has responded to the unique constraints faced by small states by selectively introducing special exemptions and waivers. Within a limited financing envelope, it has helped small states address debt constraints through support for debt restructuring and improved fiscal policy. It has responded to the challenges of climate change, natural hazards, poor connectivity, imported fossil fuels, and limited livelihoods through varied programmatic support. And it has financed efforts to improve health outcomes and address gender inequity and the drivers of fragility.

Despite these exceptional efforts, there remains opportunities to understand whether a more comprehensive approach to supporting small states, within the World Bank Group's capacities and constraints, could more effectively serve their needs. The WBG is committed to a continued and robust program of support to small states. Given the structural constraints small states face, current levels of development assistance appear inadequate to support the sustained development of these states. The unsteady economic performance of small states in recent years is a reflection of the limited availability of policy tools and resources. Because of their size, small states are less able to diversify and reorient economic activities to new markets and sectors. Exogenous shocks and natural disasters further tighten an already constrained fiscal space. The challenge ahead is to ensure progress toward the SDGs in such a constricted environment.

6.1 Finance

The small states have repeatedly called for increased resources to help them respond to fiscal pressures and global market volatility. They seek enhanced financing to break the low-growth, high-debt, limited-fiscal-space spiral that many small-states find themselves in. Further, small states seek solutions more tightly aligned to their specific development challenges, though the specific characteristics of that financing has often not been identified or tailored to each state. Simultaneously, small states need to strengthen their efforts to mobilize domestic revenue and maintain fiscal and monetary discipline, making the most of all available resources. Considering concessional, private sector and domestic resource mobilization sources, there are multiple options to assemble packages for additional financing to support small states. Given the depth and complexity of the development challenges, there needs to be equally comprehensive exploration of all financing sources and new approaches from among them.

Small states themselves have traditionally sought external concessional financing to support their development. However, as highlighted in the Addis Ababa Agenda for Action, concessional resources are likely to remain inadequate to fully address development challenges, including for small states. Many small states are ineligible for concessional finance from major multilateral lenders because of their higher per capita income levels. The rationale behind an approach centered on per capita income is that at higher income levels, countries are on the whole able to mobilize more domestic resources for

development and leverage private finance. However, even countries with similar per capita income levels have different capacities to mobilize domestic and external finance; in particular, many small states have difficulty mobilizing domestic resources and leveraging external public and private finance. Further, countries at similar income levels face very different sustainable development challenges and vulnerabilities. Many small states are vulnerable to frequent and severe weather events, which can entail heavy recovery costs. The high per capita cost of delivering services to widely dispersed small populations means that their fiscal sustainability is repeatedly challenged. For these and other reasons outlined in this stocktaking, the development challenges that small states face likely mean that traditional income per capita measures do not adequately capture all that factors that could make small states eligible for concessional finance.

Given small states' unique challenges related not to their per capita income but to their vulnerability, there may be opportunities to explore how multi-dimensioned vulnerability measures could play an additional role in apportioning development resources.[1] A broader review of the criteria for access to development finance should perhaps explore how thresholds for graduation from one category to another might systematically take resilience into account. As noted above, there has been in place for some time a "Small States Exception" that extends access to IDA resources for small states. It may be worth considering a more comprehensive rationale, linked to vulnerability that could justify concessional resources to these countries. A comprehensive approach would consider broadening the range of financing tools to better manage vulnerability.[2]

It is important to better understand the links between external volatility and debt. To what extent are domestic macro-fiscal imbalances responsible for debt accumulation in small states? Do exogenous financial and climate shocks trigger high levels of debt in middle- to high-income small states instead? These questions have policy implications on how best to address small state debt—whether through fiscal reform, increased levels of aid, or some combination of the two. This analysis will help fine-tune the indices to apportion concessional aid.

Poverty and climate change are linked. The 2016 World Bank publication *Shockwaves: Managing the Impacts of Climate Change and Poverty* examines this issue in some depth. Climate change, extreme weather events, changing rainfall patterns, storm surges, food security, and levels of agricultural production are interconnected. They affect poor people. The task ahead is to ensure that climate change policies contribute to poverty reduction while, in parallel, poverty reduction policies reinforce resilience, climate change mitigation, and food security.

Current levels of access to climate finance are inadequate for climate resilience. The vast pool of climate funds is underutilized, given small states' limited capacity to access them. Simplified criteria to access climate finance would be helpful. The Bank can help such countries access climate finance by ensuring improved alignment between donors through merged climate funds or parallel funding arrangements. The role of contingent financing instruments or a mechanism to facilitate rapid deployment of resources in the event of major shocks could be explored. While responsiveness to natural or economic shocks is largely assured on an ex-post

1 The UN criteria for identifying countries as LDCs—GNI per capita, human assets index, and economic vulnerability index—may offer insights in this regard. These criteria can potentially be supplemented by such additional criteria as gross capital formation as a share of GDP; domestic credit as a share of GDP; export of goods and services as a share of GDP; international reserves as a share of GDP; FDI; government consumption; cash surplus/deficit; public sector expenditure; and tax revenue. Issues around the availability of high-quality and timely data remain a challenge, as do moral hazard concerns. How different criteria should be weighted in different circumstances requires considerable work. The aim here is to stimulate further discussion at the international level.

2 Further examples of vulnerability indices could perhaps include environment metrics such as the number of extreme weather events; the increase in sea surface temperatures; the duration of drought; changes in precipitation; extent of prime agricultural land threatened by sea-level rise; changes in migration patterns; and depth of fish stock. Measures of economic vulnerability can likewise potentially include dependence on a narrow range of exports; dependence on strategic imports; peripherality (i.e., remoteness from centers of economic activity), etc. There needs to be consensus on the choice of variables, ways to address problems of measurement, issues of weighting, and problems of aggregation.

Kingston, Jamaica (2016). Photo by Ionie Spence, used with permission.

basis, there is a requirement for detailed ex-ante contingency planning. The IMF and the Bank can work together to help small states build stronger fiscal buffers to weather exogenous shocks and access climate finance to provide partial cover for disaster costs. The joint Bank and IMF appraisal of the Nationally Determined Contributions[3] on the lines of the earlier Bank IMF partnership on the HIPC initiative may provide comfort to bilateral donors and unlock access to funds.

A simplified procedure is needed for small states to access funds from the Green Climate Fund (GCF). This agenda item has been raised frequently in various fora.[4] Several development partners noted the complexity of GCF requirements for small states—that is, the need to prepare an appraisal-ready project before confirmation of available GCF funding. A global and corporate approach is therefore needed to increase small states' access to GCF resources.

Innovative options are being developed to augment the pool of funds available to small states. Under debt-for-climate-adaptation swaps initiated by small states, bilateral donors would pay down the debts small states owe to multilateral creditors, and the small states would then reallocate the avoided debt repayments to climate adaptation programs. As part of Jamaica's debt management strategy, the Bank is exploring an innovative DNR swap with other partners to improve Jamaica's debt profile while strengthening climate resilience. Once tested, this pilot can be mainstreamed in collaboration with regional development banks, the Commonwealth Secretariat, and UNDP. Climate adaptation DPFs would likewise involve multilateral or bilateral creditors providing sector or general budget support to small states, conditioned on the implementation of policy measures to address climate vulnerability. A hurricane clause can also be introduced in loan or debt securities to suspend debt repayment in the event of exogenous climate or financial shocks. Carbon taxation and carbon pricing are additional innovative means to augment resources available to small states.

It may be worthwhile to explore a new resilience window or line of credit. Such a dedicated credit line may have several advantages. It would help fund the significant start-up costs of retrofitting vulnerable assets to more climate-resistant standards. It may help promote incentive-based instruments, such as

3 National climate adaptation plans.

4 GCF was established by UNFCCC to support low-emission and climate-resilient development pathways. Pledges to the GCF reached US$10.2 billion in May 2015.

DNR financing, by softening the financing offered in the debt swap; funds would be deployed only to countries with an acceptable policy framework to address their main sources of vulnerability and strengthen resilience. It could make CAT-DDOs available to non-IBRD countries[5] as several small states have requested. At the same time, given that the funds may only be used in the future (in the event of a disaster), countries would be willing to commit to a contingent line of credit only if it were above their existing IDA allocations. From a technical perspective, it would be possible to design a financing instrument operating with a quantifiable trigger, and thus ensure that all IDA-allocated resources are disbursed within a given IDA period. The instrument could be based either on institutional and policy reforms or on the results achieved. It could financially complement market-based insurance by covering higher-frequency disaster events. Because of the potential effect of a global IDA pool, it may be possible to leverage financial markets as well to multiply the financial value of the pool.[6]

It is relevant to examine the viability of small-state-specific financing instruments in light of the high transaction costs associated with Bank financing in small states. In its engagement with small states clients, the World Bank Group has already explored innovations that include simpler, nimbler, and perhaps modular IPF vehicle: it would be worth exploring how to systematically expand on these innovations. Other options are multi-purpose country or regional venture funds to catalyze larger investment opportunities, debt-for-nature swaps, blue bonds, increased risk pooling, and partial guarantees. It may be useful to consider a dedicated IDA facility for the identification of projects beyond the project-specific Project Preparation Facility. The establishment of a facility to release limited but just-in-time IDA funding after a natural disaster along the lines of the ADB's should be explored.

Support to upper middle income small states deserves attention. It is imperative to develop appropriate instruments for high-income clients that face specific vulnerabilities. The intrinsic vulnerability of small states does not change as per capita income rises; upper middle and high-income countries remain exposed to exogenous economic shocks and natural events and suffer from diseconomies of scale and high fixed costs. These countries need access to risk management instruments at concessional prices on account of their intrinsic vulnerability. The WBG is not able to provide ex-ante disaster risk management support to these islands. Many of the high-income OECS countries, which are among those with the world's highest exposure to hurricanes and severe flooding events, have not used the CAT-DDO only because it is provided on IBRD terms.[7]

Resources other than official development assistance and private sector risk pooling mechanisms can help address the financing challenges that small states face. Innovative debt instruments such as blue bonds, CCRIF, and PCRAFI are examples that can be scaled up. Remittances and diaspora savings can be leveraged. Private investment capital can be mobilized by deepening the domestic financial sector.

6.2 Country Institutional Capacity

Further deliberation is needed on how best to address institutional capacity constraints in small states. Small states lack capacity to handle multiple sets of donor interlocutors and procedures. Harmonization

5 This is a proposal under consideration in IDA18, subject to a recommendation of the IDA Deputies and approval of the WBG Board.

6 It may not be out of place to initiate the conversation on an alternate aid model for small states beyond the standard model of project and program aid with huge outlays for oversight, capacity substitution, and conventional capacity-building efforts.

7 In view of their higher income, St. Kitts and Nevis, and Antigua and Barbuda, are only eligible for IBRD. However, in light of their high public debt levels, these countries have not been able to borrow from IBRD for several years. St. Kitts and Nevis' last active IBRD project became effective in FY06, and with no new lending, its exposure to IBRD will fall to US$0.1 million by end-2018. Antigua and Barbuda has only one active project with IBRD, and its debt outstanding to IBRD was only US$2.5 million at end-March 2016.

of procedures and joint financing may offer significant benefits. Project implementation or coordination units can be configured differently for small states—for example, project-specific, national portfolio-wide, housed in a regional organization, or even shared across countries. Multilateral lenders could use outsourcing and pooled arrangements across countries and projects. It may be useful here to evaluate the experience of sharing project staff and facilities across development partners in the WBG and ADB liaison offices in the Pacific. Also relevant are the ongoing discussions at the UNFCCC Standing Committee on Finance on how multilateral development banks can align their financing for disaster risk management and climate change to lessen competing demands on small states' limited implementation capacity. This said, while the Bank has piloted different approaches in the Pacific, disbursement continues to be a challenge given weak implementation capacity. Therefore, to improve implementation, it may be worthwhile to explore modalities that go beyond the recipient-executed model.

6.3 Regional Solutions

The WBG is actively considering whether it should further strengthen its commitment to shared regional solutions. Regional approaches may be worth pursuing whenever prospective gains are large and regional institutions have member country support. In certain instances—for example, the OECS and the Pacific Forum—engagement at the regional level is a comparative advantage. Tensions between regional and country-specific approaches exist, however, and may perhaps be resolved through a hybrid approach that combines a regional framework with short notes on each country. The Pacific Regional Partnership Framework would be a welcome first step when completed. The OECS experience would offer lessons as well. Further dialogue is needed on how multilateral lenders could support regional agreements and arrangements in fisheries, tourism, labor migration, disaster risk management, health, education, and infrastructure regulation. Among development partners, the WBG is uniquely placed to play an advocacy role with respect to regional initiatives, and to provide technical resources.[8]

6.4 Managing WBG Delivery

A strategic partnership with Australia and New Zealand through the Pacific Islands Facility and the Pacific Partnership provided the Bank and the IFC with fully fungible administrative budget resources that enabled dramatically increased WBG engagement with the PICs. This augmented the Bank's budget for the Pacific by about 40–50 percent. It enabled the Bank to have an increased footprint in the Pacific, with several offices, including joint liaison offices with the ADB. The WBG was better positioned to engage in policy dialogue, provide on-demand technical support, contribute to more effective donor coordination, and support regional institutions. Similar third-party mechanisms of this kind will need to be envisioned in small state programs to replicate the Pacific success. The Caribbean for instance saw no comparable wholesale administrative budget augmentation, although it was able to use a number of trust fund arrangements to deepen the reach of analytic and advisory work.

WBG's Business Model. The recently concluded IEG assessment of WBG activities in small states noted that standard features of the WBG's business model, while tailored to sound, accountable delivery of support in larger states, may not serve small states as well as they could. The WBG's new organization around global practices, entailing greater thematic specialization globally, less country specialization and incentives to focus on large visible engagements may provide insufficient incentives for staff to focus time and resources on small states. To counterbalance these systematic incentives, the WBG has made the small states agenda a stronger corporate priority. This will now be reinforced through the performance system and enabled through the budget system. Working in small states requires even more integrator skills than in other country programs,

8 Independent Evaluation Group: *World Bank Group Engagement in Small States: The Cases of OECS, Pacific Island Countries, Mauritius, Seychelles, Cabo Verde and Djibouti: Clustered Country Program Evaluation: Overview Report*. May 25, 2016.

given the countries' multidimensional development challenges and the limited resources the WBG has to address those challenges.

As part of providing incentives to address the small states agenda, the WBG has established a Small States Advisory Group to foster a consistent WBG approach on small states and facilitate coordination across the WBG. The Advisory Group convenes the units that are most involved in work in the small states agenda from across various Regions, GPs/CCSAs, IFC, and corporate units. The Bank's technical discussions on vulnerability and small states with OECD, UNDP, and the Commonwealth Secretariat are proving useful. The Small States Secretariat has also been established in OPCS to coordinate the corporate agenda.

It may be worthwhile to consider a dedicated research program on small states. Small states may be well served by knowledge brokering, in which the WBG could further facilitate an exchange of knowledge and experience among small state policymakers. Several knowledge gaps exist. Potential areas of research include issues such as the actual potential of the blue economy, what the ideal financial sector should look like in small states, how youth unemployment issues in small states can be addressed, how cost-effective tertiary health care delivery can be provided where the costs of replicating facilities in individual countries are prohibitive, how sustainable health care financing can be provided in the context of sharp fiscal constraints, and how social safety nets can be designed to protect vulnerable households from the frequent large shocks that affect countries. A research program such as this may be based in DEC or a small state that is able to host it with development partner support.

6.5 Conclusion

In sum, despite their natural beauty and other assets, small states face a host of development challenges that are due to their size, remoteness, and lack of opportunities to diversify. Climate change exacerbates many of those challenges, increasing the vulnerability these states must manage. As this paper has shown, the WBG maintains a comprehensive engagement with small states, seeking to provide financing, analytic, and convening services that help them address these constraints. However, significant efforts are still needed to help small states achieve a development trajectory that will allow them to reach the SDGs. The WBG looks forward to working with its small states stakeholders to address these challenges through both traditional and innovative approaches.

Annex A. Details of IFC Engagement in Small States

TABLE A.1 IFC and the Caribbean

Country	IFC program
Guyana	During FY09–15, IFC committed US$71 million and mobilized an added US$140 million in Guyana. IFC has two active projects: Guyana Goldfield and Aurora Gold, with US$9.28 million and US$37.75 million in own account respectively. IFC also has four active advisory services projects: (a) Guyana Bank for Trade and Industry (GBTI) Risk Management; (b) LAC Regional Indicator Based Reform Advisory; (c) Caribbean Regional Credit Bureau; and (d) Trade Logistics in the Caribbean. IFC seeks to support private sector investment through an existing IFC investment in the mining sector. The developmental impact of this investment includes payments in the form of royalties and taxes paid to the government (estimated at US$210 million), creation of some 700–900 jobs, and the development of a local supplier program in the mining sector. IFC will also support implementation of the country's LCDS in forestry, mining, and potentially renewable energy.
Jamaica	IFC has a current portfolio of US$262 million in investments and eight projects valued at US$10.7 million in advisory service. Engagement in Jamaica is focused on key areas of infrastructure (energy, transport), access to finance (MSMEs, trade financing, and local capital markets), growth sectors (agribusiness and ICT), and education. With an authorized amount of up to US$500 million, the introduction of local currency instruments further leverages IFC resources mobilization capacity. IFC's advisory services are focused on access to finance, investment climate, PPPs and value chain support in the food sector. IFC and the World Bank support the Development Bank of Jamaica (DBJ)'s privatization program under a broader MOU that includes specific PPP projects (energy, transport waste water treatment and education). The Air Jamaica privatization leads to fiscal savings each year equivalent to 1.2% of GDP. To help improve access to credit, IFC is advising on Credit Bureau legislation, as part of a regional harmonization plan, and will support microfinance institutions to better adapt loan products to the local market, opening access to finance to previously underserved market segments, such as small business owners. IFC is also working with food sector SMEs to help improve their access to finance and markets.
Antigua and Barbuda; Saint Lucia; Grenada; St. Kitts and Nevis; Dominica	Central to IFC's work in these countries is (i) crisis response (ii) job creation and inclusive growth (iii) innovation, competiveness and integration; and (iv) climate change. During FY09–FY14, IFC committed six projects for US$165.6 million in these countries, including Sagicor Insurance (FY11), a US$100 million regional commitment in insurance that had over US$1.1 billion in annual premiums in 2012 and is active in each of these countries. In Advisory Services, IFC has a current portfolio of US$14 million focusing on Investment Climate (Tourism Investment Generation, St. Lucia) and PPPs (Hewanorra International Airport, St. Lucia, and St. Joseph's hospital, Grenada). In addition, IFC has exposure in a number of regional projects: Risk Management & Corporate Governance, Caribbean Regional Credit Bureau and SME Banking, Business Entry, Tax Reform, Indicator-Based Reform Advisory, Trade Logistics, and Investment Climate.

TABLE A.2 IFC and the Pacific

Country	IFC program
Timor-Leste	IFC is lead Transaction Adviser in establishing a public-private partnership for a new Tibar Bay Port, about 10 kilometers west of the capital Dili, estimated to cost US$400 million. This will be one of the largest infrastructure developments ever undertaken in Timor-Leste, and the largest ever private investment. IFC is implementing a Business Registration and Licensing Reform Project. Timor Trade is another Advisory project to reduce the time and cost to trade by reforming relevant trade regulations (ie. Customs Code, General Quarantine Regulation, Customs Tax Regulations, and Quarantine and Sanitary Control of Import and Export Goods). In June 2013, IFC committed its first investment in Timor-Leste, a convertible loan of US$500,000 to Tuba Rai Metin, a leading microfinance institution. The project is supported by a comprehensive advisory services program under the Pacific Microfinance Initiative in partnership with Australian DFAT.
Fiji	IFC is co-developing the first independent power producer in Fiji history—a 44MW hydropower plant in the highlands of the main island, Viti Levu. The project, co-developed with Hawkins Infrastructure (New Zealand), will increase overall power generation capacity by 17 percent and hydro capacity by 35 percent. The project is expected to cost around US$250 million, with IFC Infraventures investing US$2.5 million for development work. Sunergise International Ltd is an emerging company in the solar rooftop space, replicating a proven business model from the USA. IFC's investment of US$2 million provides project equity, enabling Sunergise to scale up and mobilize additional commercial debt financing to install solar projects. To date, the company has installed 0.9MW and, with IFC's financing, can install an additional 2MW of solar systems across Fiji, Solomon Islands and PNG. In December 2015, IFC committed a US$5 million equity investment in Vision Investment Limited in Fiji, an electronics household and automobile business. Pacific Westpac M-Banking is a Pacific Advisory project which has the overall goal of increasing basic financial services to the unbanked and under-banked populations in remote areas of Fiji and across Pacific Island countries by supporting the deployment of Westpac's mobile banking model. Through this project, Westpac's mobile banking platform will enable remittances, payments, salary transfers and mobile transactions.
Solomon Islands	Since October 2009, IFC provides transaction advisory support for the preparation and implementation of the tender process to select a private developer to build and operate a 20-megawatt hydropower scheme on the Tina River, a site 15 kilometers from Honiara. The World Bank supports the project through funding of the feasibility study. The project will be the country's largest infrastructure PPP venture. In 2013 IFC approved a US$10 million loan to the Solomon Island's only tuna processor, SolTuna Ltd. The project aims to support the expansion and upgrade of SolTuna's tuna processing plant and increase capacity from 90 metric tons per day to 150 metric tons per day. The BSP Solomon Islands Mobile Banking Project is an Advisory project which aims to increase basic financial services to the poor and unbanked populations by supporting the expansion of BSP Rural's successful mobile banking model in PNG to the Solomon Islands. With IFC support, BSP intends to offer remittance services, payments, salary transfers and other mobile transactions through a branchless banking ecosystem. Pacific Westpac M-Banking is a Pacific Advisory project. The ANZ Mobile Banking project is the final component of a transformation strategy whereby IFC coordinated the rollout of mobile banking by the three major banks—BSP, Westpac and ANZ in the Solomon islands to maximize financial literacy, encourage competition, build deeper agent networks and promote mobile banking.
Samoa	IFC is currently engaged in the Samoa Solid Waste Management Advisory project to help establish an integrated solid waste management system (ie. collection, transportation and disposal) via a PPP concession. Samoa is part of IFC's Pacific Tourism project. The overall goal of this initiative is to facilitate US$10 million of private sector financing, and US$10 million in increased tourism sector spend in Samoa, as well as Vanuatu and Tonga. Pacific Westpac M-Banking is a Pacific Advisory project.
Tonga	Tonga is part of IFC's Pacific Tourism project. Pacific Westpac M-Banking is a Pacific Advisory project.
Vanuatu	Vanuatu is central to IFC's Pacific Tourism Project. In December 2015, IFC released the Tourism-Agri Demand Study. The study revealed opportunities for local growers to increase production of specific fruits and vegetables to better meet demand coming from Vanuatu's tourism sector.
Kiribati	IFC's Pacific Investment Climate Rapid Response aims to provide rapid response advisory services.

TABLE A.3 IFC and Africa/Indian Ocean

Country	IFC program
Botswana	No investment portfolio. IFC technical inputs focus on PPP, financial institutions and investment climate.
Cabo Verde	No investment portfolio. IFC technical support is intended to improve the Investment Climate, especially in tourism. IFC is seeking opportunities in SME access to finance, transport infrastructure, fisheries and tourism.
Comoros	No investment portfolio. IFC intends to leverage advisory services to improve the investment climate, promote private initiative in infrastructure sector (PPP framework and selected Doing Business Indicators) and engage with financial institutions to provide Trade/SME finance.
Djibouti	No investment portfolio. IFC technical input is intended to improve selected Doing Business indicators, the overall investment climate and Public Private Dialogue. IFC is seeking investment opportunities in SME finance, transport and communication infrastructure, fisheries and tourism.
Equatorial Guinea	No Investment Portfolio. IFC is considering Doing Business targeted diagnostics, and investments in financial sector targeting SMEs, health and education.
Gabon	One active investment in Oil, Gas and Mining. Support provided to improve Investment Climate. IFC is seeking to expand its footprint through trade finance activities, opportunities in shared infrastructure (especially through transport PPPs), agribusiness and forestry.
The Gambia	Four clients, one trade finance line, one investment in Health and Education and another in Tourism. IFC aims to leverage financial institutions to improve access to finance for MSMEs as well as structure infrastructure related PPPs in transport.
Guinea-Bissau	No investment portfolio. IFC is considering investment opportunities in agribusiness. Advisory services for value chains development in the cashew sector, access to finance for SMEs and PPP framework.
Lesotho	No investment portfolio. IFC is pursuing opportunities in the banking sector and seeks to deploy advisory services in the energy, health and agribusiness sectors.
Mauritius	IFC invested in several funds to promote regional investment. IFC focuses on trade finance, capital market development, climate change initiatives, and transport and energy infrastructure development.
Namibia	*IFC has several active investments in financial institutions and education.* IFC is looking to expand investment and advisory services in financial markets to promote SME and capital market development, financial inclusion and private education.
São Tomé and Príncipe	IFC has one active financial institution client and has supported investment climate activities. IFC intends to expand long term investments in financial institutions and provide advisory support for infrastructure development and PPP structuring.
Seychelles	No investment portfolio. IFC is seeking to invest in financial institutions and health care providers. Further, through T&C and PPP advisory services, IFC is engaged to help unlock the country's investment potential in infrastructure and health care.
Swaziland	No investment portfolio. IFC is pursuing opportunities in water and energy PPPs, financial institutions, infrastructure and agribusiness. IFCs also seeks to provide Investment Climate advisory to create an enabling environment.

TABLE A.4 IFC and South Asia

Country	IFC program
Bhutan	Bhutan joined IFC as a member country in 2003. Since then, IFC provided financial assistance in supporting development of tourism infrastructure (Aman—$ 10m debt liquidated, June 2015; Zhiwa Ling $3.5 m expansion debt). IFC has also supported the financial sector through an equity partnership of $ 28.5m with Bhutan National Bank (BNB) and by providing trade lines to two of the largest banks—Bank of Bhutan (BoB) and BNB. IFC concluded $3m equity and $6m from the GAFSP assistance to a hazelnut plantation program. IFC provided advisory services in a range of areas including improvement in the investment climate such as in licensing, in FDI promotion and in enhancing access to finance. IFC helped infrastructure development in the transport sector through public-private partnership (PPP) transaction advisory.

Annex B. Examples of Energy and Extractive Operations in Small Island States

Investment Operations

Country	Status	Commitment (US$Mn)	Description
Solomon Islands	Pipeline	20	*Tina River Hydro Power Project.* Develop a hydropower facility with an installed capacity of 20 MW. The project will be built and operated by an independent power producer under a 30-year concession and sell power to the utility under a long-term Power Purchase Agreement
Maldives	Active	16	Provide technical assistance with private investment to scale-up the deployment of solar PV based generation on the islands to 20MW
Tuvalu	Active	7	Enhance Tuvalu's energy security by reducing its dependence on imported fuel for power generation and by improving the efficiency of its electricity system
Sao Tome and Principe	Pipeline	35.70	*Power Sector Recovery Project* (P157096) The total project investment cost for this phase of the program is estimated at US$35.70 million, out of which US$13 million would be IDA Grant, US$11.70 would be concessional loan by European Investment Bank (EIB) and US$2.00 million would EIB technical assistance grant and US$9 million would be concessional loan by OFID.
Solomon Islands	Active	11.7	Improve operational efficiency, system reliability and financial sustainability of Solomon Islands Electricity Authority under the Solomon Islands Sustainable Energy Project [SISEP] (P100311)

Technical Assistance and Advisory Activities

Country	Status	Commitment (US$Mn)	Description
Seychelles	Complete	0.75	To apply cost-recovery utility tariffs, help develop a renewable energy strategy, improve efficiency in the social protection system and adopt international public sector accounting standards.
Vanuatu	Complete	0.53	Develop and implement an Energy Roadmap covering grid and off-grid areas, feasibility studies and support in relation to geothermal power and grid development
Dominica	Active	0.32	Catalyze Dominica's power generation capacity from renewable geothermal resources by knowledge transfer on industry practices and international standards
Timor-Leste	Complete	0.19	Assist the government to develop policies in its ongoing rural energy programs, including, off-grid electrification, household energy, and the development of biofuels from Jatropha crops
Tonga	Complete	0.15	Provide technical assistance to the government to assess renewable sources to the grid system, review potential for biomass fueled generation and develop a national energy plan with renewables
Sao Tome and Principe	Complete	0.3	Prepare the power sector for grid connection of renewable energy by reducing network losses, improving the financial sustainability of the electricity sector and the strengthening the performance of the public utility. This TA led to the investment operation described in the previous box.
Caribbean	Active	5.6	The *Eastern Caribbean Energy Regulatory Authority* (ECERA) project is helping operationalize ECERA to efficiently regulate OECS utilities and improve service quality, reduce costs, lower GHG emissions, and better integrate and expand markets. It supports the preparation of policies and standardized documentation for renewable energy technologies.
Caribbean	Active	1.25	Build and demonstrate technical viability of commercial-scale rooftop solar PV systems to help Grenada, St. Lucia, and St. Vincent & the Grenadines meet their renewable energy policy objectives and create a business model
Caribbean	Active	1.0	Support CARICOM, to establish a regional mechanism for development partner collaboration and assist the region in meeting its *Caribbean Regional Energy Strategy and Roadmap* (C-SERMS) clean energy and energy efficiency targets.
Cabo Verde	Active	1.0	Scale-up solar PV through pilot projects in hospitals, hotels and residential buildings. The project collects economic, technical and financial data over 2 years to quantify the impact of the installed PV systems and mobilize relevant actors around scale-up plan.
St. Lucia	Active	1.0	Provide support for the Government of Saint Lucia on geothermal exploration and development by undertaking upstream preparatory activities
Pacific	Active	3.7	The *Regional Sustainable Energy Industry Development Project* seeks to increase the capacity of power utilities of the Pacific Island Countries and Papua New Guinea to better manage renewable energy technologies and long-term disaster risk planning.
Solomon Islands	Pipeline	—	*Solomon Islands Electricity Access Expansion Project* mobilizes GPOBA grant to partially subsidize the cost of connection for targeted low-income households where currently less than 20% have access to grid electricity.

Annex C. Gender Issues in Small States

Education and employment. While in the small states gender parity has been reached at the lower levels of education, more girls than boys tend to pursue higher levels of education. In several countries more than twice as many young women are enrolled in tertiary education as young men. In fact, the Gender Parity Index for tertiary school enrollment is 2.05 for the Caribbean small states, considerably higher than the 1.28 regional average for Latin America and the Caribbean. However, this does not necessarily translate into labor market opportunities: in some countries women have significantly higher unemployment rates and lower labor market participation than their male counterparts (e.g., in 2015, in Belize and Guyana, the female labor force participation was 52 percent and 45 percent, respectively, compared to male labor force participation of 85 percent and 82 percent, respectively), and they receive lower wages than men. In Botswana, while females outperform males in educational enrollment and performance at the primary and secondary levels, they still have much worse employment and earnings than men.[1] Studies have shown that eliminating employment segregation would increase labor productivity globally by as much as 3–25 percent. Furthermore, women's control of household earnings has been found to have a direct positive correlation with education and health spending on children.[2]

Even when women in African small states start to participate more widely in the labor market, this is often due to push rather than pull factors. One example is the migration of women from rural to urban areas in Lesotho to work in the export garment sector—a major change for Basotho households, which used to rely on the migration of men to work in South African mines. Since the early 1990s the number of opportunities available in South African mines for Basotho men has declined dramatically, while the preferential trade terms of the United States' Africa Growth and Opportunities Act facilitated the expansion of the export garment sector in Lesotho. A recent World Bank study (2015) exploring these changing migration patterns for households in Lesotho finds that female migration is indeed driven by push rather than pull factors, and that households experience large increases in welfare only with male and not with female migration. One push factor in Lesotho is education: young women drop out of secondary school, as their families cannot afford the fees, and migrate to work in the garment export sector; older women migrate to support the education of their own children. Thus, policies to deal with migration need to deal not only with the lack of labor market opportunities in rural areas, but also with deficiencies in other areas that may be indirectly linked to migration patterns.

The migration of household members for gender-segregated labor market opportunities also means the physical separation of families, which can have serious consequences. There is already strong evidence that male migration to South African mines contributed to the HIV epidemic, while only the strong efforts of organizations such as Apparel Lesotho Alliance to Fight AIDS may have prevented even higher rates of infection among women working in the textiles sector (World Bank, 2015). These findings from Lesotho may be relevant for many small states where domestic labor markets are small and the few opportunities that exist tend to be concentrated in very few urban centers. Women have fewer opportunities for migration. While many Pacific islanders have responded to unemployment and limited job prospects by choosing to migrate, in several PICs, legal migration opportunities in the context of seasonal worker programs to Australia and

1 The Bank's recent Systematic Country Diagnostic for Botswana finds that this is partly because of how the multiple roles of women (e.g., as caregivers, mothers, workers) are managed formally and informally, via labor markets and culture. Moreover, in Botswana, the burden of care work placed disproportionately on women has been exacerbated by the HIV/AIDS epidemic.

2 World Bank 2012b.

New Zealand have been more limited for women: female participation rates are less than 20 percent in both programs.

In Bhutan the rate of female labor force participation is almost as high as men's (67 percent vs. 72 percent).[3] As is true globally, women tend to be concentrated in lower-paid, less secure jobs, and to hold fewer managerial or professional positions. Child care is widely perceived as the main obstacle to women's labor market participation. The challenge in Bhutan is thus to improve women's productivity and earnings to enable them to get better-quality jobs. Recommended policy interventions are improving access to child care, improving educational outcomes for girls at secondary and tertiary levels, and promoting men's participation in housework and a greater role for fathers as caregivers.

In the Maldives female labor force participation (56%)[4] is higher than in comparable middle-income countries, but men's labor market participation (78%) is considerably higher. Unemployment rates are similar, around 5–6 percent, and men and women alike cite lack of opportunities on their residential island as the main reason that they cannot find work. However, more women than men say that their responsibilities in the home prevent them from working. Occupational segregation is a major barrier to women's employment in the Maldives. The fishing industry is a major source of income, but no women are employed in this industry; in tourism, another large employer, men account for 87 percent of the employment. Women are concentrated in the lowest-productivity and -skill sectors. For all industries, including those dominated by women, women's average monthly earnings lag behind men's. However, women make up about half of all employees of the government (the country's main employer). Youth unemployment, a growing problem in the Maldives, stood at 12 percent in 2014. Young men have higher rates of unemployment than young women; the gap is largest for 15- to 19-year-olds—44 percent unemployment for males and 25 percent for females, falling to 23 percent for males 20–24 years old and 20 percent for females of the same age. On the atolls, 52 percent of 15- to 19-year-old males are unemployed (vs. 32 percent of females), falling to about 24 percent for both young men and young women aged 20–24 years. Many men migrate away from their home island to find work, either on other islands and atolls or internationally, and more than half of all households in the Maldives and more than 60 percent on Male are headed by a female. Although women and families benefit from remittances, female-headed households are still likely to be poorer than male-headed ones. On the atolls approximately one in three female-headed households falls below the poverty line, compared with one in four male-headed households.

Reproductive health. The small Caribbean states are generally characterized by close to universal access to prenatal care and births attended by skilled staff, but the maternal mortality rates vary substantively: from under 30 maternal deaths per 100,000 live births in Belize and Barbados, to 155 in Suriname and 229 in Guyana. Teenage pregnancy is a concern, with the highest rates in Guyana and Belize. Also, in the OECS, women aged 15 to 24 are three to six times more likely to contract HIV/AIDS than young men.

The southern African small states (Botswana, Lesotho, and Swaziland) are characterized by high levels of HIV prevalence, with women making up more than 50 percent of those infected. Women's greater vulnerability to HIV may be explained partly by unequal power relations between women and men and women's lower economic empowerment, which may make them more likely to engage in transactional sex, even among those who are not sex workers. For example, a study from de Walque et al (2014)[5] shows that non-sex-worker women who

3 Bhutan Gender Policy Note, 2013.

4 Understanding Gender in the Maldives (2016).

5 De Walque, D., W. H, Dow, and E. Gong. (2014). Coping with risk: The effects of shocks on reproductive health and transactional sex in rural Tanzania. Policy Research Working Papers.

experienced a shock to their household's food security were 36 percent more likely to test positive for a sexually transmitted infection than women who did not experience such a shock, with larger impacts for women with lower social status and fewer economic opportunities. Women are not only disproportionately affected by HIV in terms of infections but also in terms of the burden of care that is placed on them by traditional gender roles. This reduces women's ability to engage in income-generating activities.

The low-income small states (Comoros, The Gambia, Guinea-Bissau) are still struggling with basic human development issues. For example, with regard to maternal mortality, these countries have an average rate of 530 deaths per 100,000 live births, compared to averages of 216 and 269, respectively, for the lower-middle- and upper-middle-income African small states.

Poverty. Women living in rural areas are particularly vulnerable to poverty because they engage in unpaid domestic work, and the limited job opportunities in rural areas mean higher unemployment and lower income. Also, in the OECS, female-headed households, which account for two-thirds of households, are more likely to be poor.

Parliamentary participation. In terms of women's parliamentary participation, the small Caribbean states (19%) lag behind the LAC average (28%), with Belize at the lower end (3%) and Grenada with the largest share of women in parliament (33%). There is an equally large range of women in ministerial positions: Antigua and Barbuda, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago all have under 10 percent, and Grenada has 46 percent. In Botswana and Mauritius, two upper-middle-income countries in the African small states group, women still only make up 9.5 percent and 11.6 percent of parliamentary seats—less than half the sub-Saharan African average of 23.4 percent. Women's political representation in parliament in the Pacific is the lowest of any global region (at 13.4%), compared to an average of 20 percent across all developing nations.

Violence and crime. In the Caribbean, men and women engage in different kinds of risky behaviors: males are more likely to drop out of school, enter the workforce prematurely, demonstrate violent behavior, and engage in substance abuse, while females engage in early and risky sexual activity (Cunningham, 2008). In Jamaica, inadequate economic and employment opportunities, limited participation in post-secondary education, weak family connections, and the absence of fathers create an environment in which aggressive masculine identities prevail. Official police data indicate that violent crime is perpetrated mainly among young men between the ages of 16 and 30 years, and the same young men are also the main victims (Dunn and Sutherland 2009, PIOJ 2013). Violence in relationships is also common in Jamaica, with 17 percent of women reporting physical abuse by a partner or ex-partner and nearly one in two young women (49%) categorized as having had coerced first sexual intercourse (RHS 2008). Gender-based violence rates are also high in the Pacific countries. Violence against women significantly and negatively affects not only their health, well-being and agency, but also the public health system, business, and children's development, education, and nutrition levels. Most abused women in the Pacific report that they have not sought help from formal services. Beyond the human costs, violence incurs major economy-wide costs such as expenditure on service provision, forgone income for women and their families, decreased productivity, and negative effects on human capital. A recent World Bank study estimates that the costs of intimate partner violence annually are close to the average that developing country governments spend on primary education.[6]

Access to assets. One significant gender-related constraint that appears to affect a wide range of countries, regardless of income level, is access to land. This is especially relevant in sub-Saharan Africa

6 Duvvury et al., 2013.

where agriculture accounts for a large portion of earnings, particularly for the poorest people. These countries are characterized by dual legal systems: while statutory law includes provisions for gender equality, customary laws and practices—which often dictate what happens in reality—tend to discriminate against women with regard to land inheritance and ownership. For example, the Bank's recent Systematic Country Diagnostic for Guinea-Bissau found that, while national statutory laws provide for equal rights to land, in reality most land is administered by customary practices, presided over by a male head of household or clan, with women generally only having use rights through marriage. This means that widowed, divorced, and single women are at a particular disadvantage. Research suggests that women's less secure access to land is an important constraint because it may reduce the incentives for women to make productivity-enhancing investments.[7]

Women lack equal access to productive and economic resources. The vast majority of formal businesses in the Pacific are owned and controlled by men. Women in the Pacific are less likely to be in formal employment and are likely to be paid less than their male counterparts. Women have lower employment rates in all island states where data are available, reaching as low as 16 percent in RMI.[8] Women are less likely to have control of assets, such as title to land, and are often disadvantaged by prevailing family, marriage, and inheritance laws and practices. In the PICs, almost all land is customarily owned and transferred through traditional cultural systems, under which women and men access land through customary arrangements and not through purchase. Women do not have a right to access and independent of a male relative, but only as an extension of socially constructed gendered roles as daughters, wives, or mothers.[9] In Pacific countries where land is communally held, the asset is often administered by a person in a position of traditional authority—nearly always a man.[10] Women have less access to credit and financial support services; while men and women may have equal rights to loan and credit by law, it is men's position as landowners that provides them with access to collateral. Women often have greater difficulty in gaining access to finance to grow their businesses and to the justice system for resolving commercial disputes.[11]

In Bhutan, about 60 percent of rural women have land registered in their names, and 45 percent of property titles in urban areas are registered to women. Almost one-third of firms there are owned by women, and they tend to be larger and span across sectors. However, women's access to finance remains limited and is cited as a major obstacle to women's owning businesses.

Women have much less access to assets than men in the Maldives, partly because of gender-differentiated property rights under Shari'ah Law. Only 31 percent of women are recorded home owners, and only 3 percent of homes are owned jointly. Women rarely own means of transportation, an asset of key significance in the Maldives context, particularly on the atolls. Boats used for transport or fishing are owned almost exclusively by men. Lack of access to affordable and reliable transport limits women's ability to engage in commercial activities

7 Goldstein, M., and C. Udry (2008). The profits of power: Land rights and agricultural investment in Ghana. *Journal of Political Economy* 116(6): 981–1022. It is not surprising that a report by the World Bank and ONE (2014) finds that women's less secure access to land is one factor contributing to a gender agricultural productivity gap in Africa, which ranges from 23 percent in Tanzania to 66 percent in Niger. Other factors contributing to the gender productivity gap and women's constrained roles in agriculture include gender gaps in human capital, women's concentration on food crops (while men are more likely to produce cash crops), and women's lower access to farm labor, non-labor inputs (such as fertilizer), information (extension services), and markets.

8 Draft: Combined Country Gender Action Plan for the PIC9 Countries, 2016, p. 8.

9 Statistical Yearbook for Asia and the Pacific 2013 (http://www.unescap.org/stat/data/syb2013/E.1-Women-empowerment.pdf). Access to assets through inheritance is particularly important for widows, who may depend on inheritance for economic security and survival. According to the Women, Business and the Law 2016 report, female surviving spouses in Tonga, for example, do not have the same inheritance rights as their male counterparts.

10 Draft: Combined Country Gender Action Plan for the PIC9 Countries, 2016, p. 7

11 Systematic Country Diagnostic for Kiribati, Marshall Islands, Micronesia, Palau, Samoa, Tonga, Tuvalu, Vanuatu, 2016, p. 22

and entrepreneurship, and lack of collateral impedes their access to credit.

Exclusion, discrimination, and lack of protection inhibit growth. Exclusion and violence based on sexual orientation and gender identity are extensive in several small states, in particular in the Caribbean.[12] In addition to allowing serious rights-based violations, this situation costs the economy greatly, including lost labor time and the inefficient allocation of human resources through discrimination in education and hiring practices, which in turn affects broader economic output. Although data are limited, there is a clear link between lower GDP outcomes, on one hand, and discriminatory laws and fewer protections for lesbian, gay, bisexual, and transgender (LGBT) persons, on the other. A combination of discriminatory laws, fewer legal protections, and social stigma creates numerous protection gaps and specific vulnerabilities—for example, in accessing health care, housing, and employment[13]—limiting an LGBT person's equality of opportunity, and thus hindering the country's key economic development outcomes.

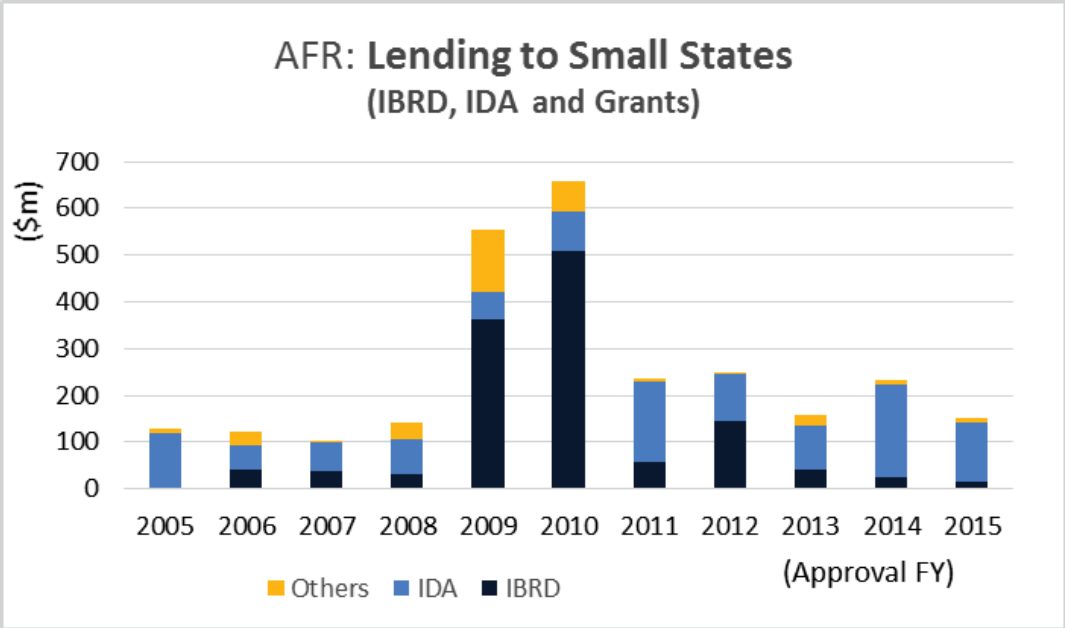
12 Some countries in Central America, and in particular the Caribbean sub-region including Guyana, are not advancing toward inclusion and have punitive and discriminatory laws against LGBT identities. In LAC, countries that have made homosexual acts illegal and can be considered as regressing include Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Source: Latin America and Caribbean Region Addressing Social Exclusion based on Sexual Orientation and Gender Identity, 2016, p. 15

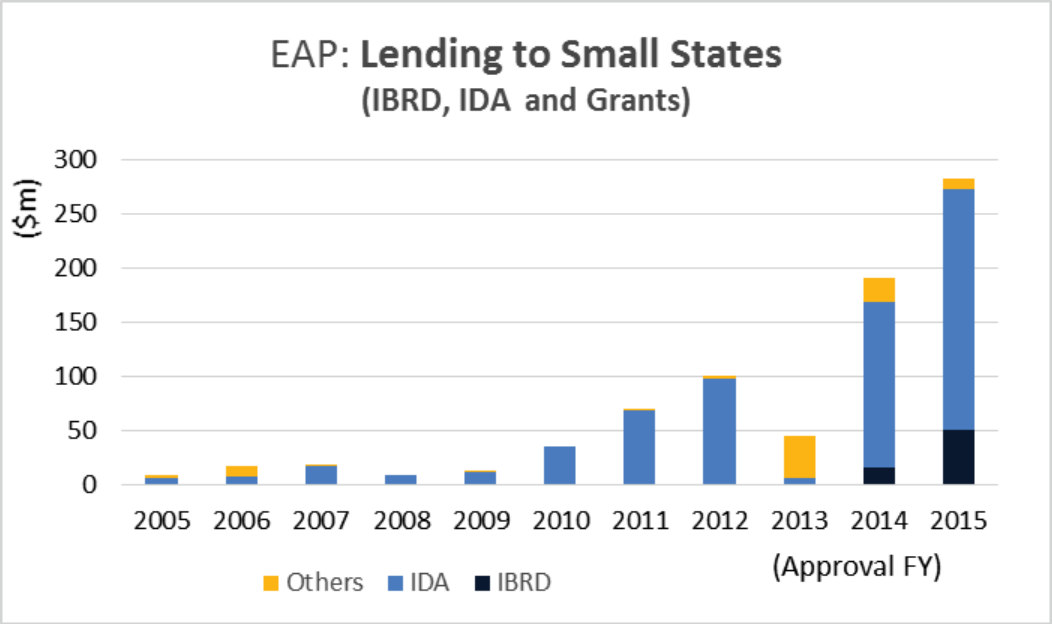
13 Draft: Combined Country Gender Action Plan for the PIC9 Countries, 2016, p. 30.

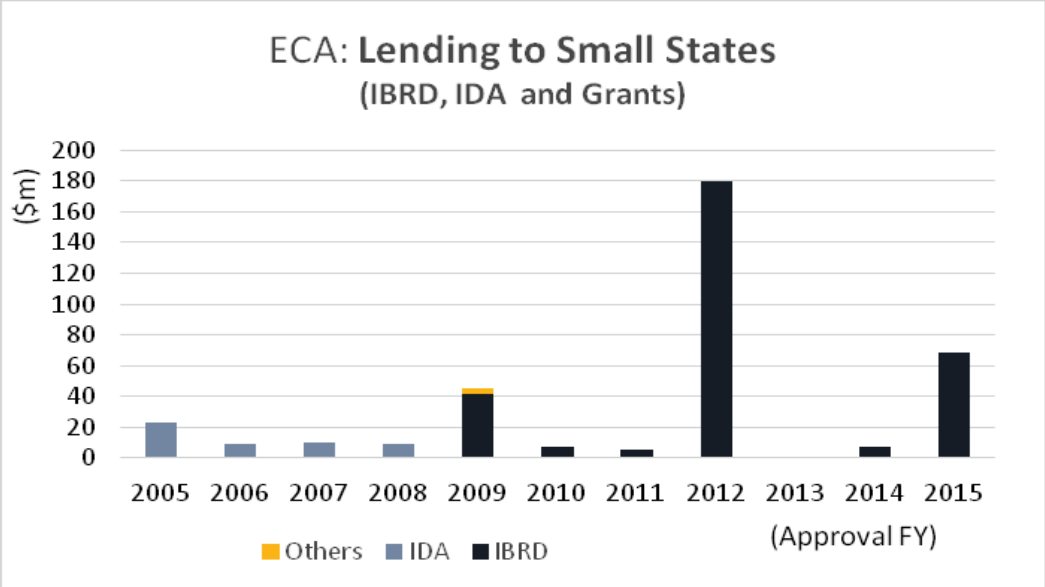
Annex D. Details of IDA/IBRD Financing in Small States

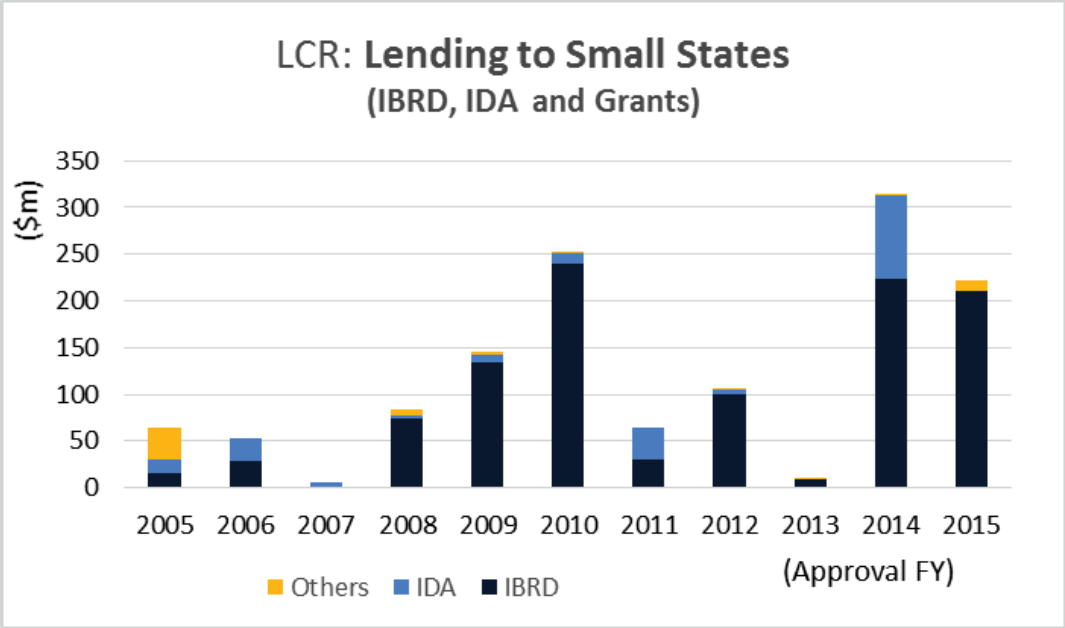
1. Commitment: IBRD+IDA+Grants, by Region											
Region	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
AFR	127.7	121.9	101.6	142.8	554.3	659.1	235.2	245.5	158.4	232.3	150.1
EAP	8.0	17.5	17.6	8.7	12.0	34.5	68.3	101.2	45.4	191.1	282.9
ECA	23.0	9.0	10.0	9.0	45.3	7.2	5.5	180.2	0.5	6.8	68.9
LCR	64.0	53.7	6.8	83.5	146.3	251.7	64.2	106.0	10.3	313.8	222.8
MNA	7.2	23.0	2.2	8.3	7.0	9.3	5.8	19.2	19.0	8.3	12.0
SAR	37.7	29.7	30.6	24.4	24.5	26.2	42.3		60.7	40.3	23.3
Grand Tol	**267.6**	**254.8**	**168.8**	**276.7**	**789.4**	**988.0**	**421.4**	**652.0**	**294.3**	**792.5**	**760.0**

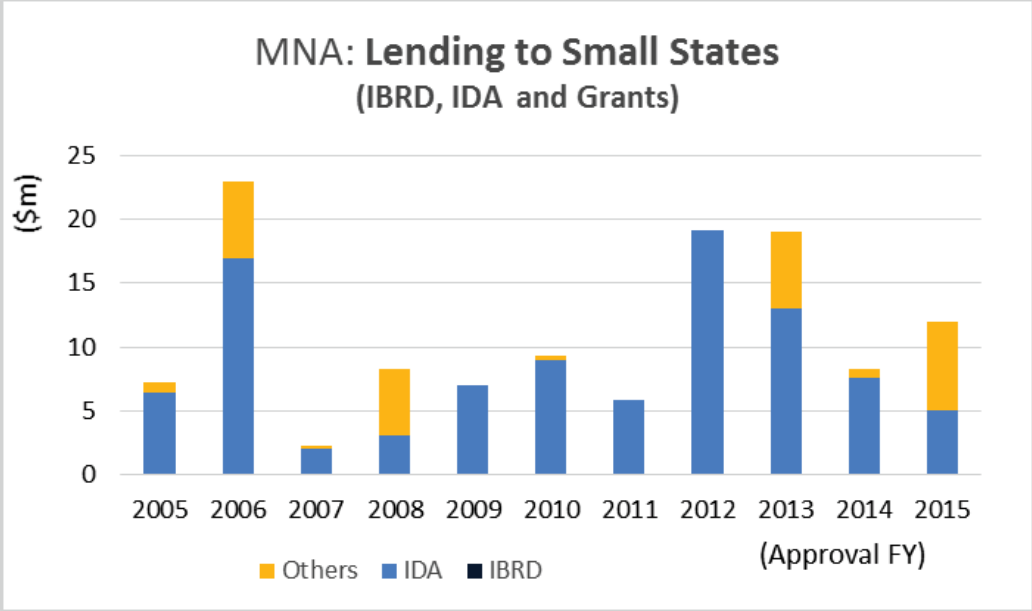
2. Commitment (IBRD+IDA+Grants), by Region and Agreement Type												
Region	**Agreement Type**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
AFR	IBRD	-	40.0	37.5	30.0	361.5	508.1	55.9	146.5	42.0	25.0	14.0
	IDA	120.4	53.7	63.6	74.9	60.0	83.7	172.3	98.5	94.5	198.4	129.1
	Others	7.3	28.2	0.5	37.9	132.8	67.4	7.1	0.5	21.9	8.8	7.0
EAP	IBRD	-	-	-	-	-	-	-	-	-	15.0	50.0
	IDA	6.0	7.5	16.8	8.7	11.6	34.5	68.0	98.2	5.8	153.7	223.3
	Others	2.0	10.0	0.9	-	0.4	-	0.3	3.0	39.6	22.4	9.6
ECA	IBRD	-	-	-	-	41.3	7.2	5.5	180.2	-	6.8	68.9
	IDA	23.0	9.0	10.0	9.0	-	-	-	-	-	-	-
	Others	-	-	-	-	4.0	-	-	-	0.5	-	-
LCR	IBRD	15.6	29.3	-	75.0	135.0	239.5	30.0	100.0	10.0	224.0	210.0
	IDA	15.6	24.4	6.8	1.9	7.9	11.5	34.2	5.0	-	89.5	-
	Others	32.9	-	-	6.7	3.4	0.7	-	1.0	0.3	0.3	12.8
MNA	IBRD	-	-	-	-	-	-	-	-	-	-	-
	IDA	6.5	17.0	2.0	3.0	7.0	8.9	5.8	19.2	13.0	7.6	5.0
	Others	0.7	6.0	0.2	5.3	-	0.4	-	-	6.0	0.7	7.0
SAR	IBRD	-	-	-	-	-	-	-		-	-	-
	IDA	36.6	22.0	30.0	24.0	24.0	25.7	36.8		55.0	39.9	23.3
	Others	1.1	7.7	0.6	0.4	0.5	0.5	5.5		5.7	0.4	-

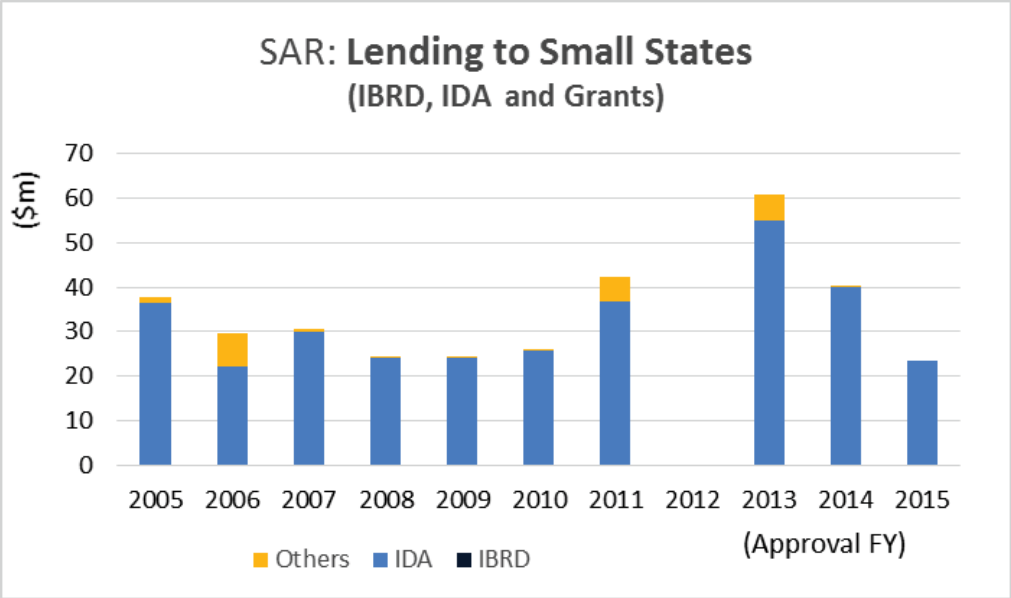



EAP: Lending to Small States
(IBRD, IDA and Grants)
($m)
300
250
200
150
100
50
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
(Approval FY)
Others
IDA
IBRD

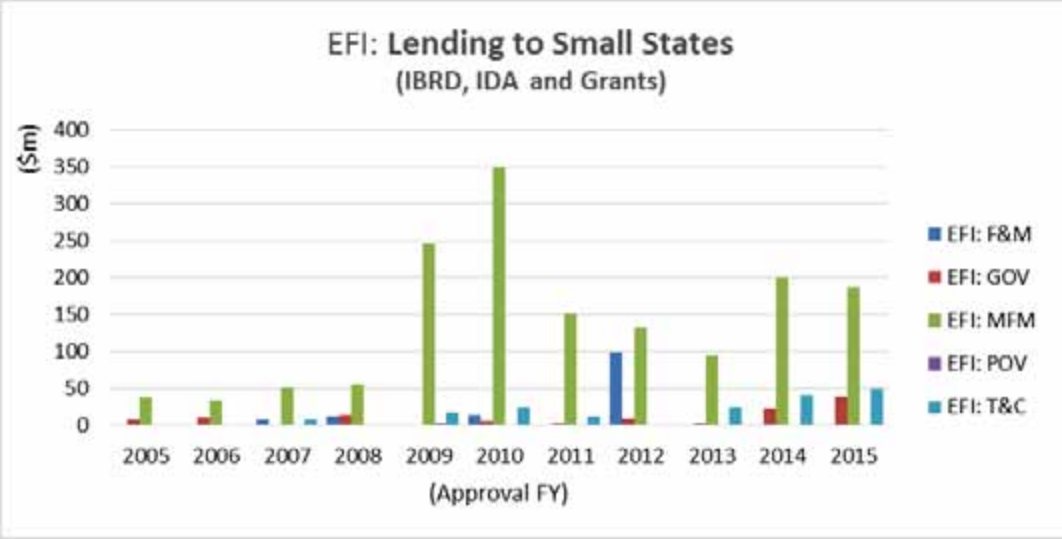

ECA: Lending to Small States
(IBRD, IDA and Grants)
($m)
200
180
160
140
120
100
80
60
40
20
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
(Approval FY)
Others
IDA
IBRD

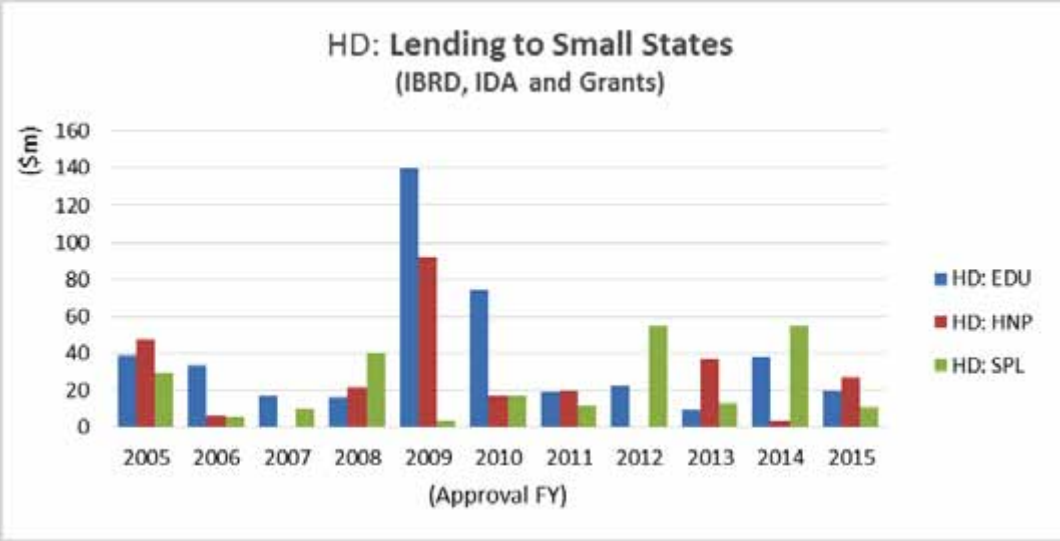

LCR: Lending to Small States
(IBRD, IDA and Grants)
($m)
350
300
250
200
150
100
50
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
(Approval FY)
Others
IDA
IBRD

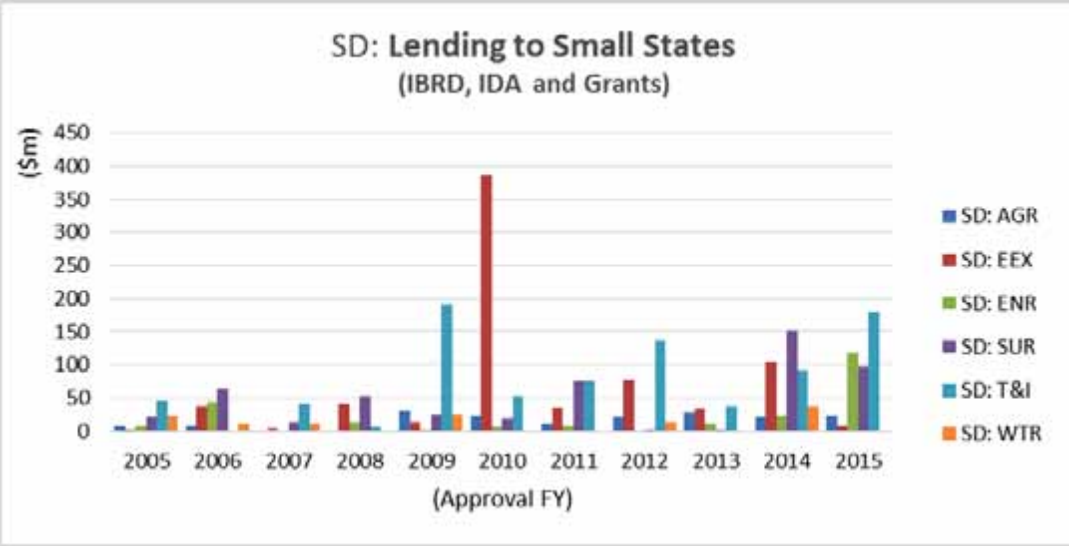

MNA: Lending to Small States
(IBRD, IDA and Grants)
($m)
25
20
15
10
5
0
2005
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
(Approval FY)
Others
IDA
IBRD



4. Commitment (IBRD+IDA+Grants), by Practice Group and Practice												
PG	PG	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EFI:	F&M			8.0	13.7		15.0		100.0			
	GOV	8.6	11.8	2.1	14.8	1.3	6.3	2.9	10.4	2.4	22.5	40.0
	MFM	38.0	35.1	52.0	56.9	245.2	349.1	150.4	133.2	95.3	201.5	187.0
	POV	0.3			0.3	2.5						
	T&C			8.1		18.0	24.5	12.5		25.0	41.3	50.0
HD:	EDU	38.9	33.5	17.0	16.6	140.2	74.5	19.2	22.5	10.0	38.3	20.0
	HNP	47.9	6.5	0.5	21.8	92.0	17.3	20.0		36.7	3.7	27.1
	SPL	29.6	5.7	10.2	40.0	3.8	16.8	12.0	55.0	13.0	55.0	11.0
SD:	AGR	7.0	7.0			29.7	22.5	10.8	21.0	29.0	21.4	22.0
	EEX	1.9	38.2	3.4	41.8	13.4	385.1	34.9	77.0	33.0	105.2	8.2
	ENR	7.8	42.6		14.0	2.6	5.5	8.0		11.6	22.1	117.8
	SUR	20.5	63.1	14.0	52.0	23.8	18.1	75.4	3.0	0.5	151.8	97.9
	T&I	45.3		41.8	5.0	191.9	53.3	75.2	137.2	37.8	91.5	179.0
	WTR	21.8	11.3	11.8		25.0			13.0		38.3	

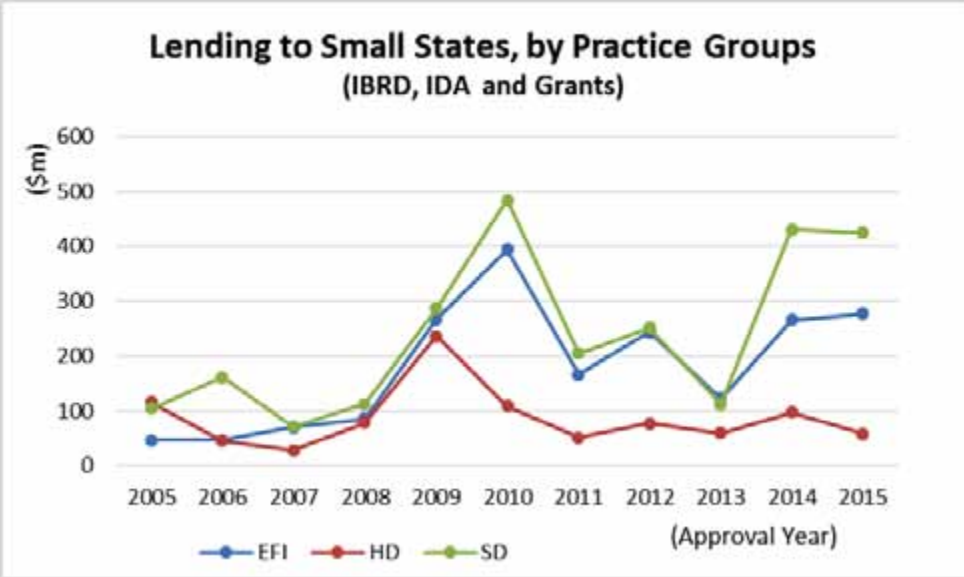


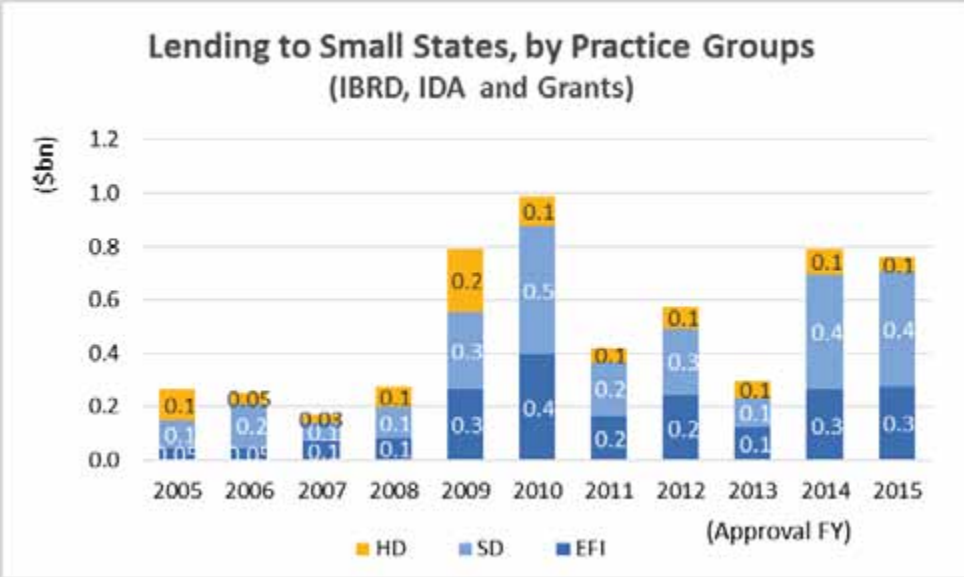




5. Commitment (IBRD+IDA+Grants), by Practice Group

PG	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EFI	46.9	46.9	70.2	85.6	267.0	395.0	165.8	243.6	122.7	265.3	277.0
HD	116.4	45.7	27.7	78.4	236.0	108.6	51.2	77.5	59.7	97.0	58.1
SD	104.2	162.2	71.0	112.7	286.4	484.4	204.4	251.2	112.0	430.3	424.9


Lending to Small States, by Practice Groups
(IBRD, IDA and Grants)
($m)
600
500
400
300
200
100
0
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
(Approval Year)
EFI
HD
SD


Lending to Small States, by Practice Groups
(IBRD, IDA and Grants)
($bn)
1.2
1.0
0.8
0.6
0.4
0.2
0.0
2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015
(Approval FY)
HD
SD
EFI

6. Commitment (IBRD+IDA+Grants), by GP and Region

Practice	Region	Approval FY										
		2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
AGR	*AFR*		7.0			10.0	7.5		10.0	20.0	15.9	22.0
	EAP								8.0		5.5	
	ECA					19.7						
	LCR						15.0					
	MNA							5.8	3.0			
	SAR	7.0						5.0		9.0		
EDU	*AFR*		8.0	7.5		135.3	53.5		0.5		16.3	20.0
	EAP	1.0	8.2	6.0			5.0	5.0				
	ECA	5.0							16.0			
	LCR	32.9		3.5	15.0	4.9	16.0	14.2			22.0	
	MNA		16.0						6.0			
	SAR		1.3		1.6					10.0		
EEX	*AFR*	0.5	22.2		30.2		379.1	14.9	71.8	20.0	55.0	
	EAP	1.4		3.4		4.0		5.0		1.0	27.4	7.0
	ECA		9.0		9.0	9.4					6.8	
	LCR				2.6			15.0				1.2
	MNA		7.0				6.0		5.2	12.0		
	SAR										16.0	
ENR	*AFR*	7.8	34.9		0.4		5.5	8.0		1.9	7.5	
	EAP									5.6	14.6	34.0
	ECA											68.9
	LCR					2.6						11.6
	SAR		7.7		13.6					4.1		3.3
F&M	*AFR*				6.0		15.0		15.0			
	ECA								85.0			
	SAR			8.0	7.7							
GOV	*AFR*	1.5	0.8		11.1		5.3	2.8	10.0		15.3	5.0
	EAP	5.3	7.5					0.1				
	ECA									0.5		
	LCR		3.5	1.4	2.2	0.8	0.7		0.4	0.3		35.0
	MNA	0.7					0.4				0.7	
	SAR	1.1		0.6	1.5	0.5				1.6	6.5	
HNP	*AFR*	34.5	6.5	0.5	6.3	50.0	7.1	20.0		12.0	3.7	20.1
	EAP				5.5		3.0			17.7		
	ECA						7.2					
	LCR	13.4			10.0	35.0						
	MNA					7.0				7.0		7.0
MFM	*AFR*	20.0	10.5	40.0	51.9	125.0	95.4	125.6	22.2	57.5	26.3	70.0
	EAP						20.0		11.0	1.8	30.2	22.0
	ECA	18.0										
	LCR		9.6			100.0	220.0		100.0		145.0	75.0
	MNA				5.0							
	SAR		15.0	12.0		20.2	13.7	24.8		36.0		20.0
POV	*AFR*					2.5						
	EAP	0.3										
	MNA				0.3							
SPL	*AFR*			10.0			16.3		45.0	3.0	15.0	6.0
	LCR				40.0				5.0	10.0	40.0	
	MNA			0.2					5.0			5.0
	SAR	29.6	5.7			3.8	0.5	12.0				
SUR	*AFR*	4.0	32.0	12.0	32.0	2.5		26.9				7.0
	EAP		1.8		3.2	2.1	3.2	8.0	3.0	0.5	22.3	40.9
	ECA					16.2		5.5				
	LCR	10.0	29.3		13.8	3.0		35.0			106.5	50.0
	MNA	6.5		2.0	3.0		2.9				5.6	
	SAR						12.0				17.4	
T&C	*AFR*			8.1		18.0	24.5	12.0		25.0	39.3	
	LCR											50.0
	MNA										2.0	
	SAR							0.5				
T&I	*AFR*	45.3		23.5	5.0	186.0	50.0	25.0	58.0	19.0		
	EAP			8.3		5.9	3.3	50.2	79.2	18.8	91.1	179.0
	SAR			10.0							0.4	
WTR	*AFR*	14.1				25.0			13.0		37.9	
	ECA			10.0								
	LCR	7.7	11.3	1.8							0.3	
Grand Total		**267.6**	**254.8**	**168.8**	**276.7**	**789.4**	**988.0**	**421.4**	**572.3**	**294.3**	**792.5**	**760.0**

7. Commitment (IBRD+IDA+Grants), by Region and Country. GP's % Share allocation is also presented

Region	Country	Total Comm. ($m) (FY11-15)	% by GP													
			F&M	GOV	MFM	T&C	EDU	HNP	SPL	AGR	EEX	ENR	SUR	T&I	WTR	Total
AFR	Cabo Verde	131	-	1	36	-	-	-	-	-	41	-	-	22	-	100
	Comoros	31	-	17	38	-	-	-	29	-	16	-	-	-	-	100
	Gabon	84	-	-	-	22	-	-	-	-	-	9	-	69	-	100
	Gambia, The	62	-	10	10	19	20	14	-	26	-	2	-	-	-	100
	Guinea	331	-	3	39	3	6	5	8	11	27	-	-	-	-	100
	Guinea-Bissau	82	-	6	8	10	-	-	18	9	18	4	-	-	27	100
	Lesotho	122	-	5	31	11	-	10	-	8	-	-	-	12	23	100
	Mauritius	70	21	-	29	21	-	-	29	-	-	-	-	-	-	100
	Namibia	2	-	20	-	-	-	-	-	-	-	80	-	-	-	100
	Sao Tome and Principe	22	-	-	62	-	20	-	-	-	-	18	-	-	-	100
	Seychelles	37	-	-	81	-	-	-	-	-	-	-	19	-	-	100
	Swaziland	47	-	-	-	-	-	43	-	-	-	-	57	-	-	100
AFR Total		**1,022**	**1**	**3**	**30**	**7**	**4**	**5**	**7**	**7**	**16**	**2**	**3**	**10**	**5**	**100**
EAP	Fiji	50	-	-	-	-	-	-	-	-	-	-	-	100	-	100
	Kiribati	63	-	-	13	-	-	-	-	-	2	-	5	80	-	100
	Marshall Islands	13	-	-	-	-	-	-	-	-	-	66	11	23	-	100
	Micronesia, Federated States of	67	-	-	-	-	-	-	-	-	21	8	-	70	-	100
	Samoa	150	-	-	15	-	-	-	-	9	-	10	9	57	-	100
	Solomon Islands	56	-	-	16	-	-	-	-	-	23	20	40	-	-	100
	Timor-Leste	83	-	0	-	-	6	21	-	1	-	-	-	72	-	100
	Tonga	102	-	-	20	-	-	-	-	-	5	-	31	44	-	100
	Tuvalu	38	-	-	12	-	-	-	-	-	18	23	-	47	-	100
	Vanuatu	67	-	-	-	-	-	-	-	-	-	8	2	89	-	100
EAP Total		**689**	**-**	**0**	**9**	**-**	**1**	**3**	**-**	**2**	**6**	**8**	**11**	**61**	**-**	**100**
ECA	Montenegro	262	32	0	-	-	6	-	-	-	3	26	2	-	-	70
ECA Total		**262**	**32**	**0**	**-**	**-**	**6**	**-**	**-**	**-**	**3**	**26**	**2**	**-**	**-**	**70**
LCR	Antigua and Barbuda	10	-	-	-	-	-	-	97	-	-	-	-	-	3	100
	Bahamas, The	1	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Belize	57	-	-	-	-	-	-	-	-	-	21	79	-	-	100
	Dominica	17	-	-	-	-	-	-	-	-	-	-	100	-	-	100
	Grenada	20	-	-	75	-	-	-	25	-	-	-	-	-	-	100
	Guyana	36	-	-	-	-	67	-	-	-	-	-	33	-	-	100
	Jamaica	519	-	7	59	10	2	-	8	-	3	-	12	-	-	100
	St. Kitts and Nevis	0	-	100	-	-	-	-	-	-	-	-	-	-	-	100
	St. Lucia	16	-	-	-	-	-	-	-	-	7	-	93	-	-	100
	St. Vincent and the Grenadines	41	-	-	-	-	-	-	-	-	-	-	100	-	-	100
	Suriname	0	-	100	-	-	-	-	-	-	-	-	-	-	-	100
LCR Total		**717**	**-**	**5**	**45**	**7**	**5**	**-**	**8**	**-**	**2**	**2**	**27**	**-**	**0**	**100**
MNA	Djibouti	64	-	1	-	3	9	22	16	14	27	-	9	-	-	100
MNA Total		**64**	**-**	**1**	**-**	**3**	**9**	**22**	**16**	**14**	**27**	**-**	**9**	**-**	**-**	**100**
SAR	Bhutan	118	-	1	68	0	-	-	-	12	-	3	15	0	-	100
	Maldives	49	-	15	-	-	21	-	25	-	33	7	-	-	-	100
SAR Total		**167**	**-**	**5**	**48**	**0**	**6**	**-**	**7**	**8**	**10**	**4**	**10**	**0**	**-**	**100**
Grand Total		**2,920**	**3**	**3**	**26**	**4**	**4**	**3**	**5**	**4**	**9**	**5**	**11**	**18**	**2**	**97**

8. Commitment (IBRD+IDA+Grants), by Region and Country. Practice Group's Total and % Share allocation is also presented									
Region	country name	Volume ($m)					% Share		
		EFI	HD	SD	Others	Total	EFI	HD	SD
AFR	Cabo Verde	48		83		131	37	-	63
	Comoros	17	9	5		31	55	29	16
	Gabon	18		66		84	22	-	78
	Gambia, The	24	21	17		62	39	34	27
	Guinea	148	60	123		331	45	18	37
	Guinea-Bissau	20	15	47		82	24	18	58
	Lesotho	57	12	53		122	46	10	44
	Mauritius	50	20			70	71	29	-
	Namibia	0		2		2	20	-	80
	Sao Tome and Principe	14	4	4		22	62	20	18
	Seychelles	30		7		37	81	-	19
	Swaziland		20	27		47	-	43	57
AFR Total		**426**	**162**	**434**		**1,022**	**42**	**16**	**42**
EAP	Fiji			50		50	-	-	100
	Kiribati	8		54		63	13	-	87
	Marshall Islands			13		13	-	-	100
	Micronesia, Federated States of			67		67	-	-	100
	Samoa	23		127		150	15	-	85
	Solomon Islands	9		47		56	16	-	84
	Timor-Leste	0	23	61		83	0	27	73
	Tonga	21		82		102	20	-	80
	Tuvalu	5		34		38	12	-	88
	Vanuatu			67		67	-	-	100
EAP Total		**65**	**23**	**601**		**689**	**9**	**3**	**87**
ECA	Montenegro	86	16	81	79	262	33	6	31
ECA Total		**86**	**16**	**81**	**79**	**262**	**33**	**6**	**31**
LCR	Antigua and Barbuda		10	0		10	-	97	3
	Bahamas, The				1	1	-	-	-
	Belize			57		57	-	-	100
	Dominica			17		17	-	-	100
	Grenada	15	5			20	75	25	-
	Guyana		24	12		36	-	67	33
	Jamaica	390	52	77		519	75	10	15
	St. Kitts and Nevis	0				0	100	-	-
	St. Lucia			16		16	-	-	100
	St. Vincent and the Grenadines			41		41	-	-	100
	Suriname	0				0	100	-	-
LCR Total		**406**	**91**	**220**	**1**	**717**	**57**	**13**	**31**
MNA	Djibouti	3	30	32		64	4	47	49
MNA Total		**3**	**30**	**32**		**64**	**4**	**47**	**49**
SAR	Bhutan	82		36		118	70	-	30
	Maldives	7	22	19		49	15	45	40
SAR Total		**89**	**22**	**55**		**167**	**54**	**13**	**33**
Grand Total		**1,074**	**343**	**1,423**	**80**	**2,920**	**37**	**12**	**49**

9. Commitment (IBRD+IDA+Grants), by Region and Country. Practice Group's and GP's Total Lending (in $m) are presented

Region	country name	EFI F&M	GOV	MFM	T&C	EFI Total	HD EDU	HNP	SPL	HD Total	SD AGR	EEX	ENR	SUR	T&I	WTR	SD Total	Others	Others To	Grand Tot
AFR	Cabo Verde		1	48		48						54			29		83			131
	Comoros		5	12		17			9	9		5					5			31
	Gabon				18	18							8		58		66			84
	Gambia, The		6	6	12	24	12	9		21	16		1				17			62
	Guinea		10	128	10	148	20	15	25	60	35	88					123			331
	Guinea-Bissau		5	6	8	20			15	15	7	15	3			23	47			82
	Lesotho		6	38	13	57		12		12	10				15	28	53			122
	Mauritius	15		20	15	50			20	20										70
	Namibia		0			0							2				2			2
	Sao Tome and Principe			14		14	4			4			4				4			22
	Seychelles			30		30								7			7			37
	Swaziland							20		20				27			27			47
AFR Total		**15**	**33**	**302**	**76**	**426**	**37**	**56**	**69**	**162**	**68**	**162**	**17**	**34**	**102**	**51**	**434**			**1,022**
EAP	Fiji														50		50			50
	Kiribati			8		8						1		3	50		54			63
	Marshall Islands												9	2	3		13			13
	Micronesia, Federated States of											14	6		48		67			67
	Samoa			23		23					13		15	14	86		127			150
	Solomon Islands			9		9						13	11	22			47			56
	Timor-Leste		0			0	5	18		23	1				60		61			83
	Tonga			21		21						5		32	45		82			102
	Tuvalu			5		5						7	9		18		34			38
	Vanuatu												6	2	60		67			67
EAP Total			**0**	**65**		**65**	**5**	**18**		**23**	**14**	**40**	**54**	**75**	**418**		**601**			**689**
ECA	Montenegro	85	1			86	16			16		7	69	6			81	79	79	262
ECA Total		**85**	**1**			**86**	**16**			**16**		**7**	**69**	**6**			**81**	**79**	**79**	**262**
LCR	Antigua and Barbuda								10	10						0	0			10
	Bahamas, The																	1	1	1
	Belize												12	45			57			57
	Dominica													17			17			17
	Grenada			15		15			5	5										20
	Guyana						24			24				12			12			36
	Jamaica		35	305	50	390	12		40	52		15		62			77			519
	St. Kitts and Nevis		0			0														0
	St. Lucia											1		15			16			16
	St. Vincent and the Grenadines													41			41			41
	Suriname		0			0														0
LCR Total			**36**	**320**	**50**	**406**	**36**		**55**	**91**		**16**	**12**	**191**		**0**	**220**	**1**	**1**	**717**
MNA	Djibouti		1		2	3	6	14	10	30	9	17		6			32			64
MNA Total			**1**		**2**	**3**	**6**	**14**	**10**	**30**	**9**	**17**		**6**			**32**			**64**
SAR	Bhutan		1	81	1	82					14		4	17	0		36			118
	Maldives		7			7	10		12	22		16	3				19			49
SAR Total			**8**	**81**	**1**	**89**	**10**		**12**	**22**	**14**	**16**	**7**	**17**	**0**		**55**			**167**
Grand Total		**100**	**78**	**767**	**129**	**1,074**	**110**	**87**	**146**	**343**	**104**	**258**	**160**	**329**	**521**	**51**	**1,423**	**80**	**80**	**2,920**

Annex E. Details of IBRD/IDA Trust Funds in Small States

Small States countries: Disbursements of IBRD/IDA trust funds during FY09-FY15 (in USD millions)

- Country view

	2009	2010	2011	2012	2013	2014	2015	Grand Total
Antigua and Barbuda	-	0	0	0	(0)	(0)	-	0
Barbados	0	0	-	-	-	-	-	0
Belize	0	0	0	0	2	1	2	6
Bhutan	2	2	3	4	5	3	3	22
Botswana	0	0	3	0	1	2	1	9
Cape Verde	1	0	0	0	0	0	0	3
Comoros	(0)	6	1	1	1	1	1	11
Cyprus	-	0	-	1	0	0	0	1
Djibouti	8	1	1	3	5	4	3	23
Dominica	0	0	0	-	0	0	0	2
Equatorial Guinea	-	(0)	-	-	-	-	-	(0)
Federal States of Micronesia	-	-	-	0	-	-	-	0
Fiji	0	0	0	1	1	0	0	2
Gabon	1	2	2	3	2	1	1	11
Grenada	3	5	0	1	1	2	1	12
Guinea-Bissau	4	4	8	4	2	1	4	26
Guyana	4	9	3	9	1	1	0	28
Jamaica	0	1	2	3	3	2	2	14
Kiribati	1	2	3	4	3	3	5	19
Lesotho	6	5	5	4	9	14	7	51
Maldives	1	8	1	1	3	4	4	22
Marshall Islands	-	-	-	0	0	0	0	1
Mauritius	0	0	0	0	0	0	0	1
Montenegro	1	1	1	1	1	1	2	7
Namibia	2	3	4	1	1	1	1	12
Palau	0	0	0	0	0	-	-	0
Samoa	0	0	1	2	1	5	6	16
Sao Tome & Principe	1	2	2	1	1	1	2	9
Seychelles	0	0	2	1	1	1	1	5
Solomon Islands	2	6	6	8	7	7	8	44
St. Kitts and Nevis	-	-	-	-	0	-	-	0
St. Lucia	0	0	0	0	0	0	0	1
St. Vincent and the Grenadines	-	-	-	0	0	0	1	2
Suriname	-	-	-	0	0	0	0	0
Swaziland	0	0	0	1	2	2	3	9
The Gambia	2	11	15	15	6	4	7	60
Timor-Leste	17	16	15	14	12	10	7	91
Tonga	1	0	1	1	4	5	4	17
Trinidad and Tobago	0	0	0	0	0	0	0	1
Tuvalu	-	-	-	-	0	0	0	0
Vanuatu	0	2	2	3	4	5	5	20
Grand Total	**58**	**87**	**83**	**89**	**77**	**83**	**82**	**559**

Note:

(i) The above summary excludes FIFs and IFC TFs.

(ii) The summary includes disbursements made by FIFs implementing agencies under IBRD/IDA TFs.

Small States countries: Disbursements of IBRD/IDA trust funds during FY09-FY15 (in USD millions)

- Program view

Program	Program Name	2009	2010	2011	2012	2013	2014	2015	Grand Total
SUN	SCALING UP NUTRITION	-	-	0	0	-	-	-	0
ADPTIA	ADAPT-IBRD AS IMPLEMENTING AGENCY	-	-	-	-	-	-	0	0
AFRHD	AFR HUMAN DEVELOPMENT	-	-	-	0	1	1	2	5
AFRSD	AFR SUSTAINABLE DEVELOPMENT	5	2	0	2	2	-	-	11
AHI	AVIAN AND HUMAN INFLUENZA TRUST FUNDS	1	0	0	0	-	-	-	2
ASTAE	ASIA SUSTAINABLE & ALT. ENERGY PROGRAM	-	-	-	0	0	0	0	1
BNPPRF	BNPP REFORM PROGRAM	-	0	0	0	0	-	-	1
CCC	COMMUNICATION FOR CLIMATE CHANGE	-	-	0	0	-	-	-	0
CCS	CARBON CAPTURE AND STORAGE	-	-	-	0	0	0	0	1
CGAP-T	CGAP-TECHNOLOGY INITIATIVE	0	0	-	(0)	-	-	-	0
CIIP	COMPETITIVE INDUSTRIES AND INNOVATION	-	-	-	-	-	-	0	0
CITIES	CITIES ALLIANCE	-	-	0	-	0	-	-	0
CSCFIA	SCF - IBRD AS IMPLEMENTING AGENCY	-	-	0	1	1	3	5	10
CWI-ED	COLLABORATION WITH IRELAND AID REGARDING	-	-	0	0	-	-	-	0
DFSG	DIAGNOSTIC FACILITY ON SHARED GROWTH	-	0	0	0	-	-	-	0
DM	DEVELOPMENT MARKETPLACE	0	0	0	-	-	-	-	0
DOEDC	DEVELOPMENT OF EDUCATION IN AFRICA OF TH	-	0	0	-	-	-	-	0
EAAIG	EAST ASIA INFRASTRUCTURE GROWTH	0	0	0	-	-	-	-	0
EAPJ4P	EAP JUSTICE FOR THE POOR INITIATIVE 2008	0	1	2	2	1	1	1	7
EFAFTI	EDUCATN FOR ALL-FAST TRACK INITIATIVE	6	13	13	12	7	14	7	72
EFASE	EDUCATION FOR ALL SUPERVISING ENTITY	-	-	-	-	1	1	4	5
EIF	ENHANCED INTEGRATED FRAMEWORK TRUST FUND	-	-	-	-	0	0	-	0
EITI	EXTRACTIVE INDUSTRIES TRANSPARENCY INITI	0	0	(0)	0	0	0	0	1
EPIC	ENTR PROG FOR INNOVATION IN THE CARIBBEA	-	-	-	-	-	0	-	0
ESMAP	ENERGY SECTOR MANAGEMEN ASSISTANCE PROGR	0	0	0	0	0	0	1	2
ESME	ENERGY SME SUPPORT TO SSA	-	-	-	-	0	0	(0)	0
ETAF	EXTRACTIVE INDUSTRIES TECH ADVISORY FAC.	-	-	-	-	0	0	0	0
ET-BK	TRUST FUND FOR EAST TIMOR-BANK EXECUTED	1	(0)	(0)	0	0	-	-	1
FCPFR	FOREST CARBON PARTNERSHIP FACILITY	-	-	-	0	0	-	1	1
FIFADM	ADMIN BUDGET FUNDS FOR CFPMI MANAGED TFS	-	-	0	0	0	0	-	0
FIRST	FINANCIAL SECTOR REFORM & STRENGTH. INIT	0	1	1	1	1	1	1	7
FS-7HD	FREE STANDING TF FOR ECA HD SECTOR UNIT	1	-	-	-	-	-	-	1
FS-7PE	FREE STANDING TF FOR ECA PE SECTOR UNIT	-	0	-	1	0	0	0	1
FS-7SD	FREE-STANDING TF FOR ECA SD SECTOR UNIT	-	-	-	-	-	-	0	0
FS-CFP	FREE-STANDING TFS FOR CFP	-	6	0	0	-	-	-	6
FS-CO	FREE STANDING - COFINANCING	1	8	0	1	-	-	-	10
FS-LCR	FREE-STANDING TFS FOR LCR	-	-	0	0	0	1	0	2
FS-OPC	FREE-STANDING TFS FOR OPC	0	-	-	-	-	-	-	0
FS-PRM	FREE-STANDING TFS FOR PRM	-	-	-	-	-	0	0	0
FS-SDN	FREE-STANDING TFS FOR SDN	-	-	-	-	0	0	-	0
FTIE	EFA FTI EDUCATION PROGRAM DEVELOPMENT F	0	0	1	1	0	-	-	3
GAFSPS	GAFSP SUPERVISING ENTITY	-	-	-	-	-	-	0	0
GAIDS	GLOBAL HIV/AIDS	0	0	-	-	-	0	0	0
GAVI	GLOBAL ALLIANCE FOR VACCI & IMMUNIZATION	0	0	-	-	-	-	-	0
GEFIA	GEF-IBRD AS IMPLEMENTING AGENCY	7	7	11	6	5	5	4	45
GEFSEC	GEF-SECRETARIAT	-	-	-	0	-	-	-	0
GEFSIA	GEF SECRETARIAT IMPLEMENTING AGENCY	-	-	-	0	-	0	0	0
GENTF	GENDER TRUST FUNDS	-	-	0	0	-	0	-	0
GFCRP	GLOBAL FOOD CRISIS RESPONSE PROGRAM	6	4	9	7	6	2	7	41
GFDRR	GLOBALFACILITYFORDISASTERREDUCTION&RECOV	0	0	1	3	2	3	3	12
GFYI	GLOBAL FUND FOR YOUTH INVESTMENT	-	-	-	-	0	0	-	0
GPF	GOVERNANCE PARTNERSHIP FACILITY	-	0	0	0	0	-	-	0
GPOBA	GLOBAL PARTNERSHIP ON OUTPUT-BASED AID	-	0	1	1	6	0	0	7

Small States countries: Disbursements of IBRD/IDA trust funds during FY09-FY15 (in USD millions)

- Program view

Program	Program Name	2009	2010	2011	2012	2013	2014	2015	Grand Total
GRIF	GUYANA REDD PLUS INVESTMENT FUND TRUSTEE	-	-	-	-	0	0	0	0
GRSF	GLOBAL ROAD SAFETY FACILITY	-	-	-	-	0	-	-	0
HRBF	HEALTH RESULTS-BASED FINANCING	0	0	0	0	1	1	2	4
IDF	INSTITUTIONAL DEVELOMENT FUND	1	1	1	2	2	3	1	11
IEGE	IEG EVALUATION	-	-	0	-	-	-	-	0
INFGRW	INFRASTRUCTURE FOR GROWTH	-	-	-	-	0	0	-	0
ITFCSD	CULTURAL HERITAGE & SUSTAINABLE TOURISM	-	-	-	0	0	0	0	0
JSDF	JAPANESE SOCIAL DEVELOPMENT FUND	0	1	5	5	7	5	6	28
KGGTF	KOREA GREEN GROWTH TRUST FUND	-	-	-	-	-	-	0	0
KST	KOREA TRUST FUND TO SUPPORT TRANSITIONS	-	-	-	-	-	0	0	0
LDCIA	LDC - IBRD AS IMPLEMENTING AGENCY	-	0	0	0	1	1	3	6
LICUS	LOW INCOME COUNTRIES UNDER STRESS	0	-	-	-	-	-	-	0
LPRP	LUXEMBOURG POVERTY REDUCTION	-	-	0	0	-	-	-	0
MACC	MALDIVES CLIMATE CHANGE TRUST FUND	-	0	1	0	2	3	3	9
MISC2	MISCELLANEOUS TWO	0	0	0	0	-	-	-	0
MNXTA	MNA CROSS-SECTOR TA PROGRAM	-	-	-	-	-	-	0	0
NPEF	NORWEGIAN POST- PRIMARY EDUCATION FUND	-	-	-	0	0	-	-	0
NTF	NORDIC TRUST FUND	-	-	-	-	0	0	0	0
OTF	OZONE PHASE OUT TRUST FUND	-	-	-	0	-	-	-	0
PACF	PACIFIC FACILITY	1	2	1	1	0	0	0	6
PAC-FS	PACIFIC SUB-REGION FREE STANDING TF PROG	4	7	8	3	0	3	1	26
PFSA	AUSAID-WB PARTNERSHIP FOR SOUTH ASIA	-	-	-	0	0	0	0	0
PHRD	PHRD FUND-TECHNICAL ASSISTANCE TF	3	3	2	1	1	1	2	13
PPIAF	PUBLIC-PRIVATE INFRASTRUCTURE ADVISORY F	0	1	1	1	1	2	0	6
PRIF	PACIFIC REGION INFRASTRUCTURE FACILITY	-	0	2	8	10	16	15	51
PROFOR	PROGRAM ON FORESTS	-	-	0	0	-	-	-	0
PRSTF	POVERTY REDUCTION STRATEGY TRUST FUND	1	(0)	-	-	-	-	-	1
PSIA	POVERTY & SOCIAL IMPACT ANALYSIS MDTF	-	-	0	0	0	0	0	1
RSR	RAPID SOCIAL RESPONSE PROGRAM	-	0	1	2	2	1	1	7
RSRC	RAPID SOCIAL RESPONSE CATALYST	-	0	0	0	-	-	-	0
SA-DSD	POLICY FACILITY FOR DECENTRALIZATION	-	0	0	0	0	0	-	0
SAFE	STRENGTHENING ACCOUNT. & FIDUCIARY ENV	-	-	-	-	0	0	-	0
SAFETE	SOUTH AFRICA FUND FOR ENERGY, TRANSPORT	-	-	0	0	0	0	1	2
SAFI	SAR FOOD SECURITY & NUTRITION INITIATIVE	-	-	-	0	0	0	-	0
SAIF	SUPREME AUDIT INST CAPACITY DEV'T FUND	-	-	-	-	-	-	0	0
SCCFIA	SCCF - IBRD AS IMPLEMENTING AGENCY	-	1	0	2	1	1	0	4
SIEF	STRATEGIC IMPACT EVALUATION FUND(S)--HD	0	0	0	-	0	0	0	1
SOUTH	SOUTH-SOUTH EXPERIENCE EXCHANGE FACILITY	-	0	0	0	0	0	0	1
SPBF	STATE AND PEACE BUILDING FUND	1	1	3	3	2	1	1	12
SPTF	SINGLE PURPOSE TRUST FUNDS	6	13	3	8	0	-	-	29
STAR	STOLEN ASSET RECOVERY INITIATIVE	-	-	0	-	-	-	-	0
TFESSD	ENVIRONMENTALLY & SOC. SUSTAINABLE DEV.	0	0	0	0	0	-	-	1
TFF	TRADE FACILITATION FACILITY	-	0	0	0	0	1	0	2
TFSCB	STATISTICAL CAPACITY BUILDING PROGRAM	1	0	0	0	0	0	0	2
TL-FS	TIMOR LESTE FREE STANDING TF PROGRAM	13	13	14	12	10	6	3	71
TL-SP	TIMOR-LESTE STRATEGIC PARTNERSHIP	-	-	-	-	-	1	1	2
TRTA	TRADE AND DEVELOPMENT	-	0	0	-	-	0	0	0
WAVES	WEALTH ACCTNG & EVALTN ECOSYSTEM SERVICE	-	-	-	-	0	0	0	1
WPP	WATER PARTNERSHIP PROGRAM	-	-	0	0	-	0	0	0
Grand Total		**58**	**87**	**83**	**89**	**77**	**83**	**82**	**559**

Note:

(i) The above summary excludes FIFs and IFC TFs.

(ii) The summary includes disbursements made by FIFs implementing agencies under IBRD/IDA TFs.

Small States countries: Disbursements of IBRD/IDA trust funds during FY09-FY15 (in USD millions)

- Sectoral view

	Agriculture	Public Admin, Law	Info & Communication	Education	Finance	Health & Social Services	Energy & Mining	Transportation	Water/Sanit/Fld Prot	Industry and Trade	Others	Total disbursements
Antigua and Barbuda	-	0.23	-	-	-	-	-	-	-	0.06	0.03	0.32
Barbados	-	0.02	-	-	-	0.00	-	-	-	-	-	0.02
Belize	1.76	0.49	-	-	0.09	2.27	0.26	0.40	0.43	-	-	5.68
Bhutan	8.16	6.12	0.22	0.25	0.94	1.19	0.01	3.54	0.94	0.10	0.25	21.72
Botswana	4.69	0.56	-	0.09	1.00	0.12	1.47	0.49	0.33	0.19	0.16	9.09
Cape Verde	0.03	0.74	-	0.11	0.32	0.01	0.75	0.07	0.03	0.25	0.47	2.79
Comoros	0.52	0.83	-	0.01	0.01	3.84	-	-	0.00	-	6.02	11.24
Cyprus	-	0.76	-	-	0.25	-	-	-	-	0.25	-	1.26
Djibouti	0.09	1.32	0.73	8.34	0.43	9.34	1.08	0.18	1.50	0.22	0.18	23.41
Dominica	-	0.66	-	-	-	-	0.31	0.34	0.21	-	-	1.52
Equatorial Guinea	-	-	-	-	-	-	-	-	-	(0.02)	-	(0.02)
Federal States of Micronesia	-	-	-	-	-	-	-	-	-	-	0.03	0.03
Fiji	0.16	0.16	0.41	-	0.13	0.17	0.55	-	0.41	-	0.10	2.09
Gabon	7.46	2.79	-	-	-	-	0.54	0.03	0.18	-	-	11.00
Grenada	1.12	1.15	-	3.65	-	3.65	-	0.68	1.91	-	-	12.16
Guinea-Bissau	11.30	3.30	-	3.00	-	5.90	0.41	0.79	0.71	0.04	0.40	25.85
Guyana	-	0.30	-	22.95	0.31	-	-	-	4.01	-	0.39	27.96
Jamaica	0.18	2.37	-	1.76	0.20	4.19	0.14	1.45	2.61	0.75	0.27	13.92
Kiribati	1.28	4.98	2.11	-	-	-	0.40	4.48	3.28	2.37	0.03	18.94
Lesotho	0.66	5.06	-	25.36	1.06	10.08	0.22	6.56	0.71	1.47	0.27	51.45
Maldives	0.22	1.65	-	3.02	0.98	5.13	5.19	-	5.59	0.12	0.39	22.28
Marshall Islands	-	-	0.55	-	-	-	0.02	-	-	-	-	0.57
Mauritius	-	0.20	0.00	0.00	0.16	0.38	0.22	0.37	-	0.00	-	1.32
Montenegro	2.45	1.53	-	-	0.42	0.63	0.17	-	0.21	1.92	0.07	7.40
Namibia	4.61	5.59	-	0.08	0.92	0.26	0.72	-	0.12	0.06	-	12.37
Palau	-	-	0.01	-	-	-	0.41	-	-	-	-	0.42
Samoa	2.99	2.81	0.10	-	-	0.32	-	5.26	0.78	2.79	0.55	15.60
Sao Tome & Principe	0.64	0.61	-	4.42	0.20	0.21	0.41	-	2.58	0.10	0.02	9.20
Seychelles	0.73	0.74	-	0.07	1.01	0.00	0.62	1.50	0.41	0.01	-	5.09
Solomon Islands	4.50	16.89	0.09	0.07	-	7.56	5.53	3.10	0.78	4.52	0.59	43.65
St. Kitts and Nevis	-	0.14	-	-	-	-	-	-	-	-	-	0.14
St. Lucia	-	0.44	-	0.08	0.01	0.14	0.10	-	-	0.00	0.20	0.96
St. Vincent and the Grenadines	-	0.19	-	-	-	-	-	0.57	1.62	-	-	2.39
Suriname	-	-	-	-	0.04	-	0.02	-	-	-	-	0.06
Swaziland	0.02	1.84	0.09	0.07	0.09	6.23	-	-	-	0.13	0.10	8.58
The Gambia	12.88	8.69	0.67	30.12	0.30	6.45	0.15	-	0.24	0.33	(0.00)	59.83
Timor-Leste	1.58	43.82	0.31	10.78	0.01	31.47	0.52	0.47	0.08	0.17	1.57	90.77
Tonga	0.01	6.00	0.42	0.72	-	0.02	2.02	7.27	0.01	0.06	-	16.53
Trinidad and Tobago	0.38	0.22	-	-	-	-	0.61	-	-	-	0.05	1.26
Tuvalu	-	0.04	-	-	-	-	0.33	0.09	-	-	-	0.46
Vanuatu	2.07	4.18	5.52	-	-	0.02	4.97	-	2.74	-	0.57	20.08
Grand Total	**70.48**	**127.41**	**11.23**	**114.96**	**8.87**	**99.59**	**28.16**	**37.64**	**32.42**	**15.89**	**12.71**	**559.37**

Note:

(i) The above summary excludes FIFs and IFC TFs.

(ii) The summary includes disbursements made by FIFs implementing agencies under IBRD/IDA TFs.

Annex F. Glossary of WBG Funding/Financing Facilities and Instruments That Are Relevant to Small States

World Bank Products and Services

Financing instruments	
Definition	**Examples**
Development Policy Financing (DPF): provides IBRD loan, IDA credit/grant and guarantee budget support to governments or a political subdivision for a program of policy and institutional actions to help achieve sustainable, shared growth and poverty reduction.	**Grenada Resilience Building Development Policy Credit (DPC) series**—IDA support for implementing a program of policy and institutional reforms to: (i) create conditions for private investment in a sustainable manner; (ii) support improved public resource management; and (iii) enhance resilience against natural disasters and key elements of resilience in the banking sector. **Jamaica First Competitiveness and Fiscal Management Programmatic Development Policy Loan (DPL) series**—IBRD support for policies aimed at (i) improving investment climate and competitiveness and (ii) sustaining fiscal consolidation and enhancing public financial management **Tonga Economic Reform Support Operation DPO series**—IDA support to improve the mobilization and use of public resources while addressing constraints to private sector development.
Catastrophe Deferred Drawdown Option (Cat-DDO): a contingent credit line that provides immediate liquidity to IBRD member countries in the aftermath of a natural disaster. It is part of a broad spectrum of risk financing instruments available from the World Bank Group to help borrowers plan efficient responses to natural disasters.	**Seychelles Disaster Risk Management Policy Loan with Catastrophe Deferred Drawdown Option**—This operation proposes a US$7 million Disaster Risk Management DPL with Cat DDO as budget financing for the Government Republic of Seychelles for an initial period of three years. The program aims to strengthen the Government of Seychelles' DRM policy and reform agenda and enhance its capacity to efficiently respond to disasters by (i) strengthening the institutional/legal framework for disaster risk management, and (ii) integrating disaster risk reduction into development planning and decision-making.
Investment Project Financing (IPF): provides IBRD loan, IDA credit/grant and guarantee financing to governments for activities that create the physical/social infrastructure necessary to reduce poverty and create sustainable development.	**Saint Lucia Disaster Vulnerability Reduction Project**—Co-financed by IDA ($41 million) and the Strategic Climate Fund ($27 million), this project aims to reduce urgent disaster vulnerability and increase long-term climate resilience in Saint Lucia by addressing the multi-faceted risks associated with hydro meteorological events. The Project would also finance emergency reconstruction activities in light of the December 2013 floods.
Trust Funds: allow scaling up of activities, notably in fragile and crisis-affected situations; enable the Bank Group to provide support when our ability to lend is limited; provide immediate assistance in response to natural disasters and other emergencies; and pilot innovations that are later mainstreamed into our operations.	**Bank-executed trust funds (BETFs)**—the Bank controls BETF disbursements and uses them to support its work program. **Recipient-executed trust funds (RETFs)**—funds that the Bank passes to a third party and for which the Bank plays an operational role—i.e., the Bank normally appraises and supervises activities financed by these funds.

Program-for-Results (P4R): links disbursement of funds directly to the delivery of defined results, helping countries improve the design and implementation of their own development programs and achieve lasting results by strengthening institutions and building capacity.	There are no current P4R operations in small states, and there is only one program under preparation: The Cabo Verde SOE Reform Program, set to be approved in 2017.
Technical Assistance—provide professional technical advice that supports legal, policy, management, governance and other reforms needed for a country's development goals.	**Climate Change—Smart Lighting Initiative in Bahrain**—support for the design and implementation of a large scale efficient lighting program to achieve a sustained reduction of electricity consumption while reducing GHG emissions by increasing the penetration of more efficient technologies in the lighting sector and developing the associated regulatory and policy framework.
Reimbursable Advisory Services (RAS)—Through RAS, the Bank can provide clients access to customized technical assistance on a reimbursable basis, either as a stand-alone or to complement an existing program.	**Improving Skills in Equatorial Guinea to Meet Changing Labor Market Demands**—Support for the better integration of human capital development into a successful strategy for economic diversification. **Accelerating Development in Gabon through Better Budget Management**—At the government's invitation, the World Bank reviewed the country's public financial structure and found several elements hampering better progress on development. As a result of the World Bank's review, the Bank and the government drew up a Reimbursement Advisory Services agreement to target the weakness highlighted by the review.
Economic and Sector Work—In collaboration with country clients and development partners, Bank country staff gather and evaluate information (data, policies and statistics) about the existing economy, government institutions or social services systems. This data provides a starting point for policy and strategic discussions with borrowers and helps enhance a country's capacity and knowledge.	**Comoros: Private Sector Development Policy Notes**—A comprehensive stocktaking of conditions, issues, challenges, priorities and opportunities for effective short-and- medium-to-longer term interventions for PSD-led job creation and growth in competitiveness of the economy.

Financial Intermediary Funds (FIFs)

FIFs are multilateral financial mechanisms that support global development initiatives or partnerships. In FIFs, the World Bank acts as a financial trustee and provides financial intermediary services such as receiving, holding, and transferring funds to multiple implementing entities. The Bank does not always play a role in implementing FIF-supported program partnerships; when it does, the Bank may be one of multiple agencies and implementers.

Fund	Description
	Agriculture and Food Security
Global Agriculture and Food Security Program (GAFSP)	A multilateral financing mechanism, with both public and private sector windows, which supports national and regional strategic plans for agriculture and food security in poor countries. GAFSP has supported operations in 3 small states: The Gambia, Bhutan, and Timor-Leste.
	Environment/Climate Change
The Adaptation Fund (AF)	Finances projects and programs that help vulnerable communities in developing countries adapt to climate change, and has committed over $59 million to small states since 2010. Initiatives are based on country needs, views and priorities.
Green Climate Fund (GCF)	The Fund is a unique global initiative to respond to climate change by investing into low-emission and climate-resilient development. GCF has 8 projects currently under preparation, 2 of which are in small states (Fiji and the Maldives).
Global Environment Facility (GEF)	Established in the International Bank for Reconstruction and Development (IBRD or World Bank) as a pilot program in order to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development. GEF acts as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits.
Least Developed Countries Fund (LDCF)	The LDCF was established in November 2001 under the United Nations Framework Convention on Climate Change to address the needs of least developed countries whose economic and geophysical characteristics make them especially vulnerable to the impact of global warming and climate change.
Special Climate Change Fund (SCCF)	The Special Climate Change Fund was established in November 2001 under the United Nations Framework Convention on Climate Change to finance activities, programs and measures relating to climate change that are complementary to those funded by the resources allocated to the climate change focal area of the Global Environment Facility Trust Fund
Clean Technology Fund (CTF)	The CTF is one of the two funds of the Climate Investment Funds, and has two active operations in the Caribbean region. CTF provides new large-scale financial resources to invest in clean technology projects in developing countries, which contribute to the demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term greenhouse gas emissions savings.
Strategic Climate Fund (SCF)	The Strategic Climate Fund (SCF) is one of the two funds of the Climate Investment Funds, and has approved operations in more than 8 small states. It serves as an overarching framework to support three targeted programs with dedicated funding to pilot new approaches with potential for scaled-up, transformational action aimed at a specific climate change challenge or sectoral response.
Guyana REDD-Plus Investment Fund (GRIF)	Guyana REDD+ Investment Fund finances activities identified under the Government of Guyana's Low Carbon Development Strategy. Norway has committed to provide up to US$250 million to the fund up to 2015, based on independent verifications of Guyana's deforestation and forest degradation rates and progress on REDD+ enabling activities.

Health	
Global Fund to Fight AIDS, Tuberculosis and Malaria (The Global Fund)	The Global Fund was established to leverage additional resources to stem and provide treatment for three specific diseases, and has approved funding to more than 19 small states. The fund finances disease-specific programs developed by recipient countries, and in recent years, program components focused more broadly on health systems strengthening.
International Finance Facility for Immunisation (IFFIm)/	International Finance Facility for Immunisation Company (IFFIm) is a multilateral development institution created to accelerate the availability of predictable, long-term funds for health and immunization programs through the GAVI Alliance in 70 of the poorest countries around the world. Seven small states are currently eligible for IFFIm funding: Comoros, Djibouti, the Gambia, Guinea-Bissau, Lesotho, Sao Tome and Principe, and the Solomon Islands.
Education	
Global Partnership for Education Fund (GPEF)	The Global Partnership for Education Fund finances the development and implementation of education plans in developing countries and the dissemination of knowledge and best practices in education at the global and regional levels. GPEF provides technical and financial assistance to 65 developing countries, 11 of which are small states.

IFC Products and Services

Investment Services	The IFC's investment services consist of loans, equity, trade and supply-chain finance, syndicated loans, structured and securitized finance, client risk management services, treasury services, and liquidity management. IFC finances projects and companies through loans with maturities generally between seven to twelve years. The IFC also makes loans to intermediary banks, leasing companies, and other financial institutions for on-lending. Equity investments provide developmental support and long-term growth capital that private enterprises need. The IFC invests in businesses' equity either directly or via private equity funds, generally from five up to twenty percent of a company's total equity. The IFC prefers to invest for the long-term, usually for a period of eight to fifteen years, before exiting through the sale of shares on a domestic stock exchange, usually as part of an initial public offering.
Advisory Services	In addition to its investment activities the IFC provides a range of advisory services to support corporate decision-making regarding business, environment, social impact, and sustainability. The IFC's corporate advice targets governance, managerial capacity, scalability, and corporate responsibility. It prioritizes the encouragement of reforms that improve the trade friendliness and ease of doing business in an effort to advise countries on fostering a suitable investment climate. It also offers advice to governments on infrastructure development and public-private partnerships. The IFC attempts to guide businesses toward more sustainable practices particularly with regards to having good governance, supporting women in business, and proactively combating climate change.
Asset Management Company	The IFC established IFC Asset Management Company LLC (IFC AMC) in 2009 as a wholly owned subsidiary to manage all capital funds to be invested in emerging markets. The AMC manages capital mobilized by the IFC as well as by third parties such as sovereign or pension funds, and other development financing organizations.

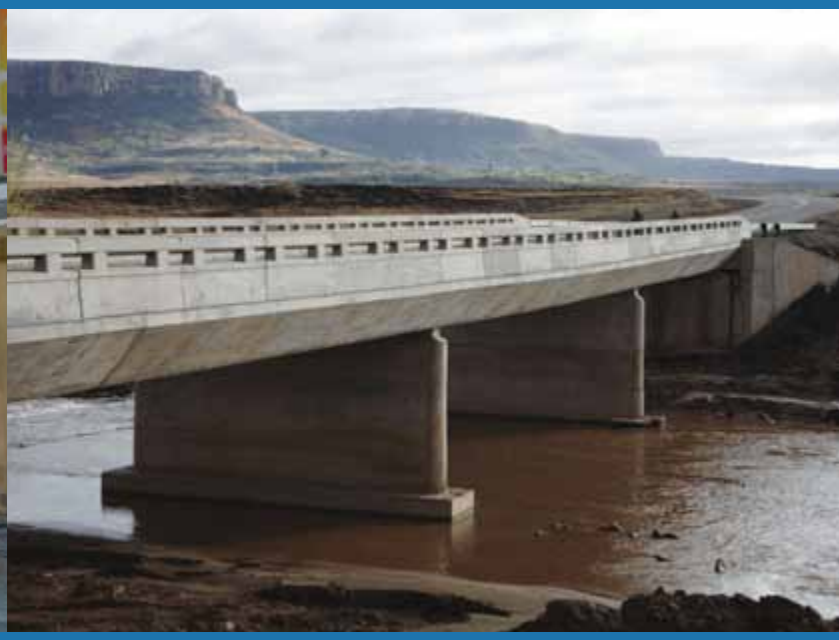
Annex G. List of Small State Associations

Association	Description
	General associations
Alliance of Small States (AOSIS)	The Alliance of Small Island States (AOSIS) is a coalition of small island and low-lying coastal countries that share similar development challenges and concerns about the environment. It functions primarily as an ad hoc lobby and negotiating voice for small island developing States (SIDS) within the United Nations system.
Islands First	Islands First is a recently founded non-governmental organization working on behalf of the Small Island Developing States to confront the challenges of climate change, the depletion of ocean resources (including ocean acidification and biodiversity loss), and ocean level's rise.
International Small Islands Studies Association (ISISA)	ISISA is a voluntary, non-profit and independent organization, with the objective to study islands on their own terms, and to encourage free scholarly discussion on small island related matters such as islandness, smallness, insularity, dependency, resource management and environment, and the nature of island life.
	Regional associations
African, Caribbean and Pacific Group of States (ACP)	ACP is a group of countries in Africa, the Caribbean, and the Pacific whose main objectives are sustainable development and poverty reduction within its member states, as well as their greater integration into the world's economy.
Coalition of Low Lying Atoll Nations on Climate Change (CANCC)	CANCC is a group of 5 small island states, 4 of which are small states, which focuses on two key issues: (i) their role as communities on the 'frontline' of climate change, experiencing the impacts of climate change now which threatens their very existence on the face of this earth and (ii) their role as the early warning system for the rest of the world, that what is happening to them will happen to the rest of the world.
Pacific Regional Environment Program	The Secretariat of the Pacific Regional Environment Program (SPREP) is an intergovernmental organization held accountable by the governments and administrations of the Pacific region to ensure the protection and sustainable development of the region's natural resources. Out of the 21 member countries, 11 are small states.
The Pacific Community (SPC)	The SPC is an international development organization owned and governed by its 26 country and territory members. Member countries include all 22 Pacific island countries, 11 of which are small states.
Pacific Forum Secretariat	The Pacific Islands Forum is a political grouping of 16 independent and self-governing states, with the primary roles of providing: (i) Policy advice and guidance in implementing the decisions of the Leaders, (ii) Coordination and assistance in implementing the decisions of the Leaders, and (iii) Support to the Leaders' meetings, ministerial meetings, and associated committees and working groups.

(*continues*)

(*Continued*)

Association	Description
	Regional associations
Melanesian Spearhead Group (MSG)	The MSG is an intergovernmental organization, composed of the four Melanesian states, three of which are small states. The purpose of the group is to: (i) To promote and strengthen inter membership trade, exchange of Melanesian cultures, traditions, values and sovereign equality; (ii) foster economic and technical cooperation between the members; and (iii) align member country's policies and further member's shared goals of economic growth, sustainable development, good governance and security.
Caribbean Community (CARICOM)	An organization of fifteen Caribbean nations and dependencies, CARICOM's main purposes are to promote economic integration and cooperation among its members, to ensure that the benefits of integration are equitably shared, and to coordinate foreign policy.
Organization of Eastern Caribbean States (OECS)	The OECS is an inter-governmental organization dedicated to economic harmonization and integration, protection of human and legal rights, and the encouragement of good governance between countries and dependencies in the Eastern Caribbean. It also performs the role of spreading responsibility and liability in the event of natural disaster.
Association of Caribbean States (ACS)	ACS is a union of 25 nations centered on the Caribbean Basin, formed with the aim of promoting consultation, cooperation, and concerted action among all the countries of the Caribbean. The primary purpose of the ACS is to develop greater trade between the nations, enhance transportation, develop sustainable tourism, and facilitate greater and more effective responses to local natural disasters.
Caribbean Tourism Organization	The Caribbean Tourism Organization's main objective is the development of sustainable tourism for the economic and social benefit of Caribbean people.
Indian-Ocean Rim Association (IORA)	The IORA is an international organization consisting of 21 coastal states bordering the Indian Ocean, 3 of which are small states. The IORA is a regional forum, tripartite in nature, bringing together representatives of Government, Business and Academia, for promoting cooperation and closer interaction among them.
Indian Ocean Commission (IOC)	The IOC is an intergovernmental organization composed of five African Indian Ocean nations. IOC's principal mission is to be a platform of solidarity for the entire population of the African Indian Ocean region. IOC's mission also includes development, through projects related to sustainability for the region, aimed at protecting the region, improving the living conditions of the populations and preserving the various natural resources that the countries depend on.



In recent years, small states have taken a collective stand in international fora to highlight the development challenges they face and urge more attention to their concerns. Despite many small states' natural beauty and reputations as luxurious tourist destinations, an increasing number are affected by extreme weather events, natural disasters, and rising sea levels. Their limited resource base and capacity make it difficult for them to respond. These issues are important to the wider world, as small states face climate-related challenges that others will eventually confront. While they are a heterogeneous group, in general small states grapple with a range of similar development challenges which the development community must help them address as part of their commitment to reach the Sustainable Development Goals. At the October 2015 Small States Forum in Lima, Peru, the World Bank committed to take stock of its recent assistance to small states to better inform policy and financing deliberations.

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