Small States and the World Bank Group

Economic growth in small states (countries with populations of 1.5 million or less) has resumed from the recent global crisis. Progress in economic activity is however weaker than other developing countries and lower than pre-crisis levels, reflecting not only the availability of policy tools and resources but also the capacity of diversifying economic structures and re-orienting economic activities in new markets and sectors.

Because of the size of their economies, economic recovery in small states has been more dependent on the health of traditional markets and influenced by the strength of external demand in specific sectors. Their narrow resource base and small domestic markets prevent them from diversifying into a wide range of activities. When one dominant activity declines, it has an impact throughout the economy, exposing the population to income volatility which can create additional hardships as the poorest are less able to weather shocks to their incomes. Government revenues are also concentrated and dependent on few sources of income.

A number of reform challenges on which small states have each made different degrees of progress remain critical to promote more inclusive and sustainable growth. Efforts are necessary to broaden the tax base, enhance the effectiveness of state service provision, improve the performance of public enterprises, ensure sustainability of macroeconomic policy, increase the economic utilization of natural resources, and improve access to finance. To take advantage of their rich natural endowments, efforts to better mobilize and deploy domestic resources are also needed. Addressing governance and transparency issues at all stages of the resource value chain is key in the management of natural resources. But also ensuring development effectiveness, governance, and accountability for results is of the utmost importance.

Progress in economic activity and development outcomes has also been susceptible to natural disasters and climate change related impacts such as hurricanes, cyclones, droughts, and volcanic eruptions that typically affect the entire population and the whole economy. The impact on the government’s finances can be overwhelming, limiting a country’s ability to build cushions for development programs and future needs.

To promote more inclusive and sustainable growth, a holistic and comprehensive approach to development is necessary to address interconnected development challenges and structural sources of vulnerability. In this context, disaster risk management, climate adaptation, food security, and energy security need to be fully integrated into development plan and actions. It is

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1 For more information, visit [www.worldbank.org/smallstates](http://www.worldbank.org/smallstates)
also necessary to better integrate sector policies to avoid enclaves and generate backward linkages and inclusive growth.

The World Bank Group acknowledges the specific structural characteristics of small states and interconnection between different development challenges faced by small states. Tailored country and regional programs are helping small states implement a more holistic approach. Drawing on an array of financial products, and knowledge and learning services, the World Bank Group helps small states assess social and structural sources of vulnerability, comprehensively tackle underlying policy and institutional weaknesses, and respond to and manage shocks. In addition, the World Bank Group works closely with small states to generate and share in-depth analysis on specific local challenges.

In recognition of these unique vulnerabilities and challenges, the World Bank has enhanced its financial support to small states over time. Many small states today benefit from the access to IDA concessional funds despite having GNI per-capita levels much higher than IDA operational cutoff (i.e. small islands economies exception). Moreover, the minimum base allocation, which constitutes the majority of IDA’s financial support to small states, has been increased from SDR1.1 million per year in IDA14 to SDR4 million per year in IDA17. Provisions have also been made to allow for leveraging significantly more financing from the regional program compared to larger IDA clients. The terms of IDA funding for countries under the small island economies exception were changed to regular IDA credit terms, which resulted in longer maturities and grace periods, as well as a lower interest rate. As a result, the World Bank financial support to small states is more than double its pre-crisis levels. Commitments in FY14 reached over US$700 million, bringing the active portfolio to about US$3 billion.
Given the high vulnerability to natural disasters, resilience building, including disaster preparedness and mitigation investments, is central to help small states mitigate the impact of external shocks. IDA Crisis Response Window (CRW), Immediate Response Mechanism (IRM) and Development Policy Finance with a Catastrophic Risk Deferred Drawdown Option (Cat DDO) provide complementary resources to respond rapidly and effectively to sudden, unexpected needs, such as the in emergency situations caused by natural disasters and catastrophes. They also support countries’ efforts to enhance resilience and capacity to manage natural hazard risk. These instruments are only the latest in a range of sovereign risk management products provided by the World Bank Group to small states, with financial assistance of donors such as the European Commission and Japan. Examples include weather derivatives against drought risks, call options to help cap the price of maize imports, regional risk pooling schemes (the Caribbean Catastrophe Risk Insurance Facility, the Pacific Catastrophe Risk Insurance Pilot Program; Agriculture Risk Insurance).

Technical and advisory services complement financial products to produce tailored solutions and generate lasting impact. The World Bank Group works in partnership with small states as a global connector of practitioner knowledge, a broker of development solutions, and a facilitator of capacity development. The World Bank Group supports the Small States Forum (SSF)—the annual gathering of Finance Ministers and Central Bank Governors from small states in conjunction with the World Bank/IMF Annual Meetings—to provide a platform for small states to discuss common challenges, learn from each other, and interact with development partners.

Technical and advisory services to small states are often “embedded” into World Bank operations and cover a broad range of issues, including expanding and improving service delivery for health and education; enhancing the effectiveness and efficiency of public spending; PPP and SOEs reform; debt and macro-financial vulnerability; public financial management reform and strengthening statistical capacity; improving investment climate and private sector development; building resilience and developing options for scaling-up renewable energy and energy efficiency measures.

A number of activities are often financed through trust funds and in partnership with other institutions or bilateral donors. For instance, the Global Facility for Disaster Reduction and Recovery (GFDRR), with assistance from 21 donor partners, helps high-risk countries better
understand and reduce their vulnerabilities to natural hazards, and adapt to climate change. GFDRR provides grant financing and on-the-ground technical assistance to help mainstream disaster risk management policies into country strategies, and as part of post-disaster recovery and reconstruction. As part of the Climate Investments Funds, the **Pilot Program for Climate Resilience (PPCR)** is supporting nine small states in the Caribbean and the Pacific - efforts to integrate climate risk and resilience into core development planning and implementation through technical assistance combined with investments.

Helping accelerate progress in small states requires delivering customized solutions that integrate knowledge and financial services across the World Bank Group. Building on existing efforts, the World Bank Group is enhancing collaboration to better exploit synergies and bringing together the resources, expertise, and ideas of actors across the development spectrum, particularly for sectors such as social and physical infrastructure, the financial sector, private sector development, jobs and rural/agricultural development.

In this context, **the IFC has a number of recent and upcoming industry-specific advisory initiatives in SIDS to promote growth and job creation**. These include engagements on improving investment climate for tuna in Solomon Islands, regional tourism in the OECS, investment generation for tourism in St. Lucia, tourism development in the Pacific, visa reform in Sao Tome and Principe, investment promotion and zones in Trinidad and Tobago, Investment Promotion Act including incentives and institutional arrangements in Grenada, and a general investment climate reform program in the Comoros.

Small states vary greatly in their level of development and the size of their economies. They are also confronting a number of reform challenges on which they have each made different degrees of progress. The World Bank tailors its country and regional programs to take into account regional specificity and country-specific challenges and bottlenecks.

**The Caribbean:** WBG strategic objectives for its support to the Caribbean small states are building resilience and enhancing competitiveness and stimulating growth over the medium term. The strategy recognizes the multifaceted nature of the challenges that small states face and that improvements in competitiveness, reduction in sovereign debt levels, fiscal adjustments to ensure macro sustainability, and enhanced sustainability and resilience to shocks, are interrelated steps which are all critical to resume and sustain inclusive growth. In this context, two initiatives have been endorsed by the Caribbean governments and rolled out throughout the region:

(i) **The Comprehensive Growth and Debt Framework (CGDF)** is a comprehensive approach to address the structural interdependent causes of high debt, low growth, and natural disasters. The framework has four pillars. The first pillar acknowledges the need for shifting the focus towards policies that provides conducive investment climate for a private-sector led growth. The second pillar acknowledges that private sector-led growth is intimately linked with effectiveness in government expenditures, the tax burden, and non-preemption of resources by government debt. The third pillar acknowledges the need to build resilience to natural disasters
to avoid that natural hazards negatively impact economic stability and government’s ability to service its debt. The fourth pillar acknowledges that, for most highly indebted developing small states, measures in the first three pillars may need to be complemented with reductions in debt service and possibly debt stock, if the objective is to achieve sustainable solutions.

(ii) The Caribbean Growth Forum (CGF), is a multi-stakeholder initiative - led by the World Bank, the IADB, CDB, CIDA, and DfID – that provides a platform to facilitate an action oriented dialogue around key policy reforms needed to create sustainable and inclusive growth. The Forum brings a non-traditional approach to promote participatory public policy making across issues central to private sector development (Investment Climate, Skills and Productivity and Logistics and Connectivity). Caribbean Regional Communications Infrastructure Program, Eastern Caribbean Energy Regulatory Authority Project, Sustainable Finance of Eastern Caribbean Marine Resources Project, Regional Disaster Vulnerability Reduction Project are other regional approaches that complement country operations.

Beyond reconstruction, the World Bank Group supports government efforts to reduce its vulnerability to natural disasters, reconstruct critical infrastructure, build human capital, promote decentralized and inclusive growth, and strengthen governance. The Caribbean Catastrophe Risk Insurance Facility is able to transfer a portion of hurricane and earthquake risk to the Facility at a price lower than what participating countries would pay if they were able to obtain coverage individually in international insurance markets. The Facility generates a more favorable investor sentiment, particularly in the tourism sector, stimulated by investors’ greater confidence in the governments’ disaster risk management strategy and ability to overcome quickly the damage caused by the disaster. The World Bank Group is engaged in a number of private sector development initiatives to promote growth and job creation in the aftermath of the earthquake. These include on IFC indicator-based reform advisory, public private partnerships, secured transactions, business edge and competition policy.

The Pacific: The Bank Group’s engagement with the Pacific small states reflects the fact that their development trajectories have been influenced by their economic geography, with unique challenges arising from remoteness. In recognition of the limited institutional capacity, the World Bank works with governments and development partners to support joint policy matrices, helping establish a platform for broad economic dialogue in the Pacific, tracking progress against economic reform priorities, and coordinating the mobilization of required technical assistance.

In recent year, individual country strategies have been complemented with regional approaches to promote regional solutions and strengthen coordination across countries as well as with regional institutions in telecommunications, fishery, aviation, and disaster risk management. Results from adopting regional approaches to common development challenges are evident. For example, about two million people in PNG and the Pacific islands have gained access to affordable mobile telephones over the past five years as result of the Pacific Regional Connectivity Program. Access to broadband Internet has also increased thanks to World Bank –ADB financial support to the fiber-optic cable that now connects Tonga to Fiji and the world.
The Pacific Ocean can provide large potential resource to Pacific small states with significant economic and social benefits if it is managed in a sustainable manner. Twenty million square kilometers of the South Pacific are home to the largest tuna fishery in the world. The World Bank has developed a Fisheries Engagement Strategy to help Pacific small states capture a greater share of the benefits from their fisheries, while supporting conservation. The World Bank is also preparing a regional fisheries program, called the Pacific Region Oceanscape Program, or “PROP”. This program aims to help the participating Pacific small states sustainably increase the net economic benefits provided by the oceanic tuna fisheries as well as targeted coastal fisheries, and to develop sustainable financing models for the conservation of critical habitats that keep the ocean and fisheries healthy.

With most Pacific small states comprising of low lying islands, they are among the most vulnerable to the effects of climate change and sea level rise. Efforts to help Pacific small states promote adaptation to climate change will be essential to ensure long-term resilience and security. In the area of disaster risk management, the Pacific Catastrophe Risk and Financing Initiative, or “PCRAFI” found that by pooling risks, participating countries could purchase private insurance that would provide limited, but immediate, liquidity after a major event such as a cyclone, tsunami, or earthquake. PCRAFI is a joint initiative between the Secretariat of the Pacific Community (SPC/SOPAC), the World Bank, and the Asian Development Bank, with financial support from the European Union, the Government of Japan and GFDRR. To complement PCRAFI, a regional disaster risk management program is being prepared that aims to help participating countries strengthen their disaster preparedness and early warning systems, and improve their post disaster response capacity.

Africa and the Indian Ocean: The Bank’s engagement in African and Indian Ocean small states is tailored to address a diverse set of challenges and vulnerabilities due to a wide range of income, development, and reform progress in the Region. A number of regional initiatives have complemented country operations. The Indian Ocean Islands Risk Assessment and Disaster Risk Financing Initiative supported by the European Union, GFDRR and the Indian Ocean Commission, will improve the understanding of disaster risks and risk financing solutions to provide a solid basis for future implementation of disaster risk financing strategies in with five Indian Ocean small states.

The South West Indian Ocean Fisheries Governance and Shared Growth Program (SWIOFish) aims to increase the shared benefits from economic growth based on sustainable fisheries and coastal marine resources of Comoros, Madagascar, Mauritius and Seychelles and all East Africa’s mainland countries. A series of complementary regional investment and national investments would help strengthen the countries’ governance capacity to manage fisheries, including reducing illicit fishing activities; increase the profitability and sustainable production of fisheries and aquaculture and the proportion of the value-added captured by the countries; support policies that share the benefits from sustainable use of marine resources among the economic agents and that prioritize pro-poor and community fisheries; and build robust regional cooperation on fisheries.
In addition, the forthcoming ASPIRE program aims to leverage funds from IDA and the Scaling-Up Renewable Energy Program (SREP) to attract other donors and private sector investments for the development of renewable energy projects. The program combines technical assistance, concessional financing, and innovative risk mitigation instruments in an effort to provide confidence to private sector investors in a nascent market.
World Bank Group Engagement: Some Results

The World Bank has become more agile and flexible in responding to small states’ evolving needs and has contributed to the considerable success achieved by small states in several areas:

In Bhutan, under the Private Sector Development Project, which established the Thimphu TechPark, a total of 1,034 secondary and tertiary graduates have been trained. Approximately 804 Bhutanese graduates between the ages of 19 and 24 years, with equal representation between young men and women across Bhutan’s 20 districts, are now working in the IT/ITES sector. Under the Second Rural Access Project, access to all-season feeder roads has been improved and travel time to the nearest motorable road reduced by 50%.

In Cabo Verde, under the Road Sector Support Project the asset value of the national road network has been increased by around 15% to more than ECV 600 billion. Sustainability is likely to be assured via regular maintenance funded via a newly established Road Maintenance Fund, which is financed by a road maintenance (fuel) levy that went into effect in 2009.

In Djibouti, an ongoing Djibouti Urban Poverty Reduction Project created 15,000 person-days of short term employment opportunities and improved the long term access to basic infrastructure and community services. Under the Primary Education Support Project, the number of beneficiaries in the sites selected more than doubled between 2010 and 2013, to 2,950 students. The ratio of girls to boys increased from 0.55 to 0.88. 50,000 basic education textbooks were printed between 2010 and 2012, increasing the percentage of students who have access to textbooks to 96 percent.

In Gabon, the Natural Resource Management Development Policy Loan contributed to the modernization of Gabon’s forest sector. As a result, the percentage of areas in compliance with sustainable management prescriptions rose from 30 percent to 77 percent and the recovery rate of the forest revenues increased from 40 percent to 87 percent for the area fees at the end of program.

The Grenada Hurricane Ivan Emergency Recovery Project (2004-2009) was designed to deal with the widespread destruction caused by Hurricane Ivan. The US$10 million project supported the rehabilitation and reconstruction of schools and recovery activities in the health sector. By June 2009, all five of the island’s health facilities were restored to pre-hurricane conditions and 18 schools of 19 target schools were rehabilitated or reconstructed.

The Kiribati Adaptation Program is supporting the country to adapt to the effects of climate change, improving water security and improving coastal resilience. Comprised of low-lying coral islands with population and infrastructure concentrated along the coast, the people of Kiribati are perhaps among the most vulnerable towards effects of climate change such as sea level rise and coastal erosion. The program helped plant 37,000 mangrove seedlings and construct a seawall to better protect Kiribati’s citizens.

An IFC investment generation project in Haiti that completed in December 2013 resulted in USD 65m of investment and creation of about 5000 direct jobs.

The multi-country Education Development projects implemented in Grenada (2003-2011), St. Kitts and Nevis (2002-2009), St. Lucia (2002-2009) and St. Vincent and the Grenadines (2004-2011) benefited more than 2,300 children; the transition rate from primary to secondary school increased from 54% in 2000 to 97% in 2007; and the net enrollment rate in secondary schools rose from 64% in 2000 to 81% in 2007.
The HIV/AIDS Prevention and Control projects implemented in **Grenada** (2002-2009), **St. Kitts and Nevis** (2003-2009), **St. Lucia** (2004-2010) and **St. Vincent and the Grenadines** (2004-2010) were able to reach at-risk groups. In the area of prevention of mother-to-child-transmission, St. Kitts and Nevis managed to consistently increase the number of pregnant women reached; St. Lucia achieved zero transmission of HIV from mother-to-child; and St. Vincent and the Grenadines offered these services during pregnancy to all women.

The **OECS-Catastrophe Insurance Project** (2007-present) has allowed countries to join the **Caribbean Catastrophe Risk Insurance Facility**. Overall, this insurance has been a success, promptly providing liquidity after a catastrophic weather-related event and helped reduce the vulnerability of OECS to natural hazards and climate change.

The **Telecommunications and ICT (Information and Communication Technologies) Development Project** (2005-2009), in **Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines** sought to improve access and quality of services at a more affordable cost. As a result, fixed-to-mobile rates were reduced by 40%. Additionally, monthly rates for domestic and international leased lines decreased over 56% and 78%, respectively; mobile retail rates fell by 67%; and Internet rates at the speed of 1 Mbps from 2009 to 2011 dropped by 28%.

In disaster reconstruction and rehabilitation, the **Samoa** and **Tonga** Post-Tsunami Reconstruction Projects have helped communities rebuild their lives after the powerful tsunami in 2009. In Samoa, the project supported communities to relocate to safer grounds to ensure their safety in the future. Upgrading of 30 kilometers of road has helped approximately 5,000 people improve the livelihoods of tsunami-affected communities.

The **Solomon Islands Rural Development Project** has helped over 93,000 people have access to services and infrastructure such as water supply, health centers and schools. The **Samoa Agriculture Competitiveness Enhancement Project** has helped 2,000 farmers improve product quality and have better access to markets.

The **Solomon Islands Rapid Employment Project** provided short-term employment and training amid the economic crisis for urban youth and the women in the capital of Honiara. To date, 250,000 labor days have been created by the project with about 15,000 people benefitting from training and work activities. Approximately 57 percent of total beneficiaries are women and 50 percent youth.