

Chairman's Summing up

Small States Forum 2016:

"Towards a Resilient and Equitable Future: Opportunities for Financing and Partnerships"

We, the representatives of Small States, met at the 16th Small States Forum on October 6, 2016. We welcomed the presence of the World Bank Group's President Dr. Jim Yong Kim and the United Nations Deputy Secretary General, Jan Eliasson, which was a sign of a continued close relationship between the World Bank and the UN and the ongoing commitment of the multilateral system for the small states agenda.

We noted the continued relevance of the Small States Forum and agreed that this platform helps to create awareness about small states' development opportunities and challenges, and enables us to advocate for our concerns to the broader international development community. Collectively, the development needs and concerns of small states should remain at the forefront of the international development community's work. However, while small states share the objectives of promoting inclusive development and achieving the sustainable development goals, we recognize that small states face particular challenges to meet those objectives.

During the opening session of the Forum, we acknowledged that the commitments made at the last Forum in Lima have been delivered. Through the *World Bank Group Report on Engagement with Small States*, we have been able to take stock of how the World Bank is engaging with small states. We expressed appreciation for the establishment of the Small States Advisory Group and the Small States Secretariat. We also welcomed the upcoming Strategic Roadmap that the World Bank will prepare for the 2017 Spring Meetings.

The Forum enabled us to benefit from an extensive exchange of views on the challenges and opportunities within small states for 1) Equitable Growth; 2) Resilience; and; 3) Financing and Partnerships. We reinforced the seven priority areas as agreed in Lima, and Minister Jean Paul Adam of the Seychelles re-emphasized that these action areas should continue to frame our agenda going forward. Moving forward, we called on the World Bank and partners to continue working towards the implementation of the next generation of the seven priority areas:

1) Inclusion of vulnerability

The Forum recognized and explored the linkages between resilience, economic growth and development. Five of the most disaster prone countries in the world are in the Pacific and Caribbean islands, and the impact of Hurricane Matthew and the situation in Haiti highlights the vulnerability of small island states to natural disasters. In this regard, and as emphasized by President Jim Yong Kim and WB Vice President Laura Tuck, we discussed the importance of addressing the specific vulnerabilities and the unique financial and institutional capacity challenges that small states face to respond to natural disasters.



SMALL STATES Forum 2016

We noted that even though many small states are classified as middle or upper middle income countries, we stressed that a significant number are disadvantaged by a range of structural vulnerabilities. In this regard, we emphasized the need to encourage understanding and awareness of small states' unusual vulnerability. We also expressed concern that small states' fragility arises from a host of causes, such as conflict or climate change. We requested for the World Bank to continue to work with partners to facilitate a consensus on policies about how resilience and vulnerability can be factored into decision-making regarding allocations of concessional finance.

2) Predictability of affordable financing

The Forum emphasized that a key challenge is the limited access to development financing at levels and on terms that are adequate to address our unique development challenges. With this in mind, we noted that IDA concessional financing for small states has increased over the last few replenishments, and that the likely outcome of the IDA 18 replenishment will include a significant increase in concessional resources for IDA eligible small states.

That said, however, and as emphasized by Minister Aiyaz Sayed Khaiyum of Fiji and others during the session on Resilience, despite acute vulnerabilities to shocks, many small states are ineligible for concessional finances on account of high per capita incomes. In addition to that, many states are unable to access IBRD financing because of a lack of creditworthiness.

The Forum highlighted the central financing challenge of enhancing the predictability of resources and securing a reliable flow of funds to close our financing gaps. In this regard, we agreed that there is a clear need for the World Bank to be more responsive to the unique financing challenges small states face.

3) Debt Sustainability

The Forum acknowledged that our limited potential for domestic revenue generation combined with high costs of public services typically leads to higher debt levels in many of our countries. Even though many will redouble efforts to increase domestic public sector revenues, a number of small states have limited fiscal space for the types of investments needed to become resilient. As noted by Minister Oliver Joseph of Grenada, we agreed that there is a need to focus on innovative instruments and work collectively with our partners to crowd in private sector investment, credit enhancement, and insurance products.

We are very encouraged by the innovative instruments being developed in the Seychelles, and others, such as debt-for-nature/resilience swaps, blue bonds and green bonds. We also welcomed the work that the World Bank is doing on debt swap operations that aim not only at building resilience, but also addressing debt, including commercial debt.

However, we agreed that more needs to be done to share the lessons from these initiatives to the end of supporting these types of efforts in more small states. As highlighted by Minister Sili Epa Tuioti of Samoa during the session on Equitable Growth, for instance, we need to put more effort into domestic resource mobilization to support and sustain our own development priorities and climate change initiatives.

4) Access to Climate Finance

The Forum agreed that building resilience should remain one of the most important pillars of our approach going forward and acknowledged that the Bank is currently the largest agency in providing programs for climate and disaster resilience for Small States. While we emphasized the importance of building resilience for small states, we agreed with IEG Vice President Caroline Heider's statement that resilience is not just environmental, it is also linked to macroeconomic resilience, and social resilience.

We also noted that despite the priority given to climate adaptation and mitigation, the vast pool of climate funds remain difficult to access for small states. While we welcomed the proposals for climate adaptation policy financing that will facilitate budget support to small states as well as simplify criteria for access to climate finance, we stressed that more needs to be done. In this regard, we agreed that the Small States Forum should work together with our partners to develop and deliver instruments that will increase accessibility to climate finance. We also need a dedicated platform with the Green Climate Fund and the Global Environment Facility to discuss issues around financing and donor fragmentation more effectively.

5) Capacity Building and Technical Assistance

The Forum expressed concern about donor fragmentation in small states, which can seriously impact the effective use of financing for achieving development outcomes. As noted by WB Vice President Axel van Trotsenburg during the session on resilience, the expected significant increase in IDA resources and the doubling of engagement on fragile states highlights the need to address the levels of absorptive capacity and institutional constraints within small states so that they can manage available donor resources more effectively.

WB Vice President Jan Walliser also highlighted that many small states are characterized by limited human capital and lack of economies of scale. In this regard, we emphasized the need for capacity building initiatives to enhance the effective deployment of resources. We also welcomed the World Bank plans to provide project preparation facilities to assist us to identify and prepare projects.

6) Diversification of Small States Economies

The Forum emphasized the need to promote diversification in small states through targeted and effective governance. For instance, Tlohelang Aumane, Principal Secretary of the Ministry of Development Planning of Lesotho noted during the session on Equitable Growth that small states face a number of challenges in this regard, including distance to main markets and transit costs. Public investment and sound legal and regulated structures are needed to promote the private sector and protect new markets. This is the case for both small island states and small land-locked states.

Minister Jean-Paul Adam of the Seychelles and US Ambassador Angus Friday of Grenada welcomed the World Bank's support for the blue economy agenda and agreed that this provides a development framework whereby small island states, in particular, can better leverage the potential of their

maritime zones. Many small states, such as the Seychelles and Grenada, have been able to create a new paradigm for development, which small states should aim to pioneer and develop.

7) Accessing Financial Markets

The recent trends towards de-risking in small states was acknowledged with concern, by many members of Forum. As emphasized by UN DSG Jan Eliasson, for example, de-risking is effectively cutting ties between banks in small states and global finance. A decline in correspondent banking relationships, as Minister Audley Shaw of Jamaica reiterated, is having concrete and damaging results at the individual and community levels and is, in particular, affecting remittances which is a large area of growth for many small states. We need to ensure that some of the gains in development are not lost due to this global trend, and we welcomed the World Bank's commitment to continue its work on de-risking trends with the IMF and other partners.

Partnerships

In addition to the above seven priority areas, the Forum continued to emphasize the importance of partnerships. We welcomed the statements that were delivered by WB Vice President Hartwig Schafer, Helen Clark of UNDP, Baroness Scotland of the Commonwealth Secretariat and UN USG Gyan Chandra Acharya. During the session on Financing and Partnerships, WB Vice President Victoria Kwakwa, reemphasized the importance of partnerships and stated that our work with small states will continue to be based on trust and mutual respect.

Collectively, our development partners reinforced the continued partnership between the World Bank, the UN, the Commonwealth Secretariat and the OECD. We noted that both the stocktaking report and the OECD/SISRI report highlight how development partners are able to work together to improve access to finance, develop innovative mechanisms, and support small states to leverage private investment.

Looking ahead at the 2030 agenda objectives of the Samoa pathway, there is a need for more meaningful and strengthened engagement amongst development partners as they continue to develop vulnerability indicators for small states.

Conclusion

Lastly, during the closing session, the Forum applauded Minister Jean Paul Adam of Seychelles for his very effective Chairmanship of the Small States Forum over the last two years. In particular, we noted his exceptionally innovative work in the areas of climate change, sustainable development and the blue economy. The Executive Director for Africa (Group 1), ED Peter Larose, also endorsed the excellent Chairmanship of the Seychelles, and expressed appreciation for the reinvigoration of the Small States Forum and the recent revitalization of the small states agenda in the World Bank.

Given the excellent leadership of Grenada on many issues pertinent to small states, we welcomed Prime Minister Keith Mitchell as the new Chair of the Small States Forum up until the 2018 Annual Meetings. Minister Oliver Joseph confirmed that the Grenadian Chairmanship, under the umbrella of the Caribbean constituency, is fully committed to supporting the seven priorities areas of the Small States Forum going forward.