

**Chairman’s Summing up**

**Small States Forum 2017**

**‘From Roadmap to Action’**

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We, the representatives of Small States, met at the 17th Small States Forum on October 14, 2017 in Washington DC. Members welcomed the new Chair of the Small States Forum, Honorable Prime Minister Keith Mitchell of Grenada. The new Caribbean leadership of the Small States Forum is very timely and coincides with the Prime Minister’s Chairmanship of CARICOM.

We welcomed the World Bank Chief Executive Officer Kristalina Georgieva, as well as high-level representatives of key development partner institutions and several key private sector organizations. This high-level representation underscores the close relationship between the World Bank Group and various public and private institutions, and reflects the collective commitment of the multilateral system to small states’ development issues.

During the Forum, many members emphasized the unique development needs and concerns of small states and the common challenges they face, which traditional development approaches do not always adequately capture. In opening remarks, the Chair noted the “triple trap” for small states: climate impacts, high fossil fuel prices, and high levels of indebtedness.

The Chair then highlighted the importance of mobilizing public and private sector financing for renewable energy, the green and blue economies, and technology. The Chair also stressed the need to develop the Small States Forum into a platform that can showcase small states as “Petri dishes for a new development paradigm.”

In May 2017, Management prepared “A Roadmap for World Bank Group Engagement with Small States.” Members of the Forum welcomed the Roadmap, and Manuela Ferro, Vice President of Operations Policy and Country Services (OPCS), stressed in her presentation the need to focus now on implementing it.

This Chairman’s summary highlights the main issues that were raised during the 2017 Small States Forum: (1) vulnerability; (2) IDA18 implementation; (3) de-risking; and (4) partnerships.

1. **Vulnerability**

As the recent natural disasters in the Caribbean highlighted, small states are often highly vulnerable to external shocks. In Dominica, for example, 2017 hurricane damages exceeded 200% of GDP. Responding to such natural disasters and other external shocks requires not only vast amounts of capital, but also rapid responses. This poses the challenge of quickly mobilizing and disbursing considerable financial resources for countries that may not have easy access to concessional development finance. In this context, Kristalina Georgieva emphasized the importance of taking an approach in which concessional resources “follow the people in need.”

The World Bank has shown, through its response to the recent hurricanes, that it can mobilize finance quickly in the aftermath of an emergency, providing additional resources for states that otherwise would not be eligible for it—for example, by using the IDA Crisis Response Window and creative price buy-downs using trust fund resources. Nevertheless, some vulnerable small states, such as Nauru and Palau, are unable to access either IDA or IBRD resources, as they neither qualify for the IDA small states exception nor meet the credit standard for IBRD. The Forum requested the World Bank to explore financing solutions for such vulnerable small states that “fall through the cracks.”

The Forum collectively agreed that, to address small states’ inherent vulnerability, there is a pressing need to unlock access to new sources of finance, particularly innovative disaster financing mechanisms, rapid response instruments, reconstruction finance, risk-sharing instruments, blue bonds, green bonds, state-contingent-debt instruments, and debt-for-nature swaps. For instance, states suffering from the recent hurricane damage need to use such financing not only to “rebuild, but rebuild better.” The Forum also heard how many of these financing instruments and solutions have already been successfully applied in Kiribati, Jamaica, and the Seychelles.

1. **IDA18 implementation**

The Forum noted that there has been a massive increase in IDA resources available for eligible small states—for some countries, the IDA allocation has quadrupled. The challenge is to find transformative projects that can absorb and make the most of these extra resources.

OPCS Vice President Ferro stated that the increased IDA allocation is “an opportunity, but it also raises challenges.” Notably, limited capacity to prepare and implement operations means that the project development pipeline is being filled only slowly in small states. This challenge increases the need to focus efforts on preparation, frontloading and fast-tracking (available) development financing, and using innovative financial instruments and creating new partnerships to mobilize additional public and private sector resources.

1. **De-risking**

World Bank Management noted that as financial institutions seek to “de-risk,” they are causing the withdrawal of correspondent banking relationships in small states. The resulting financial exclusion is a matter of concern for the international community. Reduced remittances and impediments to economic growth and doing business are some of the main consequences of this withdrawal.

In this regard, Joaquim Levy, Managing Director and World Bank Group Chief Financial Officer, stressed the need for a systematic and comprehensive response to the challenges small states face because of the decline of correspondent banking relationships. He highlighted the potential of blockchain technology and other innovations to increase access to banks for remittance providers. In addition, Prime Minister Gaston Browne of Antigua and Barbuda proposed establishing a working group to address the development challenges of de-risking for small states.

1. **Partnerships**

It was agreed that the Small States Forum should become a platform for creative financial innovation and both traditional and nontraditional partnerships. The 2017 Small States Forum marked the first time that private sector institutions have participated in the Forum on such a large scale.

1. **Development partners’ support**

Members welcomed statements of support from several development partners: Under-Secretary-General Achim Steiner (United Nations Development Programme), Under-Secretary-General Fekitamoela Katoa ‘Utoikamanu (Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries, and Small Island Developing States), President William Smith (Caribbean Development Bank), Baroness Patricia Scotland (Commonwealth Secretariat), and Dame Meg Taylor (Pacific Island Forum). These speakers underlined the importance of mobilizing development assistance for those who need it most and reemphasized the need to address the vulnerabilities of small states. Development partners agreed to continue working together to improve opportunities for small states to access development finance that reduces their vulnerability to shocks; a key tool for that effort is the inter-agency working group on small states vulnerability.

Several development partners highlighted the need to: (1) focus on the challenges of access to finance for middle-income small states; (2) help small states build resilient economies and embrace the necessity of a climate-smart economic infrastructure to better withstand external shocks; and (3) support small states’ efforts to address capacity gaps that hamper their ability to access internationally available climate funds.

The Forum also heard how many multilateral development banks and other development partners are already launching instruments and mechanisms to address these challenges, as well as streamlining and harmonizing operational processes and procedures to scale up financing for small states. The Chair noted that members were encouraged by the actions and commitments of the development community to small states development issues.

1. **Innovative private sector approaches**

Several private sector organizations and foundations highlighted how they are supporting small states through various innovative mechanisms: (1) a new form of blockchain technology that builds direct financial connections to manage remittances and address the challenge of de-risking and loss of correspondent banking relations; (2) private insurance that acts as a financial shock absorber, providing fiscal space during natural disasters; (3) technology to ensure the traceability of tuna so that small states can significantly increase their revenue; (4) an ocean business community that is being harnessed to better understand climate, predict weather events, and drive forward the blue economy; (5) country assessments and tools that are being developed in Africa to help countries absorb increased financial resources; and (6) private sector support for the World Economic Forum blue economy agenda.

**Conclusion**

During the closing session, the Forum applauded Prime Minister Mitchell for his effective chairmanship of the 2017 Small States Forum. Christine Hogan, Chair of the World Bank Executive Directors Group of Small States, thanked the Chair of the Small States Forum for his excellent leadership and for shifting the narrative toward action. OPCS Vice President Ferro also expressed support for the chairmanship of Prime Minister Mitchell and efforts that small states themselves can make to attract different financing sources.

In closing, the Chair reiterated the key issues raised during the 2017 Small States Forum: vulnerability, IDA18 implementation, de-risking, and the importance of partnerships. He also highlighted the significance of technology and connectivity in small states as drivers of growth and, in this regard, stated that the geographic focus for next year’s work will be on small continental and landlocked states, with an increased technical focus on the private sector and technology. The Chair thanked the World Bank Group, development partners, and private sector representatives for their support on the small states agenda.