

Chairman's Summary
Small States Forum Meeting, 19 October 2019

Finance Ministers and Central Bank Governors from member countries of the Small States Forum met on October 19, 2019 in Washington, DC during the 2019 World Bank-IMF Annual Meetings. The Forum was chaired by Mr. Aiyaz Sayed-Khaiyum, Attorney-General and Minister for Economy, and responsible for Climate Change, Republic of Fiji. In a sign of the importance accorded to the small states agenda by the international community, the Forum was attended by the UN Secretary General (UNSG) Mr. António Guterres and the World Bank Group (WBG) President, Mr. David Malpass.

Session 1

Remarks of the UNSG, Mr. Guterres

In his remarks, Mr. Guterres, described three challenges that 'threaten the very survival of many small countries, particularly island states', and urged the international community to help small states find 'innovative and effective solutions' to those challenges. These challenges include: (i) the *climate crisis*, which, the UNSG noted, creates costs that fall largely on low-income countries and their most vulnerable citizens; and in this context, he urged the international community to invest in the future of small states by funding disaster preparedness and risk reduction as well as urgently-needed adaptation measures, including resilient infrastructure; (ii) *debt sustainability*, which, the UNSG said, is often threatened by external shocks, and which therefore requires the international community both to expand concessional financing to vulnerable small states, and also to extend debt relief as necessary; and (iii) the *Sustainable Development Goals (SDG) and 2030 agenda*, of which, said the UNSG, the achievement in small states is threatened by extreme weather events and associated economic shocks, such that redoubled action on implementation is urgent.

Remarks of the Forum Chair, Mr. Sayed-Khaiyum

Mr. Sayed-Khaiyum thanked the UN Secretary General for his leadership on climate action and described the burden of a changing climate on small countries. He noted that the cost of climate change is paid by the most vulnerable members of communities - by the farmers, the fishermen and the women. He noted the lack of sufficient affordable financing for adaptation, which is constraining the efforts of small states to adapt their economies to the new realities and threatening the progress made thus far on poverty, shared prosperity, and the 2030 agenda. Mr. Sayed-Khaiyum advocated for enhancing the assessments of a nation's ability to service debt by considering asset values and other underlying indicators to more accurately reflect the rising cost of climate impacts, and the long-term value of effective adaptation.

Remarks of the Vice President of OPCS, Ms. Ferro

Ms. Ferro provided an overview of the World Bank's longstanding support for small states in recognition of their special circumstances and vulnerabilities. She referred to the Small Island Economies (SIE) Exception that was introduced in 1985, enabling small states to access IDA despite per-capita incomes being above the eligibility cutoff. Most recently in the context of a review of the SIE Exception, vulnerability to natural disasters was explicitly included as a criterion for IDA-eligibility. Moreover, in March this year, Fiji gained access to IDA as well.

Session 2

WBG President, Mr. David Malpass, attended session 2. His remarks were followed by interventions from Forum members. These were followed by two technical presentations: (i) “Addressing Debt Vulnerabilities in Small States”, by Marcello Estevão, Global Director, Equitable Growth, Finance and Institutions (EFI) Practice Group, World Bank; and (ii) “Boosting Financial Resilience to Disaster Shocks” by Alfonso Garcia Mora, Global Director, Equitable Growth, Finance and Institutions (EFI) Practice Group, World Bank. Technical presentations were followed by interventions from the floor.

Conversation with the President, WBG

Mr. Malpass acknowledged the challenges faced by small states and recounted the World Bank’s special treatment of small states and the growing volume of IDA financing to them. He noted the desirability of maintaining the current level of financing for small states in IDA19, depending upon IDA contributors’ support. In this context, he called for Forum members to support IDA19 and to articulate with key IDA Deputies the enhanced development impact that IDA18 is helping them achieve. Mr. Malpass also described the Bank’s financing instruments and market-based mechanisms for helping small states to build resilience and to respond to and recover from crises. He also shared his concerns about growing indebtedness and commended the progress being made by a number of countries in debt reduction and debt management.

Interventions from Forum members

Members thanked the World Bank for providing exceptional support after various extreme weather events. They called for greater access to grant and concessional financing for recovery, rehabilitation, and adaptation, and in some cases requested that a country be allowed to delay or defer debt payments for a specific period after a disaster.

Several members highlighted their ongoing work to achieve sustainable development in a context of increasing climate risk. In this context, one member noted his country’s success in confronting a multi-decade challenge of growing debt and instability and by achieving a steep reduction in debt through deep structural, fiscal and monetary reforms. Other members drew attention to the need to build financial resilience for households, as affected households look to the government for support.

Some members noted that landlocked small states face structural challenges that are similar to island and coastal small states, but also differences e.g. in their dependence on neighborhood infrastructure for meeting some of their development objectives.

One member suggested using metrics based on the accumulated stock of wealth to measure vulnerability, and in this context urged consolidating risk products and pooling risk among countries, with a view to providing diversification for the investor as well as economies of scale, with a reduced premium for participating countries.

Technical presentation: addressing debt vulnerabilities in small states

Mr. Estevão noted that against growing risks of debt distress, debt management performance in small states, as measured by the World Bank’s tools, is lagging in several areas. He stressed the need for a multifaceted comprehensive approach tailored to country circumstances and pointed to the Bank’s work in this area. Mr. Estevão outlined several new features of the revised Low-Income Country Debt Sustainability Framework (LIC DSF) that better capture country-specific economic circumstances, including a country’s debt-carrying capacity. He also described the proposed transition

from IDA's non-concessional borrowing policy to the sustainable development finance policy (SDFP) in IDA19: this policy will consist of two pillars: (i) a debt sustainability enhancement program, to enhance incentives to move toward sustainable financing; and (ii) a program for credit outreach. Details of the SDFP are included in the presentation available on the World Bank website.¹

Discussion

Mr. Estevão informed the Forum that the World Bank serves as secretariat of the Coalition of Finance Ministers for Climate Action, launched in April 2019, which is a venue for sharing experience on mitigation and adaptation to climate shocks. In this context, several Forum members highlighted the scale and enormity of the challenges that SIDS face, based on the increase in severity and frequency of storms; in particular, they noted that while governments can follow best practice, singular climatic events can wipe out all the good work done on lowering debt and can lead to a multigenerational debt burden. They argued that while buffers and contingencies are among the solutions, there is also a need to build them at scale and with urgency, so that the levels of damage can be minimized. Several members also stated a need for solutions that are realistic and reflect the "new normal". A regional development bank, as an observer, stressed the importance of debt relief, especially for countries that demonstrate fiscal responsibility and are prepared to take the right measures to address their fiscal challenges.

Technical presentation: boosting financial resilience to disaster shocks

Mr. Mora emphasized that the high frequency of disasters demands a comprehensive macroeconomic policy approach that brings together many different pieces, is focused more on ex-ante risk reduction than on ex-post reaction and is tailored to a country's context. He listed several constraints to developing financial resilience, including budgetary constraints, underdeveloped domestic markets, limited data (which is critical to find the right pricing), and governance. He underscored the role played by sector-specific support, such as for social safety nets and for building infrastructure, in building financial resilience in small states.

Discussion

Mr. Syed-Khaiyum pointed to the need to involve the private sector more in adaptation, and Mr. Mora suggested that it could be easier to attract private insurance solutions in sectors rather than for sovereign budgets. In the same context, a Forum member encouraged the World Bank to take the action plan on adaptation and resilience further by highlighting business opportunities for adaptation. One member noted that insurance from CCRIF is expensive and that creative solutions need to be found to reduce cost, while another pointed to the high cost of sovereign borrowing through bonds and called for more work in this area.

Concluding remarks

The Chairman proposed to establish a subcommittee to examine a number of key issues in between annual meetings of the Forum, including IDA19, debt sustainability and inclusion.

Ms. Ferro thanked the Chair for his engaged chairmanship of the Forum and skillful

¹ <http://pubdocs.worldbank.org/en/448571571433321670/Addressing-Debt-Vulnerabilities-in-Small-States.pdf>

management of the meeting. She agreed that the Bank will work with its partners on issues of debt, expenditure patterns, and investments in resilient infrastructure. She pointed to the role of the Forum as an effective platform to articulate the nature of the issues facing small states, including sharing the burden of the impact of climate change and the affordability of investing in adaptation, and she re-affirmed the Bank's commitment to supporting this dialogue together with Forum members.