SMALL STATES

A Roadmap for World Bank Group Engagement

Operations Policy & Country Services
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WORLD BANK GROUP

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Abbreviations and Acronyms

AFR	Africa
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASA	Advisory Services and Analytics
CAPE	Climate Action Peer Exchange.
CAT-DDO	Catastrophe Deferred Drawdown Option
CBR	Correspondent Banking Relationships
CCRIF	Caribbean Catastrophe Risk Insurance Facility
CCSA	Cross-Cutting Solutions Areas
CDB	Caribbean Development Bank
CIFs	Climate Investment Funds
CMUs	Country Management Units
COAST	Caribbean Oceans and Aquaculture Sustainability Facility
CPMI	Committee on Payments and Market Infrastructures
CROP	Caribbean Regional Oceanscape Program
CRW	Crisis Response Window
DFI	Development Finance
DGM	Data for Global Monitoring
DPF	Development Policy Financing
EAP	East Asia and Pacific
EFI	Equitable Growth, Finance and Institutions
ESAP	environmental and social action plan
EUR	Euro
FATF	Financial Action Task Force on money laundering
FCS	Fragile and Conflict-affected Situations
FCV	Fragility, Conflict, and Violence
FIP	Forest Investment Program
FSB	Financial Sector Board
GAFSP	Global Agriculture and Food Security Program
GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFDRR	Global Facility for Disaster Reduction and Recovery
GNI	Gross National Income
GP	Global Practice
GRMs	Grievance Redress Mechanisms
HIPC	Heavily Indebted Poor Countries initiative
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
IFF	Illicit Financial Flows
IMF	International Monetary Fund
IPF	Investment Project Financing
LCR	Latin America & Caribbean
LDCF	Least Developed Countries Fund
LEG	Legal
MDA	Master Derivatives Agreement
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative

MFM	Macroeconomics and Fiscal Management
MIGA	Multilateral Investment Guarantee Agency
ML	Money Laundering
MT	Montreal Protocol
MTR	Midterm Review
NDC	Nationally Determined Contribution
NGOs	non-governmental organizations
NLTA	non-lending technical assistance
NRA	National Risk Assessment
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
OPCS	Operations Policy and Country Services
PA	Programmatic Approach
PAD	Project Appraisal Document
PARIS21	Partnership in Statistics for Development in the 21st Century
PBA	Performance-Based Allocation
PCRAFI	Pacific Catastrophe Risk Assessment and Finance Initiative
PforR	Program for Results
PPCR	Pilot Program for Climate Resilience
PPF	Project Preparation Facility
PSW	Private Sector Window
RCIP	Regional Communications Infrastructure Program
RPS	Regional Partnership Strategy
SCCF	Special Climate Change Fund
SDG	Sustainable Development Goal
SDR	Special Drawing Rights
SMEs	Small and Medium-sized Enterprises
SREP	Scaling up Renewable Energy Program
SSF	Small States Forum
TA	Technical Assistance
TF	Terrorism Financing
UN	United Nations
UNCDP	United Nations Committee for Development Policy
UNDP	United Nations Development Program
UNOHRLLS	United Nations Office of the High Representative for LDCs, Landlocked and SIDS
USD	United States Dollar
VPUs	Vice Presidential Units
WAVES	Wealth Accounting and Valuation of Ecosystem Services
WB(G)	World Bank (Group)

I. Introduction: Motivation, Priority Action Areas, and Overview of WBG Engagement

A. Motivation

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. During the 2015 Small States Forum (SSF) in Lima, members endorsed seven priority actions and called upon the World Bank Group (WBG) to take the lead in coordinating joint work on them.

The WBG defines small states as countries that: (a) have a population of 1.5 million or less; or (b) are members of the SSF. 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. Despite this diversity, small states face similar challenges—for example, many are extremely vulnerable to frequent and severe weather events, they often face difficulties in mobilizing resources, and they struggle with limited capacity.

Small states must address particular challenges. For example, the imperative to build resilience to climate change, diversify their economic base, and develop new systems to generate and attract public and private finance. By deepening its engagement with small states, the WBG will not only serve the small states themselves, but also provide specific experience and examples of approaches to address these universal development challenges. Accordingly, activities in small states enable the WBG to maintain its leadership in the global development agenda.

The WBG's "Forward Look" establishes pillars for the WBG's development leadership in the drive to eliminate poverty and promote shared prosperity in a sustainable manner by 2030. There are five pillars: serving all client segments (including small states); leading on the global agenda; mobilizing resources; improving our business model; and ensuring adequate financial resources. Serving this group of clients, the WBG's work with small states is a crucial part of WBG engagement, part and parcel of how the organization works through its current business model, and an essential element of its plans for the future. WBG engagement with small states contributes to the implementation of the Forward Look by being more responsive to all small states—low, middle, and high income. Small states have the potential to be a "low hanging fruit" for demonstrating quick and effective wins on development finance, and particularly climate finance in line with the WBG FY16–FY20 Climate Change Action Plan. Without underestimating the challenges, small states can also be "petri-dishes" for new climate policies and technologies.

The SSF provides opportunities for World Bank Governors/Ministers from many small states to interact with senior management. Through the SSF, the World Bank exercises its convening power to carry out joint advocacy on small states and their special development situations and to facilitate a dialogue in which different donor communities and other stakeholders can share lessons learned, explore new solutions, and foster partnerships for a more coherent international response to the special development challenges of small states. Most recently, on October 6, 2016, the WBG hosted the SSF in Washington, DC, with the theme "Towards a Resilient and Equitable Future—Opportunities for Financing and Partnerships." The Forum concluded with a set of seven action areas of highest priority for small states to address their development challenges.

In response to the increased attention to small states, in 2016 the WBG established a Small States Advisory Group and a WBG Small States Secretariat. The Advisory Group helps to ensure a consistent WBG-wide approach on small states, and facilitates coordination across the institution—including with the World Bank Regions, Global Practices/Cross-Cutting Solution Areas, the International Finance Corporation (IFC) and its corporate units, such as Development, Finance, and Treasury. The Small States Secretariat organizes the SSF and facilitates the corporate agenda from within Operations Policy and Country Services (OPCS).

In 2016, the Small States Secretariat produced a stocktaking report: "World Bank Group Engagement with Small States: Taking Stock." Presented at the most recent Small States Forum, the report brings together information about WBG activities, special programs, and trust funds and lending related to small states, and highlights the challenges small states face.

Also at the 2016 SSF, WBG management committed to develop this Roadmap of engagement with Small States. Framed according to the primary challenges identified by members at the 2015 SSF and the seven priority action areas reiterated at the 2016 SSF, it sets an agenda for how the WBG will address priority concerns for small states clients.

Given the convening power of the WBG, it has been proposed by the current chair, Prime Minister Keith Mitchell of Grenada, to establish the SSF as platform. This platform would leverage and blend finance from multiple sources: IDA, IBRD, multilaterals, climate funds, donors, the private sector, and NGOs. It will also be a platform for South-South learning, triangular partnerships and knowledge sharing through other key fora such as the G20, the V20, and the World Economic Forum.

B. Priority Action Areas

This Roadmap underscores a number of key areas in which the WBG will support small states in seven priority action areas. The priority areas for the Roadmap include multiple efforts to mobilize both concessional and private resources to serve small states clients' development finance needs, particularly addressing the vulnerabilities emerging from small populations, limited geography, and lack of diversified assets.

At the 2015 SSF in Lima, small states' members agreed on the following priorities: (1) Inclusion of vulnerability as a criterion for concessional financing; (2) Predictability of affordable financing; (3) Debt sustainability; (4) Access to new and existing climate financing; (5) Capacity building and technical assistance; (6) Diversification of small states' economies; and (7) Accessing financial markets.

Priority Area 1: Inclusion of Vulnerability as a Criterion for Concessional Financing

Small states argue that vulnerability should influence financing access and terms. Given their small populations, limited geographies and the difficulties to diversify that these characteristics generate, many small states are particularly vulnerable to external shocks. This vulnerability hinders many small states' capacity to progress towards the SDGs. This priority action area explores how best to address the specific vulnerabilities and the unique financial and institutional capacity challenges that small states face. It also explores opportunities for concessional financing criteria to include vulnerability measures.

Priority Area 2: Predictability of Affordable Financing

Despite acute vulnerabilities to shocks, many small states are ineligible for concessional financing, including from IDA, because of high per capita incomes. IDA 18 has significantly enhanced IDA support to small states; however, many small states continue to face the central financing challenge of enhancing the predictability of resources and securing a reliable flow of funds to close their financing gap.

Priority Area 3: Debt Sustainability

Vulnerability to natural disasters, with the high costs of recovery, contributes to small states' indebtedness. In addition, limited fiscal space, narrow potential for domestic revenue generation, and the high costs of public services typically exacerbate debt burdens. Because of these debts, small states may not be able to access concessional or market financing. To address these debt challenges, small states focus on debt relief opportunities and innovative instruments to work with partners to address debt sustainability, increase domestic resource mobilization, and crowd in private sector investment.

Priority Area 4: Access to New and Existing Climate Financing

Although the international community is giving high priority to climate adaptation and mitigation, small states have difficulty accessing the vast pool of climate funds.[1] The SSF has called for the World Bank to work with partners to develop instruments that will increase small states' access to climate finance, and to develop a dedicated platform with the Green Climate Fund and the Global Environment Facility to more effectively discuss issues around financing and donor fragmentation.

Priority Area 5: Capacity Building and Technical Assistance

Many small states face limited human, institutional, and implementation capacity to carry out the tasks needed to absorb development finance and implement the investments necessary to address their vulnerability and lack of resilience. Donor fragmentation in small states hinders the effective use of financing for achieving development outcomes. In light of the significant increase in IDA resources and anticipated increase in engagement, this action area highlights options to address small states' chronically limited absorptive capacity and institutional constraints that hinder their ability to manage donor resources.

Priority Area 6: Diversification of Small States' Economies

Both landlocked and island small states suffer from limited export diversification and productive capacities. Where multiple asset types and economic options provide resilience, lack of such economic diversity leaves small states dependent on the economic and political situations of neighboring transit countries, as well as vulnerable to economic and climate shocks.

This priority action area highlights the imperative to promote diversification to improve resilience. For example, both island and landlocked states look to ICT and increased connectivity to expand economic opportunities. Public investment and sound legal and regulated structures are needed to promote the private sector and further new markets. Several small island states stand to benefit from the growing blue economy agenda, which provides a framework to better leverage the potential of their maritime zones. Diversifying economies beyond land-based activities and along coasts is critical to achieving the SDGs and delivering smart, sustainable, and inclusive growth globally.

Priority Area 7: Access to Financial Markets

Many large financial entities are effectively cutting ties between banks in small states and global finance. A decline in correspondent banking relationships is having damaging results at the individual and community levels, particularly by affecting remittance

1 Existing financing includes the Adaptation Fund (including Direct Access), GCF, GEF, Least Developed Countries Fund (LDCF), Special Climate Change Fund (SCCF), Climate Investment Funds (CIFs including the Pilot Partnership for Climate Resilience), MDBs (including IDA with its focus on small states), GFDRR, and bilateral donors. In addition, funds available after a disaster include IDA's CRW, IMF Standard Window, IMF Poverty Reduction and Growth Trust Fund, IMF Catastrophe Containment and Relief Fund, insurance facilities such as Pacific Catastrophe Risk Assessment and Finance Initiative (PCRAFI) being converted into a Facility, Caribbean equivalent (CCRIF), and Africa Risk Capacity Insurance Facility. For low emissions—renewable energy, energy efficiency, forests—CIFs (SREP, FIP, DGM); GEF, MDBs (IDA, IBRD equivalent), GCF, and bilateral donors.

flows and complicating the provision of domestic and cross-border payments. Many linked factors may underlie the withdrawal of the relationships. The withdrawal generally reflects banks' business decisions based on their cost-benefit analyses. In addition, small states face a challenge to ensure compliance with increasingly stringent disclosure and compliance requirement to combat crime and terrorism.

Therefore, understanding trends requires recognizing banks' evolving business models against the backdrop of macroeconomic developments and the broader decline in cross-border lending since the global financial crisis. In any case, pressure on banking relationships disrupts financial services and cross-border flows, including trade finance and remittances, potentially undermining financial stability, inclusion, growth, and development goals.

This priority action area highlights options to address challenges posed by de-risking to maintain access to international finance in small states. Financial development overall is an important driver of growth and can increase a country's resilience to external shocks and volatility. Financially developed economies find it easier to mobilize savings, share information, improve resource allocation, and implement more effective diversification and risk management strategies. This reorientation—on both the supply and the demand side—will contribute to economic growth and stability.

Through these seven priority areas, the SSF defined a broad agenda for addressing their development challenges. While there are many ways to cluster these areas for action, **this Roadmap will organize the priority action areas into three broad categories that correspond to the World Bank Group's support to small states.** First, to take into account their vulnerability burdens, small states seek preferential access to concessional finance. Second, to invest in resilience and diversify their economies to lessen that vulnerability, they seek to manage their debt burdens and attract private sector financing. Third, small states seek enhanced capacity to attract, manage, and invest with both concessional and private sector resources.

C. Setting the Context: Current WBG Operational Support to Small States

As the 2016 Stocktaking Report states, the WBG has had some involvement with its small state clients since the SSF was launched in 2000. Aligned with the Forward Look, that involvement includes a combination of financing, analytic, and convening services. It involves engagement with individual states as well as support for regional approaches. Considering lending operations, currently the IDA and IBRD pipeline for small states (FY17–FY18) covers 43 operations and totals more than $700 million (this does not include the significant increase in programming from IDA 18) (see Table 1).

Engagement by Global Practices. As Table 1 shows, across the small states, the Global Practices (GPs) projected to have both the largest number of operations and the largest commitments are Energy and Extractives, and Transport and ICT, followed by Health, Nutrition, and Population, and Environment and Natural Resources. Several of the proposed Energy and Extractives operations concern sustainable and renewable energy, or access to electricity. Transport and ICT operations focus on transport infrastructure and ICT connectivity, and several Environment and Natural Resources operations focus on fisheries, with a growing portfolio on the blue economy. They are in line with the priority actions on diversifying economies, with a specific focus on ensuring physical and ICT connectivity, sustainable and productive use of natural endowments, and long-term energy access.

Beyond these country specific lending operations, the World Bank also provides resources in support of regional small states groupings. Through support of these regional operations, the World Bank seeks to enhance the connectivity and scale of the realm within which small states operate.

Caribbean: Targeted approach, scaled-up financing. The OECS countries (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia

TABLE 1 World Bank FY17–18 Approved and Pipeline in Small States

Global practice	Total commitments ($ millions)	Number of projects
Agriculture	32	3
Education	40	4
Energy & Extractives	155	9
Environment & Natural Resources	77	5
Finance & Markets	81	5
Governance	61	4
Health, Nutrition & Population	108	2
Macroeconomics & Fiscal Management	209	14
Poverty and Equity	53	2
Social Protection & Labor	46	3
Social, Urban, Rural and Resilience	28	5
Trade & Competitiveness	19	2
Transport & ICT	203	11
Water	171	2
Total	**1,281**	**71**

World Bank Staff calculations for SSF members, based on approved and A- and B-rated project pipeline (IBRD, IDA, GEF, MT, and Large Recipient Executed Trust Funds) as of May 12, 2017.

and St. Vincent, and the Grenadines) are covered through an OECS-specific Regional Partnership Strategy. The OECS RPS FY15–FY19 revolves around three core pillars: (1) competitiveness; (2) public sector modernization; and (3) resilience. The Strategy has so far resulted in WBG support around all three overarching areas. The role of the IFC, in particular, has been limited to a few targeted advisory areas, mostly related to the first two of the pillars. The current strategy is slated to end in June 2019. A Systematic Regional Diagnostic, covering both the OECS countries and some other Caribbean countries (e.g., Bahamas, Barbados, Trinidad and Tobago, Guyana, and Suriname) will be prepared in FY18.

Pacific: Increased WBG engagement. World Bank commitments in the eight IDA-eligible countries (Kiribati, Marshall Islands, Micronesia, Samoa, Solomon Islands, Tonga, Tuvalu, and Vanuatu) totaled $63.7 million in 2010 and have since risen more nearly tenfold to US$601 million in 2016. An increase in the annual minimum base IDA allocation (from SDR1.5 million in IDA 15 to SDR3 million in IDA 16 and SDR4 million in IDA 17) was central to this growth, which will continue as the IDA 18 minimum base allocation increases to SDR15 million. In addition, a heavy use of the CRW and the regional IDA window were important drivers of the increase in commitments for the Pacific. On the private sector side, up to US$500 million in new private sector investment has been mobilized through IFC interventions, including US$30 million in additional direct or co-investment by IFC. IFC's advisory program since 2010 has been valued at US$25 million.

The WBG is working on the "Pacific Possible" study to inform its engagement with Pacific Island Countries. "Pacific Possible" assesses whether fully exploiting the few available opportunities and dealing effectively with major threats could lead to significantly better growth outcomes over the next 25 years. The study examines specific opportunities and risks for the Pacific in seven selected areas: opportunities for increased incomes (tourism, knowledge economy, fisheries, deep sea mining, and labor mobility) and risks (climate and disaster risks, non-communicable diseases).

Building on this base of small-states operations, this Roadmap for World Bank Group action summarizes proposed actions in three broad areas of engagement, responding to the priority areas which the small states themselves identified. Section II presents options for concessional financing to address small states' vulnerability. Section III includes efforts to attract private sector financing to support diversification and promote resilience. Section IV presents actions to build client capacity, focusing on how the World Bank Group policies, procedures, and frameworks can be deployed to this end. Section V concludes.

II. Enhancing Concessional Financing to Address Small States Vulnerability

Because of their small size, small populations, challenging geographies and restricted asset base, small states are particularly vulnerable. Just as suffering from humanitarian tragedy triggers availability of extensive grant and concessional resources, this vulnerability to potentially devastating shocks provides some rationale for ex-ante access to concessional financing. This section focuses on concessional financing to address small states vulnerability considerations. It presents WBG actions to provide concessional resources to IDA-eligible small states, through an overall increase in IDA financing and an increase in resources for IDA countries affected by fragility. It also explores options for developing common and consistent vulnerability metrics across development partners, as a potential basis for broader access to concessional financing. Finally, this section highlights ways that the WBG will provide support for concessional climate financing to small states vulnerable to climate change that are seeking to enhance climate change resilience.

A. Enhancing Small States Concessional Financing through IDA 18

In recognition of small states' vulnerability, IDA has consistently provided preferential access to concessional resources for this client segment. The latest IDA replenishment, IDA 18, significantly enhances the scope and terms of this access. Of the 50 small states that are part of the SSF, 23 are currently IDA-eligible countries. Aggregate financing for these countries is expected to increase by about 190 percent—from US$0.6 billion under IDA 17 to US$1.9 billion under IDA 18—primarily because of the proposed increase in the annual minimum base allocation under the Performance-Based Allocation framework (from SDR4 million to SDR15 million). Several provisions will significantly enhance the IDA support to small states.

- ***The increase in the annual minimum base allocation*** will enhance support to smaller countries, many of which are vulnerable and fragile.
- ***Provision of highly concessional financing terms*** (40-year repayment terms with 10 years grace) in IDA 18 for all IDA-eligible small states. In addition to the small island countries that received these terms in IDA 17, four new countries will benefit from the expansion of these favorable lending terms to all IDA-eligible small states: Bhutan, Djibouti, Guyana, and Timor-Leste.
- ***Provision of financing under the regional IDA program*** at terms fully harmonized with each country's concessional core financing. This adjustment will greatly benefit small states at moderate risk of debt distress, as they will be able to access regional IDA financing on a 50/50 mixture of grants and credits. In addition, financing for the program will be increased to SDR5 billion.
- ***Adjustment to the eligibility criteria*** for the 20 percent cap on national contributions to regional IDA projects will be linked to small state status, rather than to the size of a country's annual allocation—that is, eligibility for the cap is extended to all small states under IDA 18. All IDA-eligible small states will benefit from this more favorable leveraging formula under the regional IDA program.

IDA 18 will offer increased specific country-level core allocations. The country-level core IDA allocations vary by country groupings, as summarized below:

- ***Small States FCS*** (8 countries).[2] Aggregate financing for these countries will increase by about 250 percent, from US$0.2 billion in IDA 17 to US$0.6 billion in IDA 18.
- ***Small Islands Economies Exception*** (15 countries).[3] Aggregate financing for small states under the Small Islands Exception would increase by about 235 percent—from US$0.3 billion in IDA 17 to US$1.1 billion in IDA 18.

IDA 18 further provides enhanced opportunities to finance transformative projects. The IDA 18 Scale-Up Facility is significantly increased—from $3.9 billion to $6.2 billion—and will enable IDA to finance transformational projects with development objectives consistent with key IDA 18 priorities. The enhanced envelope will allow teams and clients to achieve more ambitious aims.

In addition to the small-states-specific provisions listed above, **the significantly higher replenishment volume means that a number of other IDA 18 facilities will be available to benefit small states.**

- Financing for fragility, conflict, and violence (FCV) has been doubled, to more than $14 billion.
- IDA 18 provides $2 billion for activities supporting refugees and host communities to countries that are eligible for the sub-window.
- A $2.5 billion IFC-MIGA private sector window will be established to spur private enterprise in IDA-only countries, and IDA-eligible FCV.
- In response to severe crises in IDA clients, including small states, additional IDA resources can be available through the Crisis Response Window (CRW). The CRW supports countries' response to and preparedness against severe natural disasters, economic crises, and health emergencies. One new aspect of the CRW that could particularly benefit small states is that for severe natural disasters (in which damages and losses are greater than 1/3 of GDP), midyear adjustments of IDA's terms are possible, if warranted, based on an updated Debt Sustainability Analysis in the aftermath of a crisis.
- The regional IDA program will be substantially increased. Also, in IDA 18, the regional IDA program will continue to be able to provide regional grant support to eligible regional technical organizations, including for capacity enhancement activities.

Given the greatly enhanced support to IDA-eligible small states in IDA 18, it will be important to demonstrate progress at the IDA 18 MTR (planned for end of CY18). It is therefore important to note that there are more favorable front-loading rules for IDA-eligible small states, which allow small states to front load up to 80 percent of their cumulative three-year IDA 18 allocation.

IDA 18 includes enhanced crisis response facilities a new instrument that will also be available to small states: The CAT-DDO is a contingent financing line currently offered to IBRD countries that provides immediate liquidity to countries after a catastrophe, and while funds from other sources such as bilateral aid or reconstruction loans are being mobilized. In IDA 18, CAT-DDOs will be offered to IDA clients, broadening IDA's toolkit for helping countries manage their preparedness for and responses to crises. It also answers the call by shareholders and clients alike for IDA to scale up its efforts in crisis preparedness and resilience. IDA CAT-DDOs will cover shocks related to natural disasters and/or health-related emergencies, similar to the IBRD instrument. The CAT-DDO is envisaged to help countries prepare for disasters, based on

2 These countries are Comoros, Gambia, Kiribati, Marshall Islands, Micronesia FS, Solomon Islands, Timor-Leste, and Tuvalu.

3 These countries are Cabo Verde, São Tomé and Principe, Kiribati, Marshall Islands, Micronesia FS, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu, Dominica, Grenada, St. Lucia, St. Vincent and the Grenadines, and Maldives.

BOX 1 **Support to IDA Countries Affected by Fragility**

IDA 18 increases concessional resources to IDA countries affected by fragility, including small states. The recent IDA 18 replenishment has substantially increased resources for our support to IDA countries affected by fragility, conflict and violence (FCV). Beyond IDA countries, FCV challenges are of growing importance to middle-income countries as well. In this regard, there are a number of key improvements to the WB operational policies and procedures that will allow us to be more effective in the way we respond to FCV situations. These are as follows:

Processing of Operations (under OP10.00 para 12): There are condensed processing instructions for Investment Project Financing (IPF) operations in situations of urgent need of assistance or capacity constraints. The normally sequential stages of identification, preparation, and appraisal may be consolidated. The decision to authorize negotiations may be taken after a single consolidated review of the complete negotiations package. There are accelerated business standards with shorter turnaround times for FCV operations (three days, rather than five days for normal operations). Safeguards requirements that would normally be required before project appraisal may be deferred into the implementation period. If deferred, the type, timing of, and responsibility for safeguards instruments is governed by a simple environmental and social action plan (ESAP) which is annexed to the PAD.

WB-UN Collaboration: Centralized support has been set up within OPCS to bring together experts across the Bank to provide one stop advice and hands on support to task teams working with UN agencies in Bank operations. This global support team is facilitating and supporting the implementation of partnership commitments. Standard agreement templates for use by Borrowers have been developed with key UN agencies operating in FCV countries, and operational clinics are being delivered to Bank staff and to UN agencies.

Training: There will be continuing training (both face-to-face and through webinars) for operational staff on the new Procurement Framework and working with UN agencies. Further work is planned for harmonizing policy requirements that apply to engagement of UN agencies across different financing modalities and, in particular, for increasing flexibilities in issuing direct grants to UN agencies.

Mandate and authorizing framework: LEG in association with FCV CCSA and OPCS is putting out staff guidance notes and Q and A that clarify and explain the Bank's mandate and authorizing framework in FCV situations. There will also be clinics and workshops on these topics.

a set of policy and institutional actions, and can be disbursed within a three year period based on a trigger related to the catastrophe. The CAT-DDO has been successfully deployed in IBRD to address seismic and hydro-meteorological events, including in islands like the Seychelles.

The IDA CAT-DDO will also entail additional benefits. Should a country opt to finance its IDA CAT-DDO using its Performance-Based Allocation, only 50 percent of the CAT-DDO size needs to come from PBA resources, with the rest matched by IDA in an equal amount. In addition, while the IDA CAT-DDO country limit is set at a maximum of US$250 million or 0.5 percent of GDP (whichever is lower), clients with limits below US$20 million could request a CAT-DDO up to US$20 million. Such a feature will permit an adequate level of crisis financing, and is expected to benefit small states in particular. In addition, standard development policy financing (DPF) instruments for innovative interventions, such as a Debt for Nature and Resilience (DNR) option in Grenada are also being explored.

B. Clarifying Vulnerability Metrics and Concessional Financing

IDA 18 includes several new features that will help small states, implicitly providing preferential access to concessional financing because of these states' vulnerability, beyond those states covered by the "small states exception," **concessional IDA resources are not available to non-IDA eligible small states.** There may be room in the development finance landscape to explore options that link concessional financing with these countries' vulnerability.

As noted above, economic vulnerability is based on factors such as remoteness, population size, export concentration, productive base, share of population in low elevated coastal zones, and percentage of victims of natural disasters. These indices can be supplemented by additional measures such as gross capital formation, international reserves, and tax revenue as a proportion of GDP. Other metrics for consideration may include the number of natural disasters, the duration of drought, variations in precipitation, and the extent of agricultural land threatened by sea level rise.

The WBG will work to define a vulnerability index. The WBG will convene the Asian Development Bank, African Development Bank, CDB, Commonwealth Secretariat, Inter-American Development Bank, IMF, UNCDP, UNDP, and UNOHRLLS to map conceptual work done on

BOX 2 Vulnerability and Development Finance

Small States face critical development challenges that include vulnerability to macroeconomic shocks, natural disasters, the long-term impact of climate change, and rising sea levels**.** A constrained resource base and capacity make it difficult for many small states to respond to these challenges. Many lack sufficient access to development finance solely on account of their relatively high per capita income levels.

Conventional wisdom within multilateral agencies is that countries with higher per capita incomes have less pressing need for overseas development assistance, given purported higher standards of living and a presumed ability to mobilize domestic and international resources for investment purposes. This reasoning may not always be valid.

The higher per capita income threshold notwithstanding, several small states are faced with low levels of international reserves, a limited cash surplus, a narrow tax base, inadequate capital formation, and insufficient levels of domestic credit. This is on account of a constrained geography and demography, an export base limited to very few commodities directed at equally limited number of markets, and a critical reliance on key imports such as energy. Small states are also disproportionately vulnerable to the increasing frequency of extreme weather events. Per capita income in itself does not adequately reflect these structural vulnerabilities. Alternate mechanisms at resource mobilization therefore demand greater consideration.

The UN factors in vulnerability while designating Least Developed Countries. Its criteria include GNI per capita, the Economic Vulnerability Index, and the Human Assets Index. Economic vulnerability is based on factors such as remoteness, population size, export concentration, productive base, share of a population in low elevated coastal zones, and percentage of victims of natural disasters. Other metrics for consideration may include the number of natural disasters, the duration of drought, variations in precipitation, and the extent of agricultural land threatened by sea level rise.

This data is not always available for most small states. Nor, is it frequently updated or available on a timely basis. There is the added challenge of operationalizing such metrics. There are difficulties in weighting and aggregating. There is the moral hazard and added political sensitivity with regards to the diversion of aid from the most fragile countries to higher income small states. There is the issue of absorptive capacity and debt. The most pressing concern, however, is whether the metrics of vulnerability, even if operationalized, will ensure the availability of financial resources that small states require.

The World Bank will present a short issues paper on vulnerability and development finance by October 2017. FY18 will be earmarked for diagnostics on small state vulnerability and options for operationalizing such metrics. The Bank will aim to table a final paper for Board consideration in June 2019.

vulnerability metrics to date, identify operational gaps in the theoretical work, initiate economic diagnostics to address those gaps, and, in consultation with small state clients, reach a consensus on the choice of small-states-related variables. The World Bank will finalize a concept note to be agreed internally and with its development partners by May 2017, and will conduct the mapping exercise, identification of gaps, and diagnostics during FY18 and FY19.

The Bank will aim to propose a list of vulnerability metrics for Board consideration in FY19. Considerable work is required to develop a policy consensus on the choice of vulnerability metrics, the operationalization of such metrics, and agreement on weighting and aggregation. The effort to identify appropriate metrics and build a consensus around them will complement other related efforts—for example, the World Bank's current exercise to develop a global risk scan on fragility.

The vulnerability metrics work will be synchronized with the World Bank's ongoing initiative to develop a concessional finance strategy for climate change. A key principle on where to intervene is the "Follow the Vulnerable" concept—that is, while development finance institutions should mainstream climate resilience in all development financing, the priority for concessional resources should be on communities and ecosystems, where there is the greatest risk for climate to cause uncontrollable, system-level impact, and where the commensurate capacity and resources to respond to climate change are most limited.

The World Bank is increasing and deepening its work with partners to continue collaboration on small states' vulnerability. The World Bank convenes an inter-agency technical group. It has recently been proposed that in July 2017 this group launch an inter-agency work program on vulnerability to explore the role of concessional finance in countries that are higher on the income ladder (upper-middle-income countries and countries that are close to graduation). The technical group will also explore options for refining the measurement of country needs beyond per capita income measures, including through measures of vulnerability and multi-dimensional well-being.

C. Facilitating Access to Concessional Climate Financing

The WBG will support climate- and disaster-resilient development across multiple small island states. With limited capacity and generally small investments, small states have difficulty in addressing climate- and disaster-resilient development, given the increasing impacts across a range of sectors and the necessity to address varying risks to development and plan for increased, fluctuating risks over a longer term. One way to address these challenges is through a programmatic approach—that is, a practical framework that can be used for designing programs that incorporate various aspects of disaster risk management (e.g., early warning and preparedness, response, recovery, social and financial protection) with climate resilience (e.g., risk-based spatial planning and investments that include longer-term risks from climate change) as part of development. IDA also has the ability to leverage trust fund resources for climate. Some of the trust fund resources that have benefitted small states are GEF, PPCR and the GCF.

To address climate change threats, the WBG will look to create a foundation for well-functioning insurance markets in small states. These innovative approaches will target specific threats such as floods, storm surges, or losses to agricultural productivity. Agricultural insurance, for example, generally allows small businesses to transfer the risk of a large and possibly devastating loss from an extended drought or heat wave, to a third party in exchange for a predictable premium. It also helps small businesses manage specific sector risks that arise when they are taking the appropriate steps—irrigating fields and using pest management, for example—to head off other climate threats to production, such as extraordinary rainfall or drought. These insurance products—for example, production, weather, and commodity price insurance—can cover crops, livestock, and fisheries, and are especially important for climate-related risks. In addition to reimbursing small business owners for losses beyond their control, they can serve as collateral for agricultural loans and provide a safety net for investments.

The WB will support climate risk insurance products. The aim is to have a risk insurance product that can be leveraged to promote improved management of fisheries and coastal resources, and thus build ecological and economic resilience against climate-related perturbations. Achieving climate-resilient fisheries would involve focusing both on healthy fish stocks/habitats and healthy local economies. Therefore, implementation of the risk insurance product will be informed by both national-level climate-smart food security concerns and disaster risk management plans. One such product is the Caribbean Oceans and Aquaculture Sustainability Facility (COAST), a climate risk insurance product for vulnerable fishing communities in the Caribbean, which builds on the Bank's successful support for the establishment of the Caribbean Catastrophe Risk Insurance Facility (CCRIF). COAST is intended as a platform for innovative financing to address a combined set of challenges, including food and livelihood security and climate change. This is currently being considered as a pilot for global application.

The WBG will work to strengthen the Nationally Determined Contributions (NDCs) and support their implementation. With Fiji as the chair of the United Nations Framework Convention on Climate Change, small states are in a strong position to champion the agenda for climate-resilient development and ensure adequate focus on financing for this work.

The WBG will enhance business plans for disasters. For the private sector, there is a need to help businesses plan for disasters and adapt their operations to climate change, including by drawing on cutting-edge climate finance instruments. This includes supporting businesses in accessing new insurance mechanisms to build operations that are resilient to climate change, since in many small states insurance is still in a nascent stage. There is also scope to expand these tools to manage other risks such as pandemic health threats that may affect an economy and its impact on tourism (e.g., H1N1 or Zika).

The WBG has launched a Climate Action Peer Exchange (CAPE). This is a capacity development initiative that supports the use of fiscal policy instruments to implement the Paris Agreement (December 2015) to contain the rise in global temperatures. In this context, the WBG will organize a series of activities with specific reference to small states, including peer-to-peer exchanges and technical discussion on fiscal aspects and implications of targeting climate commitments.

The World Bank partners with other development partners to produce innovative analytical work on climate and disaster resilience financing, which informed discussions at the 2016 SSF, COP22, and the 2016 OECD-DAC Senior Level Meeting. Current analytical work by the OECD monitors overall official development assistance flows to small island states and explores innovative approaches and mechanisms to enhance the effective use of resources and catalyze new flows, including from the private sector.

Finally, beyond IDA and climate related resources, the World Bank Treasury and the Macroeconomics and Fiscal Management (MFM) Global Practice Debt Team have expertise in assisting countries—large and small—to address their fiscal vulnerabilities. Technical assistance is grounded in the hands-on experience of these staff as practitioners. Treasury's long-standing market expertise and access, and MFM's dedicated Debt team that specializes in both debt sustainability analysis and debt management for IDA-eligible and small states. Both MFM and Treasury have provided advisory services and technical expertise to help countries develop sovereign debt and risk management strategies aimed at minimizing the negative fiscal impacts of exogenous shocks such as currency and interest rate volatility, as well as exposure to natural disasters and commodity price volatility. The MFM GP hosts the Debt Management Facility that has been working with small states over the past 7 years to develop debt management strategies and institutional frameworks for effective debt practices.

III. Attracting Private Financing for Diversification

While the vulnerability concerns which small states face may justify preferential access to concessional financing, the underlying cause of that vulnerability is a lack of diversified assets. Those restricted assets may be geographical, in that many small states have small land areas and low connectivity, with together restricted capacity to move. Further, they may be restricted in the diversity of their economic assets, including human, physical, and productive capital. Finally, given these constraints and the vulnerability that they produce, as discussed in the previous section, small states may have difficulty attracting financial capital from the private sector. To promote diversification and enhance long-term resilience, small states seek greater access to private capital. This section presents WBG responses to support diversification by addressing mechanisms to attracting private financing. It considers efforts to enhance debt sustainability for small states, to increase private sector investment and finance through increased connectivity, and to support programs for de-risking, allowing private financial flows to small states.

A. Enhancing Efforts for Debt Sustainability

Most small states suffer from high and unsustainable debt burdens. Resulting from their limited resource base from which to generate revenues, weak capacity to mobilize domestic fiscal revenues, the high costs of providing public services given few returns to scale, and the high vulnerability to external shocks of many types, in general, small states have large debts. As a result, these countries face difficulty to secure new private (and public) financing.

Reductions in public and external debt have been supported by debt relief and debt restructuring efforts in a number of small states. Two small states (Comoros and São Tomé and Príncipe) have benefited from the HIPC and MDRI initiatives. Some small states, such as Grenada and St. Kitts and Nevis, have benefited from commercial debt restructuring.

The World Bank Treasury and the Equitable Finance and Institutions units together provide advisory services to central and subnational governments on all aspects of debt and risk management. These services cover legal frameworks, governance arrangements, coordination with macroeconomic policies, preparation of debt risk management strategies, external/domestic borrowing operations, and the management of contingent liabilities from sovereign guarantees.

The WB along with the IMF implement the Joint WB-IMF Low-Income Country Debt Sustainability Framework. This framework compares various debt ratios against thresholds above which countries have been shown to be more likely to experience episodes of debt distress. From this perspective, slightly over half of the small states with completed Debt Sustainability Assessments (12 of 21) have total external debt that exceeds their risk thresholds.

The WB's Debt team at EFI will focus on strengthening the capacity of small states to understand the revised debt sustainability framework.[4] The aim is for clients to undertake Debt Sustainability Assessments internally. Hands-on training will be provided for formulating medium-term debt management strategies to enable countries to assess the

4 There is a Debt Unit in the Macroeconomics Fiscal Management Global Practice within the Equitable Finance and Institutions Vice Presidency.

cost and risk of their debt portfolios and make informed borrowing choices. Clients will be taught to assess different shocks that are most relevant to small states.

The WBG will adopt a more programmatic approach, including pooling a cohort of skilled debt specialists across a regional grouping of small states. A more programmatic approach will be adopted to support debt management reforms. The cohort of specialists should be a regional resource pool that is maintained in the respective ministries through effective succession planning.

The World Bank has been collaborating with the Commonwealth Secretariat on an innovative debt instrument—debt swaps. A report to be produced will focus on debt vulnerabilities using a probabilistic approach that will provide policymakers with an alternative view of debt sustainability. It will also provide a platform to consider other useful innovative debt instruments that could assist with improving small states' debt sustainability.

The Bank is working with Seychelles on a Debt Currency Swap. Seychelles has an outstanding $152 million USD Eurobond due in 2026, which represents a large USD liability for a government that generates far more revenue in EUR than in USD. The Eurobond has a step-up coupon feature, meaning that interest payable on the bond will rise to 8% in 2018 and remain at this level until maturity, and this coupon is also higher than the government considers manageable. To manage the risk on this liability, Seychelles has asked the Bank to offer a "Non-IBRD Hedge," which is a swap that the Bank can intermediate in the market that converts the USD payments on this bond into EUR. The swap into EUR at prevailing market rates could lead to a better matched obligation from a currency perspective and also reduce the coupon by over 200bp due to current EUR market conditions. The transaction would entail IBRD exposure of 10% of the value of the transaction. There is adequate headroom for this under the current exposure limit, leaving room for future IBRD borrowing. To execute a non-IBRD Hedge on behalf of Seychelles, a Master Derivatives Agreement (MDA) must be signed and in force between Seychelles and the World Bank.

The Bank is providing training on the use on market derivative instruments in Seychelles. The Bank team has provided training on the use of market derivative instruments for hedging financial risks, including a workshop for Public Debt office and Central Bank officials in November of 2016, which introduced the MDA to government counterparts. The team will continue to assist the Government of Seychelles with this transaction, which is in line with broader efforts to further develop sound debt management and risk management strategies.

B. Deepening Private Sector Involvement through IFC, the Cascade Approach, and Blended Finance

The reality of the unique development challenges for business operating in small states has important implications for IFC's strategy for private sector development. To help reduce poverty and foster shared prosperity in small states, IFC focuses on fully exploiting the limited set of economic opportunities that do exist. Economic opportunities tend to be limited to a few areas where small states are internationally competitive, such as in tourism, which helps power the economies of small states in the Caribbean and the Pacific, and financial sector for small states in Africa. IFC is committed to helping expand the limited set of economic opportunities leveraging the full weight of resources of the WBG, ensuring obstacles for the poor and the bottom 40 percent of the population to access these economic opportunities are reduced.

The "Cascade" approach provides a framework for the WBG to identify which investments should be financed by private commercial sources and which should be financed by public concessional sources. Small states' high-cost operating environment for business underlines the importance of a coordinated WBG response to help crowd in and mobilize private investment. A common thread limiting the presence of a vibrant private sector in small states is the small size of the market—purchasing power is low and economies of scale cannot be captured. For the small states in the Caribbean and the Pacific, this challenge is exacerbated by their remoteness from suppliers, which increases the unit cost of inputs; and their susceptibility to natural disasters adds further risk to the business sector.

The Cascade approach promotes the judicious use of scarce public and concessional resources by prioritizing the mobilization of commercial finance. The Cascade points to the need for upstream reforms that address market failures and other constraints to private sector investment at the country and sector level. Where risks remain high, the priority will be to apply guarantees and risk-sharing instruments.

IFC and the Multilateral Investment Guarantee Agency (MIGA) have 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 environmental and social assessments—and provides assurance to private investors. IFC investments and advisory services largely target infrastructure, the financial sector, and small and medium-sized enterprises (SMEs) 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.

Through the Forward Look the World Bank Group has enhanced how the WB and IFC work together to create markets and leverage private investment. Under IFC's new strategic approach, Advisory Services have an elevated role, given their ability to make more space for the private sector to create markets through project preparation, including regulatory and sector plans, and to provide other capacity-building support that mitigates risk for business. Attracting foreign investment and growing the domestic private sector in small states requires continued strengthening of the business environment. To this end IFC Advisory Services will play a key role.

The combination of IFC and Bank support for reform can achieve significant positive long-term results. Encouraging private sector investment requires finding ways of mitigating and sharing risk, providing capacity building for public and private sector organizations, addressing infrastructure issues, and targeting businesses that can operate within the current context, such as exporters and SMEs. Furthermore, where business confidence is limited, IFC can increase efforts to provide support for the investment climate agenda. Though the private sector faces major constraints in small states, it can be resilient.

IFC has a number of tools available to help companies develop bankable projects. Between FY10–16, IFC committed $1,116 million in more than 60 projects in 23 of the 34 IFC-eligible countries. Key sectors of engagement were finance, transport, power, extractives, education, and tourism. Going forward, IFC remains committed to using new and existing platforms to help drive growth in the limited opportunities that exist, as well as, leverage new partnerships which address risks in these countries in order to attract investment, expand job creation, and ensure their economies grow. The use of these platforms should enable IFC to substantially increase its support to small states in the coming years, well beyond the average $160 million annual average in commitments attained since FY2010.

There are three existing platforms and two new ones. Except for the FCS envelope, the other four platforms are blended finance. These five platforms are: (1) Agribusiness Facility (GAFSP); (2) SME Facility; (3) the Blended Climate Finance Facilities; (4) FCS Envelope; and (5) Private Sector Window (PSW)-IDA 18. Table 2 gives a snapshot of these eligibility requirements for the facilities and for FCS envelope funding. Blended finance refers to a financing package comprised of concessional funding provided by donor partners and funding provided by IFC. Blended finance solutions can provide financial

TABLE 2 IFC's New and Existing Platforms That Can Support Investments in Small States

Platform	Country eligibility	Sector	Objectives
GAFSP	IDA only	Agriculture, Agri-Finance	Support sustainable agriculture in developing countries, and provide a demonstration effect for other financiers to increase investment and financing of agriculture
SME	IDA only/DFID priority countries	SME, Gender	Supporting the most under-served SME segments, such as SMEs in FCS, women-owned SMEs, and very small enterprises not normally reached by banks
Climate Finance	Global	Renewable Energy/Energy Efficiency/ Adaptation	Address market barriers that prevent the faster, more wide-spread or more long-term sustainable adoption of low-carbon technologies and/or business models that address climate change
FCS Envelope	FCS only	All sectors	Increase investments in FCS countries
PSW IDA 18	IDA only and IDA-eligible FCS	All sectors	Support scale-up of IFC/MIGA engagements in IDA only/FCS, focus on FCS markets, crowd in private investment and create markets, and support IDA 18 Objectives and Special Themes

support to high-impact projects, that would not attract financing on strictly commercial terms because its risks are high and its returns are either unproven or not commensurate with the level of risk.

To help fill viability gaps and mitigate risks, IFC and MIGA will also leverage the IDA Private Sector Window (PSW), where applicable, to enable private sector transactions. The PSW will enable IFC and MIGA to enter and help accelerate investment in new sectors and address specific gaps that drive job creation and higher incomes in sectors such as infrastructure, SME finance, agribusiness, services, and local entrepreneurship.

The PSW will be deployed through four facilities: a *Risk Mitigation Facility* to provide project-based guarantees without sovereign indemnity to crowd-in private investment in large infrastructure projects; a *MIGA Guarantee Facility* to expand coverage through shared first-loss and risk participation via MIGA reinsurance; a *Local Currency Facility* to provide local currency IFC investments for high-impact projects in countries where capital markets are not developed and market solutions are not sufficiently available; and a *Blended Finance Facility* to blend PSW support with pioneering IFC investments across sectors with high development impact, including small and medium enterprises (SMEs), agribusiness, health, education, affordable housing, infrastructure, climate change mitigation and adaptation, among others. Through these facilities, the PSW will support IFC and MIGA in expanding their scope to enter small states where the basic conditions for investment exist, but high risks or limited scale have prevented previous engagement. The PSW will focus on low-income IDA and IDA-eligible FCS countries, to complement existing blended finance facilities that are accessible by other small states.

C. Developing Other Sources of Private Sector Finance

The IFC and MIGA will mobilize commercial finance. To help meet the scale of financing needs for small states, IFC and MIGA will strengthen their efforts to promote private sector development and mobilize commercial finance. IFC will use its Investment and Advisory Services to create and develop markets and help catalyze investment. It will also bring to bear the full weight of the WBG's resources to help close investment, regulatory, and other gaps that impede private sector development in small states, while helping to create private sector solutions to challenges such as climate change. To create conditions conducive to the flow of private capital, a focus will be on: (a) developing interventions that strengthen the project-enabling environment; (b) crowding in the private sector through effective project structuring and cofinancing arrangements;

and (c) addressing the range of risks, from financial to operational risks. MIGA, the WBG's political risk insurance arm, supports specific small states by helping bring foreign direct investment into productive sectors. MIGA currently has a portfolio of US$144 million of guarantees in small states, primarily in the infrastructure sector, and is looking to scale up its work in small states, including through its Small Investment Program.

To help small states secure increasing supplies of affordable financing, the World Bank is providing support for a range of innovative bonds and funds.

- ***Green Bonds.*** The World Bank Green Bond raises funds from fixed-income investors to support World Bank lending for eligible projects that seek to mitigate climate change or help affected people adapt to it. The product was designed to respond to specific investor demand. Since 2008, the World Bank has issued over US$10 billion equivalent in green bonds through more than 130 transactions in 18 currencies.
- ***Blue Bonds.*** With the Global Environment Facility (GEF) and other partners, the World Bank is supporting the Government of Seychelles in its effort to launch a first ever blue bond which will bolster the blue economy activities, including sustainable fishing and improved value-chain enterprises in the sector, marine spatial planning, support to biodiversity, etc., and which will resemble already well-established green bonds. The Bank is helping to structure the blue bond and facilitate the placement of up to $15 million of the credit-enhanced sovereign debt arranged designed to achieve blue objectives important to this client. The mixture of World Bank guarantee and GEF resources will reduce the risk rating and interest rate of the bond to near concessional terms which render debt more manageable and allow for grant-making and on-lending locally.
- ***Diaspora Bonds.*** Diaspora resources (via diaspora bonds and remittance-backed bonds) could help finance infrastructure projects. The annual savings of developing country diasporas—US$400 billion by some estimates—represent a hitherto untapped source of financing for development. There are an estimated 215 million migrants in the world who in 2012 sent about US$529 billion in officially recorded remittances to their countries of origin (developing countries received over US$401 billion). These resource flows are more than three times the amount of official development assistance, serving as a lifeline to the poor and boosting growth and development. If one in every 10 diaspora members, rich or poor, could be persuaded to invest US$1,000 in their own country, developing countries could potentially raise US$20 billion a year for development financing. Mobilization of diaspora investments is possible through the issuance of a diaspora bond, a retail saving instrument marketed to the diaspora members.
- ***Challenge Funds.*** The World Bank is investing in the planning of the Coastal Fisheries Challenge Fund, designed to strengthen the capacity of government institutions, the private sector, and local fishing communities to generate a pipeline of return-seeking responsible investments in selected coastal fisheries. The Challenge Fund has two components—one focused on the capital supply side and one on the demand side: (a) establishing a coastal Fisheries Investment Readiness Facility to help local fishery stakeholders identify and address the various sources of investment risk preventing the flow of responsible/impact capital; and (b) developing sustainable fisheries investment guidelines with finance ministries and banks, with interest in the sector to highlight how the fisheries sector may already be overcapitalized and how certain types of business investments could help promote sustainable fishing.
- ***Development Impact Bonds.*** The private sector could play a role in helping small states enhance their resilience through innovative financing such as Development Impact Bonds (DIBs)—for example, DIBs that have the potential to improve aid efficiency and cost-effectiveness by shifting the focus onto implementation quality and the delivery of successful results. DIBs provide new sources of financing to achieve improved social outcomes in developing country contexts. Investors would provide external financing and would

receive a return only if pre-agreed outcomes are achieved. Funds to remunerate investors would come from donors, the budget of the host country, or a combination of the two. Financial returns to investors are intended to be commensurate with the level of success.

D. Focusing on De-risking

The WBG provides support to improve countries' Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) systems including through assistance on their National Risk Assessments of Money Laundering and Terrorism Financing. One of the reasons given by large banks for derisking is the concern about implementation of AML/CFT standards. The Bank assists countries in improving their legal frameworks and in the implementation thereof, including on the supervision of AML/CFT obligations by financial institutions. One of the particular areas of focus concerns the assessment of national ML/TF risks, which is now an international obligation for countries. The Financial Market Integrity Unit within the Finance & Markets GP has developed a three-phase technical assistance program and methodology for countries undertaking this National Risk Assessment (NRA). Sixty-nine jurisdictions worldwide are using or have used the methodology to complete their NRAs including thirteen Caribbean jurisdictions: Antigua & Barbuda, Bahamas (completed), Barbados, Belize, Bermuda (completed), Cayman Islands (completed), Curacao (to start this year), Dominica, Dominican Republic, Guyana, St. Kitts and Nevis, Trinidad & Tobago (completed), and Turks & Caicos. Fifteen more are upcoming in the short term. The assessment is followed by a national action plan that lays out how the assessed risks are to be mitigated.

In its convening role, the WBG facilitates an international dialogue on the withdrawal of correspondent banking relationships with private sector participants and supervisory institutions to foster a shared understanding of the complex issues related to the withdrawal of correspondent banking relationships (CBRs) and develop possible policy responses. The WBG is collaborating with the FSB, IMF, G20, FATF, Arab Monetary Fund, Union of Arab Banks and CPMI, among others, to analyze the scale, drivers, and impact of the withdrawal of CBRs through various surveys and regional roundtables. This coordination has helped identify member countries, financial institutions, and financial products and services that have been most affected by this phenomenon. This approach has also ensured that each institution brings its own expertise, perspective, and engagement with country authorities, while developing a consistent and globally coordinated approach to address this phenomenon.

The World Bank will be conducting follow-up work on the domestic effects of de-risking in specific jurisdiction in the East Asia and Pacific, Africa, Middle East, and Latin America and the Caribbean regions. This work will collect both qualitative and quantitative data covering such issues as trends in correspondent banking (closing of accounts) and the impact on certain categories of customers (companies seeking trade finance, remittance dependent families, respondent banks). For the Pacific case studies, the survey is being coordinated with the Fund's Asia-Pacific Department. The Bank's work aims to identify alternative solutions available to financial institutions, including informal ones, and possible government policy responses.

E. Decreasing Vulnerability through Diversification and Intensification

The limited asset base, including human and natural resources, makes it difficult for many small states to develop diverse economies. While it would be unwise to understate the challenge of developing more diversity in production, nonetheless, there may be untapped opportunities to do so. The WBG stands ready to support its small states clients to explore new and innovative diversification and intensification options.

The WBG will provide TA to enhance commodity risk management. The volatility of commodity prices (e.g., oil) over the past several years has affected the fiscal budgets of importers and exporters alike. Most small states face significant challenges that prevent their taking specific measures to address exposure to commodity price volatility—for example: (a) lack of consensus among different government stakeholders; (b) inability to pay for advisory services and/or premium expenses for a hedging transaction; (c) lack of internal capacity (i.e., limited infrastructure, inadequate legal framework, etc.); (d) no local expertise or access to best practices; and (e) limited access to markets and/or relationships with market counterparts. Thus, many commodity-dependent countries have expressed interest in insulating budgets against price fluctuations. The World Bank can help small states by providing both technical advisory services and/or intermediation services for a market hedging transaction.

The WBG will make practical investments in the blue economy through the Wealth Accounting and Valuation of Ecosystem Services (WAVES) initiative and the development of blue business plans for clients, such as the Caribbean Regional Oceanscape Program (CROP). The WAVES initiative presents a long-term justification for building coastal zone resilience and supporting the diversification of coastal economies. Meeting projected demand for seafood through efficient, sustainable aquaculture will create a market space for policies that reduce overfishing and could generate millions of jobs and taxable revenues. Meanwhile, through the CROP, the World Bank will support the implementation of the OECS Heads of State approved Eastern Caribbean Regional Oceans Policy, through national and regional marine spatial plans, replication of Grenada's blue growth vision, and coastal master plan in other OECS + countries; ocean education and capacity building to support better decision-making via a virtual blue economy open learning campus; and development and deployment of mapping ocean wealth tools.

BOX 3 Grenada—A Leader in the Transformation to a Blue Economy

Recognizing its immense natural potential, Grenada is the first small state in the Caribbean to develop a vision for 'blue' growth. With support of the World Bank (non-lending TA) and the Netherlands' Government, Grenada prepared a Blue Growth Vision & Master Plan, which was launched at Grenada's Blue Week in 2016. Grenada's blue growth vision is to optimize the coastal, marine, and ocean resources to become a world leader and international prototype for blue growth and sustainability. This vision is part of the new narrative communicated by Grenada's Prime Minister Keith Mitchell, who was recently appointed as chair of the WBG Small States Forum.

The Blue Growth Vision & Master Plan outlines an approach for development that will improve sustainable productivity at land and at sea, so as to benefit all economic sectors. It not only offers a comprehensive planning approach to blue growth but also identifies specific blue growth development incentive zones along the coast. A number of strategic projects have been identified and included in an investment prospectus for global tourism, boutique tourism, fisheries/aquaculture, marine services, coastal residences, shipping, and industries. The government of Grenada is encouraging investment into these strategic projects via public-private partnerships, and/or private development. In formulating the plan, the government of Grenada roots the approach to sustainability in the triple bottom line: planning and design that creates financial, social, and environmental benefits. The master plan, in concert with Grenada's Integrated Coastal Zone Management Policy, is a roadmap for the nation to become a world leader in the development of a sustainable blue economy that will generate new jobs, alternative livelihoods, and an expanded economy, while preserving the natural environment.

Grenada's Blue Growth Vision & Master Plan will now be replicated in four other small states of the Eastern Caribbean region (Dominica, St. Kitts and Nevis, St. Vincent and the Grenadines, and St. Lucia), as part of the World Bank's Caribbean Regional Oceanscape Project (CROP). As small states are looking at the ocean as the next frontier for sustainable economic development, CROP will support these countries to build pathways to a blue economy, aiming to ultimately support policies that simultaneously increase economic growth while protecting and enhancing natural marine resources and their value or "blue assets."

The WBG will create a cost/benefit analysis of practical investments in the blue economy and specific blue business plans. These analyses will be a first step in the planning of major investments in growing the blue economy. What is needed in many small states is an investment strategy that creates value for local resource-dependent communities in the short term, while creating incentives for conservation and the long-term realization of ecosystem values. The revenues from these investments will create jobs, as well as, natural capital accumulations over time, and will enhance the ability of ecosystems to recover from the current rate of use. Recognizing that the blue economy is a key resource endowment for many small island states, the reality is that some small states are constrained and limited in terms of resource options. The intensification of key resources may therefore be a more practical and value-added strategy for economic investments.

The World Bank is developing public-private financing opportunities for fisheries in small states. It supports a pilot public-private partnership business model that links private equity to best-in-class technical advisory services to create opportunities for SME-scale aquaculture businesses in the poorest countries. With capture fisheries static or declining, aquaculture has become an increasingly attractive alternative for coastal economies world-wide. New investment in the order of $100 billion is needed to grow aquaculture, but the generally small scale and organic growth of the aquaculture industry has made it difficult to plan and regulate, contributing importantly to the high levels of risk perceived by potential new investors. In particular, poor spatial planning can undermine the viability of businesses and the social and economic benefits derived from aquaculture development.

F. Enhancing Connectivity

The WBG will help increase the connectivity of small states to drive digital dividends. The Internet is a vital platform to enable the acceleration of development outcomes in both land-locked and island small states. However, the populations of many of these countries still do not have access to broadband connectivity, the gateway to the rapidly growing digital economy. Thus, the WBG will take an integrated approach to deliver broadband connectivity infrastructure to small states. This, in turn, will enable the development of an entrepreneurial ecosystem, particularly digital models that cater to local needs, accelerating access to and affordability of a range of essential services—finance, health, and education—and opening the gate of opportunity for poor, marginalized, and vulnerable people. The WBG will develop more opportunities for virtual services (e.g., tele-health and tele-education), allowing small dispersed populations to reach doctors and teachers for advice virtually or by phone.

The World Bank will continue to support the connectivity agenda as follows:

- ***Regional Connectivity.*** Through the Pacific Regional Connectivity Program (Tonga, Samoa, Fiji, Federal States of Micronesia, Palau, Kiribati), the WBG is supporting investments in telecommunications backbone infrastructure (optical fiber submarine cables), plus complementary policy, legal, and regulatory support to facilitate open access and fair and transparent pricing in the market. In Africa, IDA is financing a submarine cable connection to Comoros through the Regional Communications Infrastructure Program (RCIP).
- ***Digital government.*** In the Pacific, the WB is collaborating with other development partners to undertake a region-wide assessment of the legal and regulatory framework for cybersecurity, to develop a regional engagement strategy and plan. The WB will support the Government of Tonga, and prospectively other governments in the region, in delivering services to citizens and business online.
- ***Digital economy.*** While engagement on this area is still limited in the Pacific, the WB's work on cybersecurity will contribute to an enabling environment for e-commerce, fintech and other digital economy components. In addition, the WB has undertaken some preliminary analytical work on digital jobs.
- ***Collaboration with other practice areas,*** e.g., to support ICT in education, health, and social services delivery, traffic management, and disaster risk management and monitoring.

IV. Building Client Capacity and Customizing Delivery through World Bank Policies, Procedures, and Frameworks

As noted throughout this Roadmap, small states are characterized by small populations, limited human capital, and a confined land area. Many small states 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 focus on key improvements to operational policies and procedures are enabling the WBG to be more effective in how it responds to the capacity challenges that small states face.

A. Customizing Safeguards and Procurements Frameworks for Small States

The World Bank's new Environmental and Social Framework (effective in FY18) is based on a concept of "proportionality" and "adaptive management," enabling the Bank to deploy a more fit-for-purpose approach to projects to suit the operational context and borrower capacity, mitigate risks more effectively, and help deliver development results more efficiently. For borrowers that are deemed to have capacity constraints because of specific vulnerabilities (including small states), the Bank works with the borrower to adopt appropriate measures to customize the safeguards approach to suit the operating environment. As part of the broader effort to ensure that clients are made aware of the provisions in the Environmental and Social Framework and have the capacity to implement them, the World Bank has launched an extensive training program on the framework. Through that program, clients will receive hands-on support, with a specific focus on training low-capacity clients, including small states' clients.

The new Procurement Framework, which became effective in July 2016, focuses on fit-for-purpose procurement to suit the situation on the ground, including in FCV situations and small states. It also provides flexibility and simplification, as well as hands-on expanded implementation support, in situations of low capacity, and it expands the use of UN Agencies in providing goods, works, and services. The rollout of the new procurement framework is accompanied by training and outreach for operations and counterpart staff that is carried out jointly by OPCS and the Governance Global Practice, and in collaboration with the FCV CCSA group. Under the new framework, simplification and procurement hands-on support will be complemented by tailored capacity-building actions—for example: (a) assistance with logistics; (b) developing streamlined procedures; and (c) leveraging regional integration initiatives, demand consolidation, joint ventures among local firms, community direct involvement, and technology. It allows the establishment of central units to be responsible for all procurement in a country (or in several countries, in the case of regional projects), and facilitates access to open framework agreements for common-use goods that already exist in countries with stronger market leverage (e.g., Australia and New Zealand for Pacific island nations). If the country is interested, the Bank could facilitate clause variations in agreements to help the borrower obtain lower prices and procure more efficiently without the need to build significant local capacity.

Using country systems helps build institutional capacity. In small states, using country systems (covering a broad range of areas, including national arrangements and procedures for public financial management and public procurement) is significant. Building the institutional capacity of systems and human resources normally translates into improvements in the fiduciary management in Bank projects. Since project management often creates additional work for already stretched government institutions in small states (i.e., supreme audit institutions, tender boards, departments of finance, and central banks), one of the benefits of working through country systems is the opportunity to build ownership and support from entities outside the immediate scope of the project and foster continuous honing of professional skills. Developing core competencies within projects by driving integration and harmonization with existing systems helps elevate standards of fiduciary performance.

Bhutan's Thimpu Thromde is the first borrowing country agency in the world to have its procurement system and regulations cleared as an alternative for use in World Bank-financed projects. This is the first alternative arrangement under the World Bank's new procurement framework. What this means is that the agency's own procurement arrangements are approved for use in Bank projects and can be used when deemed the best approach to deliver effective results—as an alternative to World Bank processes and regulations.

B. Adapting Bank Instruments for Small States

The Bank's operational policies offer a good deal of flexibility for Bank teams operating in small states. The Bank's operational policies for investment project financing are principles-based. Small states fit in the Bank's definition of "situations of fragility, capacity constraints, conflict, and emergency," and can take advantage of additional flexibilities in processing of operations, including: (a) deferring fiduciary and environmental and social requirements to the implementation stage; (b) a limit of $10 million for advances from the Project Preparation Facility; (c) alternative implementation arrangements (including through the UN); and (d) in some circumstances, Bank execution of limited start-up activities.

The Bank is working on two proposals that will be of value for small states. Both will be presented to the Board, tentatively before the end of FY17, to further streamline internal procedures and provide an adaptive lending approach: one a streamlined internal procedure for restructuring projects under implementation, and the other a multiphase programmatic approach to lending that would support longer and more effective engagement in a country, by phasing a long or large undertaking through a series of smaller operations (or phases) with intermediate shorter-term targets. This could be particularly attractive for small states, providing predictability in terms of overall financing together with the agility and adaptability that are gained by working in phases.

The World Bank is developing a new programmatic approach to project preparation, recognizing that clients' development needs no longer fit neatly into the traditional concepts of project preparation and implementation. A new approach will allow the Bank to support clients in developing cross-cutting capacity for project/program development and implementation. With the new programmatic approach, a single PA can be used (i) to prepare multiple projects; (ii) for pipeline development, identification, and prioritization; and (iii) for cross-cutting core capacity building in operationally critical areas like FM, procurement, and safeguards. OPCS is developing guidance on the PPF overall and especially on the modalities for the programmatic approach. Instructions for processing a PA can be found in the IPF Processing Instructions (Track I, Track 2, and Additional Financing). In addition to PAs for a single pre-identified operation, the programmatic approach introduces the flexibility for a single PA to support: (a) the identification and prioritization of a pipeline; (b) the preparation of multiple projects in the pipeline; and/or (c) the strengthening of institutions' capacity to better prepare and implement future projects. The following examples illustrate how the programmatic approach will be applied to small states:

- ***Pipeline development.*** A PA could be used to finance a *sector strategy and capacity-building plan* that would lead to the identification and formulation of a downstream operation (or operations) that is not yet in the pipeline but that the Country Management Unit supports investigating as part of strategic pipeline development.

- ***Multiple projects.*** A PA could finance feasibility studies and other *preparatory work for a number of operations in the pipeline* where there are complementarities. Efficiency gains may be realized when such activities are financed under one PA. For example, it would be necessary to prepare only one memorandum to the country director, one procurement plan, and one letter of request from the borrower, and only one PA agreement would need to be signed.
- ***Cross-cutting core capacity building.*** A PA could support institutional strengthening in operationally critical areas such as financial management functions (e.g., the central government's audit functions), and procurement capacity (e.g., preparation of a Project Procurement Strategy for Development), or support the rollout of the Bank's new Environmental and Social Framework. Using this approach would create the space for the development and delivery of a strong pipeline of operations. Building the capacity of agencies like the Auditor General's Office, the Foreign Aid Office in the Ministry of Finance, or the Planning Department, for instance, can enhance the government's capacity to support more effective design and implementation of downstream Bank-financed operations.

The Bank will continue to support the capacity of small states through Non-lending Technical Assistance—Programmatic Approach (PA). For example, the PA instrument has been adopted in the Caribbean to establish the "Caribbean Regional Oceanscape Program-PA." This non-lending TA provides analytic and advisory services on the blue economy to support Caribbean countries to develop and implement effective national and regional policies, incubate innovative initiatives and crowd-in finance in support of sustainable ocean-based economic growth and development. A series of discrete engagements, TA and knowledge products are included under this programmatic approach. The outcome is that ocean-facing countries and island nations fully realize the economic potential of their blue economies; helping them to unlock the productive and sustainable contribution of coastal and marine resources (including fisheries) for poverty reduction and shared prosperity for sustainable blue growth.

In January 2017, the Board approved an increase in the PPF commitment authority from US$290 million to US$750 million, as well as an enhanced scope to allow for a programmatic approach to project preparation. Preparation advances (PAs) can be used for preparation and limited implementation activities for an IPF project, **Development Policy Financing** (DPF) or **Program-for-Results financing** (PforR) operation. PAs are available for both IDA and IBRD countries, and are made on the same terms as the anticipated IBRD loan, IDA credit, or IDA grant. For FCV countries, the maximum PA amount is US$10 million. PAs are approved by the Country Director.

C. Building Capacity in Small States

Strengthening institutional capacity through PforR. PforR financing can be particularly relevant to small states because of (a) its focus on capacity building and the ability to link financing directly to the achievement of strengthened institutional capacity, a paramount need in small states; and (b) the possibility of using it while such entities as a UN agency or international NGO delivers services on behalf of a government or to supplement a government's delivery efforts.

Improving policy and regulatory frameworks through DPF. DPF is rapidly disbursing policy-based financing that aims to help a borrower achieve sustainable reductions in poverty through a program of policy and institutional actions. It helps countries strengthen their policy and regulatory frameworks and institutions to reduce the risks that undermine growth and poverty reduction. Small states have used DPFs in very different circumstances covering a wide range of reforms—for example, supporting public financial management reforms, strengthening the business environment, and building resilience against extreme weather events. DPFs can also be used in the aftermath of exogenous shocks that weaken the economy, to support the government's recovery program and help close financing gaps.

- ***The Catastrophe Deferred Drawdown Option DPF (CAT-DDO).*** The CAT-DDO is a form of contingent credit designed to provide timely liquidity to a country directly after a natural catastrophe, including health-related events. The CAT-DDO helps countries prepare for disasters through a set of policy and institutional actions. The CAT-DDO has been successfully used to address seismic and hydro-meteorological events, including in islands like the Seychelles. While up to now only IBRD countries have been eligible, under IDA 18 the CAT-DDO will be available to all members. In addition, small IDA states can borrow up to $20 million, even if their regular limit would be lower.
- ***DPFs with policy-based guarantees*** allow a country to enhance its access to financial markets and to borrow more from capital markets by using the Bank's money as a guarantee. A number of relatively small Balkan countries are using this instrument, and other small states seeking to access international capital markets could use it to improve their terms of borrowing.

The WB will work with partners on capacity development. The World Bank will work with partners to identify opportunities where they may deliver capacity development support and other TA to small states in partnership, including in the area of accessing climate finance. Working with the OECD, the World Bank can help to strengthen national capacities through tailored and innovative approaches, including on national statistics through the OECD-hosted Partnership in Statistics for Development in the 21st Century (PARIS21). One such concrete example is the CROP non-lending technical assistance (NLTA), which in response to the G20 Development Working Group meeting with Caribbean Central Bank Governors and Finance Ministers on the sidelines of the Spring meetings in 2015, the Bank advance their understanding and transition toward a blue economy using innovative and collaborative approaches (e.g., "Toward a Blue Economy: A Promise for Sustainable Growth in the Caribbean" report launched at Annual Meetings in 2016).

The WB will continue to strengthen capacity of small states through innovative regional approaches. In the eastern Caribbean, the Caribbean Regional Oceanscape Project is creating the foundation for the diversification of the ocean economy by strengthening ocean governance, providing state-of-the-art analytical tools, as well as educational approaches for better decision-making over marine assets. The first virtual blue economy open learning campus will be launched offering the ability to accelerate access to ocean education through edutech enabled innovation and strategic partnerships.

D. Strengthening Internal Incentives for Small States Work

Creating better incentives for staff to work in small states. Staff in the WBG are viewed as having more successful careers if they work on high-volume, larger countries. Working on small lending programs comes with smaller budgets and fewer opportunities to do innovative or analytical lending programs. There is a need to "subsidize" or provide extra benefits to staff who choose to work on small states or fragile and conflict-affected (FCS) situations. Many innovative solutions to larger development problems and new areas of experimentation can be created and found in small states.

The agile pilot initiative and small states. The agile pilot initiative is intended to simplify project processing requirements in order to better achieve development objectives and meet client requirements. The idea is to make the Bank more responsive to the needs of the client, the small state client included. The budget and staffing levels, not to mention project milestones, will be tailored to the actual needs on the ground. Teams will be empowered to adjust project activities midstream in light of new developments. Bhutan is an agile pilot. Going forward, the Small States Secretariat will be convening the small states CMUs and the agile fellows to explore options on how the agile pilots could be more effectively tested in a small state setting.

Developing innovative operational solutions to leverage limited administrative budgets. Given the exceptional efforts made over the past years to meet Expenditure Review targets, operational budgets have been particularly constrained affecting operational delivery in client countries. For small states, given the relatively small lending possibilities, country management units may face a choice as to whether to prepare multiple small operations that address issues for multiple GPs, or to prepare larger single-GP operations that may have a more transformative impact in that realm. Similarly, the relatively fewer operational engagements offer fewer opportunities to cross-fertilize program development across GPs and more difficult justification for continuous field presence. Finally, particularly in remote island states, the higher costs of travel and operation strain budgets.

The World Bank has a rolling strategic budget planning framework, which seeks to align priorities and resources—the W process. Senior management provides overall strategic priorities for the institution in the W1 meeting, which operational VPUs then translate into individual strategic directions. Support for the development needs of small states features prominently in the W3 strategic updates, that regions and practice groups present to the Board each February. At the conclusion of the W3 stage, each VPU receives a budget envelope, and the subsequent stage of strategic budget planning. W4 entails allocating these VPU budget allocations to operational units. Following country partnership frameworks, individual lending, supervision, and analytic programs are identified for each client country. Given the significant increase in IDA lending available for small states, IDA operations in small states will undoubtedly grow significantly.

V. Conclusion

The WBG is committed to serving all its clients, reinforcing that strategic objective in the "Forward Look" that highlights the organization's direction for the next 15 years. In accordance with that strategic vision, the WBG seeks to serve the specific development needs of small states members recognizing that, while small states are diverse in their circumstances and in their progress toward the Sustainable Development Goals, they share some common characteristics and face some common development challenges.

This Roadmap for WBG engagement with small states proposes a number of actions in three broad areas of engagement. These areas of WBG engagement respond to the seven priority areas which were identified by members of the Small States Forum. These areas of engagement are as follows: (1) enhancing concessional financing; (2) attracting private sector financing; and (3) building client capacity. Annex 1 provides a tabulated Roadmap of according which responds to each of the seven priority action areas. Through this Roadmap, and the priority actions it describes, the WBG seeks to support small states' clients. Moving forward, the WBG is committed to pursue these actions, collaborating with members of the SSF and other development partners to learn which of them has the greatest impact.

Annex Roadmap Areas of WBG Engagement for Small States[5]

Action	Target	Timeline	Responsible unit
Priority Action Area 1: Inclusion of vulnerability as a criterion for concessional financing	Develop vulnerability index/diagnostic exercise with development partners	June 2020	OPCS
	Adopt a risk-based approach for identifying fragility beyond those countries on the FCS harmonized list	Target reached at the end of IDA 18. Report at MTR.	FCV
Priority Action Area 2: Predictability of affordable financing	Increase the IDA annual minimum base allocation from SDR4 million to SDR15 million	July 2017	DFI
	Extend the lending terms previously applicable only to small island states to all IDA-eligible small states[6]	July 2017	DFI
	Harmonize the terms of financing leveraged from the regional IDA program with financing terms applicable to countries' core IDA financing. Adjust the eligibility criteria for the 20 percent cap on national IDA contributions to apply to all IDA-eligible small states.	July 2017	DFI
	Provide an update on support to IDA-eligible small states	IDA 18 MTR	DFI
Priority Action Area 3: Debt sustainability	Conduct training on debt sustainability assessment for small states	2018	Macroeconomics and Fiscal Management
	Undertake the Climate Action Peer Exchange (CAPE) on links between fiscal and debt policies and climate change impact	2018	Macroeconomics and Fiscal Management
	Ensure that the on-going review of the debt sustainability framework for low-income countries framework recognizes the structural characteristics of debt sustainability in small island states	June 2017	Macroeconomics and Fiscal Management
	Provide support to at least a third of IDA countries targeted at increasing their tax/gross domestic product ratio	Target reached at the end of IDA 18. Report at MTR.	Governance
Priority Action Area 4: Access to new and existing financing	Support blue bonds by prototyping blue bonds in the Seychelles	Ongoing. Increased outreach in FY18 post execution of blue bond for Seychelles.	Treasury with Environment
	Continue support for green bonds, blue bonds and other types of development impact bonds	Ongoing	Treasury
	Continue support for the implementation of disaster risk management strategies and connecting member states to financial markets and partners	Ongoing	Treasury

(continued)

5 Progress on commitments will be regularly monitored by the Small States Secretariat, with input from the relevant CMUs and GPs.

6 For this broader set of countries, regular financing terms in IDA 18 entail a 40-year maturity with a 10-year grace period, and back-loaded principal repayments (2 percent from year 11 to 20 and 4 percent from year 21 to 40). The service charge remains constant at 0.75 percent.

Action	Target	Timeline	Responsible unit
	Support for climate risk insurance products through COAST	FY18	Environment
	Support at least 10 IDA countries (on demand) to translate their NDCs into specific policies and investment plans and start to integrate these into national budget and planning processes. Develop at least 10 climate-smart agriculture investment plans and 10 programmatic forest policy notes for all IDA eligible countries.	IDA 18 MTR	Climate Change
	Joint IMF/WBG climate change policy assessment Seychelles (NDCs and access to climate finance)	Q4 FY17	Environment
Priority Action Area 5: Capacity building and technical assistance	Development of adaptive lending approaches	FY17–18	OPCS
	Implement flexible operational policies for small states, including deferring fiduciary and environmental and social requirements to the implementation stage; use of alternative implementation arrangements (including through the UN); and possibility of Bank execution of limited start-up activities	Ongoing	OPCS
	Develop and disseminate guidance for use of Programmatic Approach for Project Preparation under the PPF	Q4 FY17	OPCS
	Continue reflecting small states' development needs in budgets across regions and practice groups	Ongoing	Budget
	Increase staff "facetime" in IDA FCS with focus on staff based in-country	Target reached at the end of IDA 18. Report at MTR.	FCV
	Implement the revised IDA resource allocation framework for FCS/FCV	Target reached at the end of IDA 18. Report at MTR.	FCV
	Deliver targeted training in the new environmental and social framework for small states clients, including hands-on support	FY18 onwards	OPCS
	Deliver targeted training to borrowers and Bank staff to use flexible arrangements allowed under the procurement framework	Continuous	OPCS/Governance
	Inform borrowers and Bank staff of flexible, simplified, and streamlined procurement arrangements[7]	Continuous	OPCS/Governance with Regions/CDs
	Perform joint operations, TA, and/or ASA on sector-focused governance in 10 IDA countries to identify and address institutional bottlenecks to service delivery with the health, water, and/or education sectors	Target reached at the end of IDA 18. Report at MTR.	Governance
	Support projects in at least 10 IDA countries in the development and implementation of user feedback and/or enhanced GRMs[8] for service delivery that ensure participation by women in these processes	Target reached at the end of IDA 18. Report at MTR.	Governance

7 This includes hands-on expanded implementation support, alternative procurement arrangements, national procurement procedures, simple selection methods, framework agreements.

8 Enhanced GRMs include minimum standards on uptake, responsiveness, disclosure, and/or gender inclusion.

Action	Target	Timeline	Responsible unit
	Support at least one-third of IDA countries to operationalize reform commitments towards the open government partnership agenda to strengthen transparent, accountable, participatory, and inclusive governments	Target reached at the end of IDA 18. Report at MTR.	Governance
	Perform Illicit Financial Flows (IFF) assessments in at least 10 IDA countries to support the identification and monitoring of IFFs	Target reached at the end of IDA 18. Report at MTR.	Governance
	Develop more opportunities for virtual services (e.g., tele-health and distance learning), allowing small dispersed populations to reach doctors or obtain medical advice and access learning over the phone or online	Continuous	Health and Education
	Provide special career consideration to staff working in small states	2020	OPCS and HR
Priority Action Area 6: Diversification of small states economies	Support Coastal Fisheries Challenge Fund to generate a pipeline of return-seeking responsible investments in selected coastal fisheries	Q1 FY18	Environment
	Invest in the blue economy through the WAVES initiative and develop blue business plans with clients through the CROP	Q4 FY19	Environment
	Create cost/benefit analysis of practical investments in the blue economy and specific blue business plans under the CROP NLTA	Ongoing (available upon request)	Environment
	Develop public-private financing opportunities for fisheries in small states	Ongoing	Environment
	Increase connectivity to drive digital dividends by engaging in an integrated approach to deliver broadband connectivity infrastructure to small states	2020	ICT
	Ensure that at least half of all IDA 18 financing operations in the ICT portfolio will support better access to the Internet and better access to ICT services for women	Target reached at the end of IDA 18. Report at MTR.	Gender
	Engage the Global Infrastructure Connectivity Alliance to make available to IDA countries knowledge on cross-border investments and economic corridor development	Progress Report on Jobs and Economic Transformation for IDA 18 MTR	Infrastructure & Urban Development Hub
	Adopt a 'migration lens' in IDA countries where migration has a significant economic and social impact[9]	Progress Report on Jobs and Economic Transformation for IDA 18 MTR	Poverty GP with Social Protection/Jobs
	Carry out impact analyses of SME and entrepreneurship programs across IDA countries, to understand impacts and differentiated outcomes for women and youth, and develop operational guidelines to inform future operations	Progress Report on Jobs and Economic Transformation for IDA 18 MTR	Trade and Competitiveness

(continued)

9 This will include analytics that close critical knowledge gaps, and where there is explicit country demand, support for operations that focus on job creation, managing legal economic migration, and integrating young people and economic migrants.

Action	Target	Timeline	Responsible unit
	Ensure that all applicable IDA 18 financing operations for primary and secondary education will address gender-based disparities, for instance, by incentivizing enrollment, attendance, and retention for girls. All IDA 18 financing operations for maternal and reproductive health will target the improvement of the availability and affordability of reproductive health services, including for survivors of gender-based violence.	Target reached at the end of IDA 18. Report at MTR.	Gender
	Ensure that at least 75 percent of IDA 18 financing operations for skills development will consider how to support women's participation in and improvement in the productivity of their economic activity, and/or consider how to reduce occupational segregation	Target reached at the end of IDA 18. Report at MTR.	Gender
	Increase the number of operations in fragile contexts which prevent or respond to gender-based violence, including through access to essential services and livelihood support activities for women (baseline: IDA 16; see FCV)	Target reached at the end of IDA 18. Report at MTR.	Gender
	Provide technical assistance to enhance commodity risk management	FY18 starting with targeted outreach	Treasury
	Explore financial solution(s)/platform to support commodity hedging	Q4 FY18	Treasury
Priority Action Area 7: Accessing financial markets	Conduct a correspondent banking survey, including country studies, in East Asia and Pacific, Africa, Middle East, and Latin America	Ongoing	Macroeconomics and Fiscal Management
	Continue the LCR stakeholder dialogue on de-risking with private sector partners	Ongoing	Finance and Markets
	Support National Risk Assessments of Money Laundering and Terrorism Financing	Ongoing	Finance and Markets
	Leverage the IDA Private Sector Window (PSW), where applicable. This will support IFC and MIGA in expanding their scope to enter small states where basic conditions for investment exist, but where high risks have prevented previous engagement.[10]	2020	IFC and MIGA

10 To help fill viability gaps and mitigate risks, IFC and MIGA will leverage PSW where applicable. The PSW will enable IFC and MIGA to enter and help accelerate investment in new sectors and address specific gaps in sectors that drive job creation and higher incomes. The PSW will help tackle barriers in sectors such as infrastructure, SME finance, agribusiness, services, and local entrepreneurship. The PSW is focused on low-income IDA and IDA-eligible FCS countries, to complement other de-risking instruments through existing Blended Finance facilities that can be used in these countries. PSW eligible small states are as follows:

EAP: Kiribati, Marshall Islands, Micronesia, Solomon Islands, Samoa, Timor-Leste, Tonga, Vanuatu. Tuvalu is eligible given its IDA status, but currently not a member of IFC or MIGA, so cannot access the window as it is deployed alongside IFC/MIGA engagement. Kiribati, Marshall Islands and Tonga are not members of MIGA, therefore will be able to access the MIGA facility under the window.

AFR and Indian Ocean: Comoros, Djibouti, Gambia, Guinea Bissau, Maldives, Sao Tome and Principe are eligible.

The World Bank Group 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. Despite this diversity, small states face similar challenges—for example, many are extremely vulnerable to frequent and severe weather events, they often face difficulties in mobilizing resources, and they struggle with limited capacity.

Through the Small States Forum, the World Bank exercises its convening power to carry out joint advocacy on small states and their special development situations and to facilitate a dialogue in which different donor communities and other stakeholders can share lessons learned, explore new solutions, and foster partnerships for a more coherent international response to the special development challenges of small states. At the 2016 Small States Forum, World Bank Group management committed to develop a Roadmap of engagement with Small States.

Framed according to the primary challenges identified by members of the Small States Forum, this Roadmap sets an agenda for how the WBG will address priority concerns for small states clients.

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