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# WORLD BANK SUPPORT FOR SMALL STATES

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# WORLD BANK SUPPORT FOR SMALL STATES

## BACKGROUND INFORMATION FOR

## THE PREPARATIONS FOR AN INTERNATIONAL MEETING FOR THE REVIEW OF THE IMPLEMENTATION OF THE BARBADOS PLAN OF ACTION

NEW YORK, APRIL 14-16, 2004

OPERATIONS POLICY AND COUNTRY SERVICES

THE WORLD BANK

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## BACKGROUND INFORMATION FOR THE PREPARATIONS FOR AN INTERNATIONAL MEETING FOR THE REVIEW OF THE IMPLEMENTATION OF THE BARBADOS PLAN OF ACTION

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1. ***Background.*** The final report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States was submitted to the Spring Meeting of the Development Committee in April 2000.[1] Ministers welcomed the report and its analysis of the characteristics of small states that make them particularly vulnerable. They noted the report's conclusions as well as the recommendation that the circumstances of small states should be taken into account in the policies and programs of the multilateral trade, finance, and development organizations.

2. ***Small States Action Agenda.*** The final report concluded that small states share characteristics that pose challenges to their development, and that addressing these challenges successfully will require a combination of domestic policy actions, including in some cases new approaches to regional cooperation; external support and assistance from multilateral and bilateral development institutions; and improvements (where achievable) in the external environment. The report identified an ongoing agenda for action and analysis by small states and by the international community. It highlighted four main areas of challenge and opportunity: tackling volatility, vulnerability, and natural disasters; strengthening capacity; addressing issues of transition to the changing global trade regime; and managing new opportunities and challenges from globalization.

3. ***Small States Forum.*** Though the Task Force disbanded with the publication of the report, in follow-up the Bank committed to hosting a Small States Forum each year at the time of the IMF/World Bank Group Annual Meetings. The Forum provides an opportunity for the six Forum partner institutions (Commonwealth Secretariat, World Bank, IMF, European Union, UNCTAD, and WTO) to report on their progress in pursuing the small states agenda and gives small states representatives a chance to share experiences and exchange ideas on a topic of their choice. Participants in the Forum are 45 of the World Bank's developing member countries,[2] and chairmanship of the Forum rotates among the three main regions (Africa, Pacific, and Caribbean), with the Chair selecting a theme for discussion. The first Forum was chaired by Barbados in September 2000 and focused on the overall small states agenda; the 2002 Forum was chaired by Samoa and focused on trade; and the 2003 Forum was chaired by Mauritius and focused on poverty alleviation. The Prime Minister of St. Kitts and Nevis will chair the next Forum in late September 2004.[3]

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[1] See *Small States: Meeting Challenges in the Global Economy,* Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States, April 2000, accessible at www.worldbank.org/smallstates; and "Communiqué of the 61st Meeting of the Development Committee," April 17, 2000, accessible at www.worldbank.org/devcom.

[2] See Annex for lists of small states.

[3] Forum agendas, lists of participants, summaries of discussion, and texts of keynote addresses are available at www.worldbank.org/smallstates

4. ***Organization of the World Bank's Small States Work.*** Though there is no category of small states in the World Bank, the operations and analytical work in developing and transition countries with populations of 1.5 million people or less often have common characteristics and thus are of interest to the Small States Forum participants. The World Bank does not have a small states unit; instead, it carries out its work in support of small states through its regular operations departments, principally in the Africa, Latin America and Caribbean, and East Asia and Pacific Regions. The Country Directors, Country Economists, Operations Officers, and other staff working on country assistance programs in small states exchange views on their experience with approaches. Mr. James W. Adams, the Vice President for Operations Policy and Country Services (OPCS), is currently the World Bank Group's focal point on the small states agenda; Mmes. Allison Berg and Olga Jonas in OPCS facilitate contacts among staff working on small state programs and on themes of particular interest to small states and, together with the World Bank's responsible Regional department, provide support to the Small States Forum Chairman.[4]

5. ***Overview of World Bank Work in Support of Small States.*** The World Bank takes seriously its role in support of small states. First, with regard to funding, the World Bank works to ensure that every developing member country has access to World Bank financial assistance, as long as that country's overall policy framework is adequate to support sustainable growth and poverty reduction. In that context, since 1985, the International Development Association (IDA), the concessional funding window of the World Bank, has accorded special access to small island economies whose per capita incomes are above the IDA eligibility cut-off. This special treatment recognizes a set of circumstances—including export concentration, limited domestic markets, limited skill base, isolation, and vulnerability to natural disasters and other shocks—faced by these states. Currently nine small island countries qualify for this exception. Beyond this special access to resources for a set of small island economies, the World Bank stands ready to make available a wide variety of types of support to small states to help them build resiliency. Examples of assistance include annual assessment of country policy and institutional performance, help with country-led donor coordination, trade-related support, disaster management and mitigation, commodity risk analysis and, if feasible, management, HIV/AIDS-related support, help on anti-money laundering, and tax-related support.

6. ***Eligibility for World Bank Financing.*** Decisions on eligibility for borrowing from the World Bank are based on per capita income, social indicators, creditworthiness, and economic and social policy performance. Borrowing from the International Bank for Reconstruction and Development (IBRD) is at market terms, and borrowing from the International Development Association (IDA) is at concessional terms. Both IDA and IBRD graduation programs are flexible and decisions are reversible. For example, flexibility allows the avoidance of automatic graduation in cases when a country reaches the per capita income IBRD threshold but has no access to international capital markets. It also allows the Bank to accommodate situations in which a country becomes non-creditworthy as a result of a shock such as a natural disaster or adverse external events. World Bank policies thus ensure that no countries, including small states, are graduated prematurely.

[4] Allison Berg and Olga Jonas can be reached by email at aberg1@worldbank.org and ojonas@worldbank.org, respectively.

7. ***IDA Eligibility.*** Eligibility for borrowing from IDA is of particular interest to small developing countries because IDA provides zero-interest, long-term loans and grants. IDA-eligible countries are the world's poorest countries and are home to 2.5 billion people, comprising half of the total population of the developing countries; 81 countries are currently eligible to borrow from IDA. An estimated 1.1 billion people in these countries survive on incomes of less than $1 a day. Nineteen of the IDA-eligible countries have a population of less than 1.5 million people; the total population of these 19 countries is 8.5 million people. In fiscal year 2004 (ending on June 30, 2004), the operational cut-off for IDA eligibility is gross national income (GNI) per capita of $865. The so-called historical ceiling for IDA eligibility is $1,415. Countries that are not creditworthy for IBRD borrowing and have per capita incomes between the operational and historical ceilings may become eligible for IDA resources on an exceptional basis.

8. ***Small Island States Exception.*** Since 1985 IDA has accorded special treatment to small island economies whose per capita incomes are above the IDA eligibility cut-off but have no or very limited creditworthiness, which limits or precludes access to IBRD borrowing. This special treatment was retained in subsequent agreements, including the current one, which covers the three-year IDA13 replenishment period ending on June 30, 2005. Eligibility rules for IDA14 will be considered and decided by IDA donors in 2004.

9. ***Rationale for the Exception.*** The decision to grant to small island economies an exception to the GNI per capita eligibility criterion was based on the following considerations. First, it was stated as a principle that a member country of the World Bank Group should not be left without access to either IBRD or IDA, provided its policy performance is adequate. Second, it was recognized that small island economies with relatively high incomes share many of the problems of low-income developing countries including export concentration, limited size of domestic markets, high cost of infrastructure, limited skill base, and weak institutions. In addition, it was determined that these economies suffer from certain circumstances particular to their size and geography such as vulnerability to natural disasters, isolation, lack of natural resources, and unavailability of commercial credit. This rationale for exceptional treatment was confirmed by the analysis and conclusions of the Commonwealth Secretariat/World Bank Joint Task Force on Small States.

10. ***Evolution of Special Access.*** Initially, special access to IDA lending was granted to six small island economies[5] through the end of the IDA8 replenishment period (fiscal 1990), with the expectation that the countries would gradually build up enough creditworthiness for limited IBRD borrowing by the end of that period and that their access to IDA resources would be temporary. Since then, one of the six originally eligible small island economies has stopped borrowing from IDA—St. Kitts and Nevis graduated in fiscal 1994. When the small island exception was introduced it was also agreed that the Bank would monitor progress on creditworthiness and that

[5] Dominica, Grenada, St. Lucia, St. Kitts and Nevis, and St. Vincent and the Grenadines in the Caribbean, and Tonga in the Pacific.

other countries seeking the exception would be evaluated on a case-by-case basis. The small island exception was retained without any changes in the IDA13 agreement.[6]

11. ***Small Island States With Special Access Currently.*** At present nine small island countries in Africa, Asia, and the Caribbean are eligible for IDA lending, though their per capita incomes have been above the operational cut-off in recent years (Table 1). Four of these countries (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) are, in addition, eligible for limited borrowing from IBRD (they are thus "blend borrowers" from the World Bank) while the other five countries have IDA-only status, reflecting absence of creditworthiness for IBRD borrowing.

**Table 1. IDA Small Island States Exception**

| | GNI per capita, US$, 2002 | As % of operational cut-off |
|---|---|---|
| Cape Verde | 1,290 | 149% |
| Dominica | 3,180 | 368% |
| Grenada | 3,500 | 405% |
| Maldives | 2,090 | 242% |
| Samoa | 1,420 | 164% |
| St. Lucia | 3,840 | 444% |
| St. Vincent and the Grenadines | 2,820 | 326% |
| Tonga | 1,410 | 163% |
| Vanuatu | 1,080 | 125% |
| *memo items:* | | |
| fiscal 2004 operational cut-off | 865 | |
| fiscal 2004 historical cut-off | 1,415 | |
| St. Kitts and Nevis (graduated in fiscal 1994) | 6,370 | 736% |

Source: World Bank, SIMA, March 2004

6 One of the proposals floated during discussions of IDA13, in the context of discussion of grants and hardened terms, was to harden terms for small island states where per capita income is more than three-times the operational cut-off. This proposal, which would have affected only the better-off island states in the Caribbean, was not reflected in the final IDA13 agreement. See *New Options for IDA Lending Terms* (September 2001) available at http://siteresources.worldbank.org/IDA/Resources/new%20options.pdf

12. ***Range of World Bank Support for Small States.*** In addition to the Small Island States exception with regard to funding and organization of the annual Small States Forum, the World Bank welcomes efforts by small states to increase their resilience and works with them to support these efforts. This support takes a variety of forms. Major elements include the following: assessing country policy and institutional performance, country-led donor coordination to reduce the burden of small developing states in dealing with a large number of donors; trade-related support, including highlighting developing country issues to the international community, coordination of technical assistance, and advisory and lending support to countries concerned about the impact of trade liberalization; disaster management and mitigation; commodity risk issues; the impact of HIV/AIDS; anti-money laundering; and tax policy and administration and tax competition issues.

13. ***Country Policy and Institutional Assessment.*** Small states are included in the annual Bankwide process that examines and evaluates the quality of borrowing countries' policy and institutional frameworks in terms of their ability to foster sustainable growth and poverty reduction. Countries with good policies and institutions are likely to use development assistance effectively. Because the policy and institutional performance of small states has been at least as strong as that of larger countries, this helps justify external assistance, including from the World Bank. In performing the assessments, World Bank country economists and sectoral specialists review indicators of performance in four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. The World Bank discusses the detailed results for all criteria in these four clusters with each borrower's authorities; these discussions in small states are opportunities to identify areas for action for improving resilience.[7]

14. ***Donor Coordination.*** The World Bank is committed to helping small states reduce the burden on their inherently limited institutional capacity through improved donor coordination. There has been major progress on harmonization of donor procedures, coming out of a High-Level Forum in Rome in 2003. Heads of multilateral and bilateral aid agencies committed to identifying ways to amend procedures to facilitate harmonization, to deliver aid in accordance with country priorities and systems, and to help countries build capacity to take the lead in coordinating donor harmonization. Jamaica is among the initial group of partner countries taking the lead in this initiative. There also has been progress in the Pacific region. The Pacific Islands Forum Secretariat hosted a workshop in 2003 at which 13 countries, 5 regional organizations, and 15 donor agencies discussed an approach to harmonization in island states in the region. Follow-up work is planned.

15. ***Trade.*** Progress on trade issues is a critical component for increasing the resilience of small states. In this regard, the Doha round of trade negotiations is key. A successful round will contribute significantly toward efforts by developing countries to meet the Millennium Development Goals. As noted by others at the Workshop, small states are structurally dependent on trade: the average share of exports in GDP of small states is more than 100 percent, nearly three times the average share in all developing countries. The World Bank has made a concerted effort to keep issues of importance to developing countries at the center of the Doha agenda. In

[7] For a recent description of the Country Policy and Institutional Assessment and its relevance to the IDA allocation system, see Annex 1 of Additions to IDA Resources: Thirteenth Replenishment, September 17, 2002 accessible at http://siteresources.worldbank.org/IDA/Resources/FinaltextIDA13Report.pdf

addition, the Bank plays a leading role in the Integrated Framework (IF) for Trade-Related Technical Assistance to least-developed countries, which includes several small states. The IF is a multi-agency, multi-donor program that assists the least developed countries in coordinating technical assistance on trade matters and expand their participation in the global economy, thereby enhancing their economic growth and poverty reduction strategies. The participating agencies are the IMF, ITC, UNCTAD, UNDP, World Bank, and the WTO. In parallel, the Bank provides similar support to other developing countries. For example, joint analytic work on trade is about to start in partnership with small island states in the Caribbean. More broadly, the Bank stands ready to support all developing countries to meet their concerns with regard to the impact of trade liberalization, including helping them assess the nature and magnitude of adjustments, providing policy option advice concerning institutional and policy changes, and providing financing as appropriate. The Bank is examining ways to enhance its lending authority to respond to the specific challenges posed by the Doha Development Agenda. The Bank also aims to mobilize additional donor resources for developing countries in this area.

16. ***Disaster Management and Mitigation.*** The World Bank is committed to working with small states to increase their resilience to natural disasters. Bank support to several Caribbean states in the wake of Hurricane Georges, now winding down, is one example. It dealt with both post-disaster and mitigation issues. Similar activities are ongoing in Tonga in the wake of Cyclone Waka, and mitigation activities are included in Bank-supported projects in Samoa and Kiribati, with the mainstreaming of climate change adaptation progressing well in Kiribati. In response to the experience with weather-related vulnerabilities, the catastrophe risk insurance project in the Caribbean can serve as a model for such an intervention; the Bank is working to extend this type of scheme in the Pacific.

17. ***Commodity Risk.*** The Bank continues to serve as a secretariat to the International Task Force on Commodity Risk Management in Developing Countries. The Task Force is working with smallholder producers in developing countries to assist in gaining access to international risk management markets to manage better price and weather risks. Though projects have not yet been piloted in small states, lessons learned from ongoing projects in other countries, such as the pilots under way in the coffee sector in Uganda, Tanzania, and Nicaragua, may prove useful. However, it is only fair to report that there are no simple solutions with regard to commodity price or output risk hedging. Additionally, these schemes may help to reduce the volatility of export earnings but do not normally affect the average level of earnings.

18. ***HIV/AIDS.*** The Bank is also committed to helping all member countries, including small states, increase resilience by dealing with vulnerabilities created by HIV/AIDS. Operations in Africa—including in Cape Verde, Djibouti, and The Gambia—and the Caribbean—including Barbados, Grenada, St. Kitts and Nevis, and Trinidad and Tobago—have been approved, and the Bank is prepared to broaden this assistance as needed. In the Caribbean region, the Bank is implementing assistance under an Adaptable Program Lending (APL) project of $155 million (approved in 2001), and to complement this assistance, the Bank is now helping prepare a regional project with CARICOM, to put in place the Pan Caribbean Partnership Against HIV/AIDS; this will support critical region-wide actions aimed at broader and more effective prevention and treatment.

19. ***Anti-Money Laundering.*** Working with the Financial Action Task Force, the Fund and Bank developed a comprehensive methodology to assess anti-money laundering regimes and programs

to combat financing of terrorism, relative to the international standard. Starting in October 2002, as part of a yearlong pilot phase, the methodology was used in assessments under the Offshore Financial Center and the Financial Sector Assessment Programs. As of July 2003, small state Bank/Fund members originally included on the Financial Action Task Force's non-cooperative countries and territories list had made significant progress in remedying their weaknesses and had been removed from the list.

20. ***Tax Policy and Administration and Tax Competition.*** The Bank is also working with the global community to address tax policy, administration, and tax competition issues. These issues are of special importance in small states, given the size constraints on their tax administration systems. In July 2003, the Bank, Fund, and OECD signed a Memorandum of Understanding to establish an International Tax Dialogue (ITD). Its purpose is to promote an effective international dialogue between governments, giving all countries—including small states—input into the discussion of tax policy and administration issues. To facilitate exchanges "ITDWEB" (www.itdweb.org) went live in September 2003. In its support for individual small states, the Bank offers assistance with regard to tax policy and administration issues, helping countries improve their resilience.

21. ***Other Members of the Bank Group.*** This note has highlighted the support available to small states from the IBRD and IDA. It is important to mention the services in support of resilience measures available from two other members of the World Bank Group. The International Finance Corporation is the largest multilateral source of loan and equity financing for private sector projects in the developing world. It promotes sustainable private sector development primarily by financing private sector projects, helping private companies in the developing world mobilize financing in international financial markets, and providing advice and technical assistance to businesses and governments. The Multilateral Investment Guarantee Agency (MIGA) provides support that can be of special interest to small states, many of which see problems in attracting the right amount and type of foreign direct investment. MIGA is the member of the World Bank Group designed to promote foreign direct investment into developing economies. MIGA fulfills this mandate and contributes to development by offering political risk insurance (guarantees) to investors and lenders, and by helping developing countries attract and retain private investment.

22. ***Conclusion.*** The World Bank sees many opportunities to support, along with other development partners, the efforts of small states to increase their resiliency in order to meet the challenges they face—those faced by all developing countries but especially those unique to small states. In addition, in 2004 we look forward to participating in the International Meeting for the Review of the Implementation of the Barbados Plan of Action planned for August 30-September 3, 2004, in Mauritius. We will also work together with the Commonwealth Secretariat, UNCTAD, WTO, EU, and IMF to support St. Kitts and Nevis and small states in the Caribbean region as they prepare for their 2004 Small States Forum in late September 2004, in Washington, DC.

Annex Table

## Small States Lists

| Country | 2001 Population | Small States Task Force Report | 2003 Small States Forum | SIDS (Small Island Developing States) | LDC (Least Developed Country) | Common-wealth Small States | IDA-eligibility exception in fiscal 2004 |
|---|---|---|---|---|---|---|---|
| | (thousand) | (April 2000) | invitee | (UN Category) | (UN Category) | | |
| **Africa** | | | | | | | |
| Botswana | 1,695.0 | X | X | | | X | |
| Cape Verde | 446.4 | X | X | X | X | | X |
| Comoros | 571.9 | X | X | X | X | | |
| Djibouti | 644.3 | X | X | | | | |
| Equatorial Guinea | 469.1 | X | X | | X | X | |
| Gabon | 1,260.8 | X | X | | | | |
| Gambia, The | 1,340.8 | X | X | | | X | |
| Guinea-Bissau | 1,225.6 | X | X | X | X | | |
| Lesotho | 2,061.7 | | X | | | X | |
| Mauritius | 1,200.0 | X | X | X | | X | |
| Namibia | 1,792.1 | | X | | | X | |
| Sao Tome and Principe | 151.1 | X | X | X | X | | |
| Seychelles | 82.4 | X | X | X | | X | |
| Swaziland | 1,067.9 | X | X | | | X | |
| **Asia and Pacific** | | | | | | | |
| Bahrain | 651.0 | X | X | X | | | |
| Bhutan | 828.0 | X | X | | | | |
| Brunei | 344.0 | X | X | | | X | |
| Cook Islands | 20.0 | X | | X | | | |
| Fiji | 817.0 | X | X | X | | X | |
| Kiribati | 92.8 | X | X | X | X | X | |
| Maldives | 280.3 | X | X | X | X | X | X |
| Marshall Islands | 52.5 | X | X | X | | | |
| Micronesia, Fed. Sts. | 120.2 | X | X | X | | | |
| Nauru | 11.0 | X | | X | | X | |
| Niue | 2.0 | X | | X | | | |
| Palau | 19.5 | X | X | X | | | |
| Papua New Guinea | 5,252.5 | | | X | | X | |
| Qatar | 597.6 | X | X | | | | |
| Samoa | 174.0 | X | X | X | X | X | X |
| Singapore | 4,131.0 | | | X | | | |
| Solomon Islands | 430.8 | X | X | X | X | X | |
| Timor-Leste | 753.0 | | X | X | | | |
| Tokelau | n.a. | | | X | | | |
| Tonga | 100.7 | X | X | X | | X | X |
| Tuvalu | 11.0 | X | | X | X | X | |
| Vanuatu | 201.2 | X | X | X | X | X | X |

Annex Table ctnd.

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| | Country | 2001 Population | Small States Task Force Report | 2003 Small States Forum | SIDS (Small Island Developing States) | LDC (Least Developed Country) | Common-wealth Small States | IDA-eligibility exception in fiscal 2004 |
|---|---|---|---|---|---|---|---|---|
| | | (thousand) | (April 2000) | invitee | (UN Category) | (UN Category) | | |
| **Latin America and Caribbean** | | | | | | | | |
| | Antigua and Barbuda | 68.5 | X | X | X | | X | |
| | Aruba | 90.0 | | | X | | | |
| | Bahamas, The | 309.8 | X | X | X | | X | |
| | Barbados | 268.2 | X | X | X | | X | |
| | Belize | 247.1 | X | X | X | | X | |
| | Cuba | 11,230.0 | | | X | | | |
| | Dominica | 71.9 | X | X | X | | X | X |
| | Dominican Republic | 8,505.2 | | | X | | | |
| | Grenada | 100.4 | X | X | X | | X | X |
| | Guyana | 766.3 | X | X | X | | X | |
| | Haiti | 8,132.0 | | | X | X | | |
| | Jamaica | 2,590.0 | | X | X | | X | |
| | Netherlands Antilles | 220.0 | | | X | | | |
| | St. Kitts and Nevis | 45.1 | X | X | X | | X | |
| | St. Lucia | 156.7 | X | X | X | | X | X |
| | St. Vincent and the Grenadines | 115.9 | X | X | X | | X | X |
| | Suriname | 419.7 | X | X | X | | | |
| | Trinidad and Tobago | 1,309.6 | X | X | X | | X | |
| | US Virgin Islands | 109.3 | | | X | | | |
| **Europe** | | | | | | | | |
| | Cyprus | 760.7 | X | X | X | | X | |
| | Estonia | 1,364.0 | X | X | | | | |
| | Malta | 395.0 | X | X | X | | X | |
| No. of countries/economies | | 58 | 45 | 45 | 46 | 12 | 33 | 9 |

*Source:* World Bank, SIMA

Notes: Nauru and Tuvalu are members of UN and not members of the World Bank.
Cook Islands and Niue are self-governing in free association with New Zealand and are not members of the UN.
Tokelau, Aruba, Netherlands Antilles, and US Virgin Islands are non-self-governing.