



## World Bank Framework<sup>1</sup>

1. *Poverty reduction is the World Bank's overarching objective.* The Bank helps countries in their efforts to reduce poverty by providing support in addressing developmental constraints and building national capacity<sup>1</sup>. The Bank's strategies are tailored to the conditions of borrowers and emphasize the principles underlying the Comprehensive Development Framework—country ownership, participation by civil society and national and international development partners, and a holistic and long-term approach to both the diagnosis of poverty conditions and the assessment of policy and institutional constraints to improving poverty outcomes. The importance of small-state issues—such as volatile incomes, low capacity to pool risks at the national level, low institutional capacity, and the challenges of transition—is increasingly taken into account in country-specific work programs. Linking lending and non-lending services to encourage policy and institutional reforms is key, as is making use of a wide range of lending instruments, of knowledge available from other development experiences, and careful monitoring of results. Finally, in small states which are both IDA and PRGF-eligible, the Bank is working in partnership with the IMF to help these countries prepare Poverty Reduction Strategy Papers, as the common basis for Bank and Fund programs, including, for those countries which are severely indebted, debt relief under the HIPC initiative.
2. *A partnerships approach to development.* The Bank is working with other development partners to harmonize approaches toward small states and increase impact of interventions. This implies increasingly taking into account comparative advantage to increase selectivity of interventions, to share responsibilities across sectors and agencies within countries, and to coordinate and harmonize operational processes and requirements, so that, for instance, the Bank can:
  - operate within an agreed country assistance strategy, possibly led by another development partner (as has been piloted in the South Asia region in recent years); and
  - present for Board approval loan operations supported by documentation prepared by other development agencies (as in the case of the Panama Roads Rehabilitation Project where the Inter-American Development Bank prepared the appraisal report).

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<sup>1</sup> This text is extracted from *Small States: Meeting Challenges in the Global Economy*, Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States, Washington DC and London, April 2000.

## **The World Bank's assistance strategy for the Pacific islands**

The Bank's work in the Pacific supports the nine member governments' respective development strategies and is based on a recognition of both the vulnerabilities they share with other small states and the unique set of circumstances that sets the region apart. Some of these unique circumstances include:

- *Size and remoteness.* In terms of land size and population Pacific Island States are among the smallest in the world. Most of the approximately 2,700 islands that make up the region are remote from major economic centers with a total land area of only 88,800 square kilometers.
- *Dispersion and isolation within and between countries.* Significant distances between island states and within states lead to isolation and inadequate service provision in many islands. Travel and communication between countries can be difficult and costs of communication are often high.
- *Strong, vibrant cultural traditions and organizations.* Unlike the Caribbean and Indian ocean countries to which they are sometimes compared, indigenous cultures and traditions have remained strong in the Pacific Islands and continue to play a large role in political, economic and cultural life.

The Bank's draft Pacific Regional Strategy identifies how the Bank, in partnership with member countries and other development partners, can assist in addressing the particular mix of challenges that shape development prospects in the region. The Strategy highlights a World Bank role in three key areas:

- *Helping take the small states agenda forward in the Pacific region.* The Bank will continue to provide advice and analysis of regional trends and options through the biennial Regional Economic Reports, the ongoing work of the small states network and regionally focussed sector work. This will include work on catastrophe insurance, commodity risk management, adaptation to climate change, trade regimes post-Lomé, globalization, management of ocean resources and the growth of towns.
- *A targeted and innovative lending program.* The Bank will maintain a focused lending program in key areas including health, education, transport infrastructure and private sector development. In line with the thin institutional capacity in the region and the often high transaction costs involved for small states, the lending program will move away from project based financing to the development of program lending and sector wide approaches developed in partnership with other development partners.
- *A responsive program of country-based economic and sector work.* The Bank will maintain its capacity to respond flexibly to individual member country requests for short term analytical work and technical assistance.

The Bank's Strategy has been circulated widely for comment and will be finalized by mid 2000.

The Bank's decision to relocate the PNG and Pacific Islands Country management Unit to Sydney will be an important step in improving the Bank's understanding of and responsiveness to the specific needs of its small Pacific members. The decision to relocate the CMU is both part of broader process of decentralization within the Bank's East Asia and Pacific department and a tangible expression of the commitment of the Bank to its Pacific members.

### **The World Bank's framework at work: the Caribbean**

The **Caribbean** Country Management Unit serves 15 countries, the vast majority of them “small.” Interaction between this unit and the Task Force has already strengthened partnerships and stimulated new initiatives—such as support for disaster mitigation, economic analysis of catastrophe insurance, a sharper focus on aid coordination, and assessment of institutional capacity. Activities that are responsive to the characteristics of small states include

- flexible support for **disaster mitigation**, including availability of contingent loans (see paragraph 7 below).
- analysis of the **insurance market for natural disasters**, its low penetration in Caribbean states, and whether it is possible to diversify the risks of natural disasters through international capital markets. This work has benefited from discussions in the context of the Task Force; it will continue so as to provide a basis for Bank lending in support of reforms in the financial and insurance sectors. The objective is better, lower-cost protection for businesses and households, as well as for key public agencies, from disaster risks. Future Bank lending could support (i) strengthening the local insurance industry, its links with international reinsurance, and the supervisory/regulatory capacity to assure long term solvency in light of the risk exposures of assets in the region; (ii) design and testing of a catastrophe insurance/reinsurance sub-regional pool to transfer the 'catastrophe' portion of risk premiums and associated coverages, using international reinsurance support plus other long term risk financing mechanisms (including insurance therein of critical government assets and infrastructure); and (iii) setting up and enforcing upgraded building codes.
- an **institutional review** of Eastern Caribbean States to identify areas where it is politically and technically feasible to develop cross-country agreements that reduce the unit costs of public services; technical assistance to the OECS Secretariat for the same purpose.
- work on the OECS **telecommunications sector** to introduce pro-competition reforms and increase the supply of informatics-related skills in the client countries. Bank financing and advice associated with this project have already had a major impact, both in prices of service and in sub-regional cooperation: in anticipation of liberalization, the current monopoly reduced international call rates by 27-50% in October 1999; a common regulatory system for Dominica, Grenada, St Kitts-Nevis, St Lucia and St Vincent was designed; and negotiations are currently on-going between the OECS and the monopoly, C&W.

3. *Emphasis on programs as well as on projects.* In small states as elsewhere, and in line with the CDF approach, the Bank will increasingly be seeking to deliver assistance to countries where it can be used most effectively for higher impact, through designing lending and non-lending services based on the quality of public sector budget programs and sector budgets rather than as isolated interventions. For instance, a flexible, multi-year, budget-support operation is being considered for Cape Verde and could be replicated in other small countries with strong performance on macro and structural policies, good project portfolio management ratings, a credible public expenditure program, and sufficiently strong institutional capacity (especially in procurement and financial management) to manage such an operation without close Bank supervision.

4. *Graduation policy.* Decisions on eligibility for borrowing from IBRD and IDA are based on per capita income, social indicators, and creditworthiness, and economic performance. 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 when a country becomes non-creditworthy as a result of a shock such as a natural disaster or adverse external events. The IDA12 agreement (which covers a three-year period ending on June 30, 2002) includes a specific exception to the per capita income criterion for small island economies, continuing a practice that has been in effect since 1985. The exception extends IDA eligibility to a number of small island countries that have per capita incomes in excess of the operational cut-off<sup>2</sup> and lack creditworthiness for IBRD. The analysis and conclusions of the Task Force strengthen the case for a continuation of this IDA exception. It is expected that the exceptional vulnerability of small island economies to external economic shocks and disruptive natural disasters would be considered during discussions of IDA13 (which would cover the three-year period ending on June 30, 2005) and would continue to be taken into account by the IDA Deputies in establishing eligibility for IDA.

#### **A work program for small states**

5. Within this overall framework, the Bank intends to continue and strengthen the attention it gives to small states issues in the future.
6. *Reducing transactions costs for small states and donor coordination.* Activities and requirements of multiple donors place a heavy and unnecessary burden on limited administrative capacity in many small states. Tackling this will require a major effort by donors, cooperating in a genuine partnership, country by country, to try to rationalize their support and simplify their procedures to reduce the burden. The Bank will actively promote such cooperation in all small states where it operates.
7. The recently introduced adaptable program loans (APL) and learning and innovation (LIL) loans give the Bank more flexibility in serving small states. Both types of loans considerably ease demands on local capacity and simplify the design of loan operations, reducing implementation problems. Learning can occur over time, by accumulating experience with a certain project design in one country, or 'horizontally' by using the same project model to address a problem in several countries. For instance, in December 1998, the Board approved a 'horizontal APL' to support a disaster mitigation operation for Eastern Caribbean States affected by hurricane George. The project includes infrastructure improvements, strengthening regulation and enforcement, and establishing a contingent loan that can provide funds in the event of a catastrophe to countries that have adopted appropriate mitigation measures. The design of the project was adapted to the institutional capacity and country needs. The program is being phased to allow countries that have already

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<sup>2</sup> The operational cut-off for IDA eligibility is currently per capita GNP in 1998 of \$895 using the World Bank Atlas methodology. Information on IDA eligibility and resource allocation is at <http://www.worldbank.org/ida/>.

developed rehabilitation and institutional strengthening program components (Phase 1) to conclude loan agreements immediately (Phase 2), while allowing the remaining countries to “sign up” as soon as their programs are ready. All countries still require long-term support to further improve their preparedness to mitigate risks and respond quickly to future disasters. The APL anticipates subsequent phases—flexibly timed in a “seamless” fashion as each country becomes ready—to provide continued support for institutional and infrastructure development (Phase 3). Finally, the operation makes financial resources readily available for emergency reconstruction to restore, inter alia, critical public services (Emergency Contingency Phase). Experience with APLs in the Pacific has been limited to an Infrastructure Asset Management Project in Samoa. Lessons from the Samoa experience will be valuable in looking further at the use of APLs in the Pacific region. Another example of a promising approach is the Learning and Innovation Loan (LIL) for the St. Lucia Poverty Reduction Fund. It is designed as a standard “off-the-shelf” regional project. If this project works well in St. Lucia, the Bank will be able to replicate it readily in other small countries of the Eastern Caribbean. Bank regions will continue to look for other ways to simplify their operations in small states and reduce costs.

8. *Supporting private sector development, as many small states seek to transform their economies to meet the challenges of globalization.* One aspect of this support will be continued special efforts by the IFC, including the Caribbean Project Development Facility; the African Project Development Facility; and the South Pacific Project Development Facility. These aim to help domestic entrepreneurs to develop projects that could be attractive to foreign investors. Support from bilateral donors for these activities has been important as well. But perhaps even more important in future will be support from the Bank to the public sector in this area. Small states need enabling environments and the right kind of public policy support—for example in training and education, and creating regulatory frameworks—to encourage new activities, many of which will be in the service sectors. The Bank will, for example, provide support for policies that promote competition and properly regulate utilities and other industries. These issues are of considerable importance with the prevalence of monopoly or oligopoly suppliers in so many small states. Constrained capacities, limited administrative capabilities and the focus on private sector development also highlight the need for effective coordination within the World Bank Group: IBRD/IDA, IFC and MIGA. Tight cooperation and coordination will enhance efficiency (a key factor in a small state) and will ensure that private sector activities directly support broader development objectives.
9. *Supporting regional initiatives.* One approach that can work in tackling limited public sector capacity in small states is to seek to develop regional approaches to public sector functions wherever feasible. The Bank will support regional initiatives which aim to share infrastructure, public goods and services (so as to lower per capita costs to the residents of small states) and provide help to strengthen regional bodies that can advance these objectives. Action on a regional basis is possible to improve the quality and reduce prices of telecommunications, as Bank support for the OECS telecommunications project demonstrates (see Box 8). The Caribbean Country Management Unit is undertaking an institutional review of Eastern Caribbean states to identify areas where it is politically and technically feasible to design and

implement cost-saving cross-country agreements. Moreover, an Institutional Development Fund grant is supporting the OECS Secretariat and providing assistance to the OECS countries to strengthen their sub-regional ties. Capacity building is a high priority in the Africa region where small states have full access to the services provided by the Partnership for Capacity Building in Africa (PACT). Regional and sub-regional action has been a feature of the approach taken to overcoming development constraints in the Pacific for some time; an impressive range of regional arrangements and organizations have evolved. The Bank will continue to work with members and those organizations to identify further opportunities where shared regional action is sensible. This will include through the Bank's biennial Pacific Regional Economic Report and regionally focussed economic and sector analysis.

10. *Assistance in exploiting the opportunities that information technology and electronic commerce can bring to small isolated states.* Work sponsored by the Task Force suggests that these technologies can be a major source of help in the development of small states' economies. But success requires the correct public sector infrastructure, crucially a regulatory framework that will encourage high quality/low cost telecommunications services, and the competition that will deliver that. The Bank plans to provide further support in this area to small states in all regions. For example, a recently approved education and training project in Cape Verde will facilitate distance learning at the primary level for teacher upgrading and pedagogical outreach. With technical assistance from Brazil, this operation will reduce the problems of Cape Verde's highly dispersed teaching force.
11. *Lowering the costs of natural disasters, and improving risk management.* Every year natural disasters exact a large toll. Their adverse effects can be eased through ex-ante mitigation measures, and ex-post prevention insurance. In December 1998 the World Bank approved a loan for infrastructure investments and regulatory improvements in the Eastern Caribbean, with the goal of reducing the impact of tropical storms. The loan package also includes a contingency facility—providing automatic access to funds in the event of a catastrophe—for countries that have adopted mitigation measures. The Bank has started work on the feasibility of catastrophe insurance. Such insurance is conceivable in a highly integrated global financial market, possibly through the use of credit-based and capital market instruments that may be attractive to investors with highly diversified portfolios. These activities are complemented by GEF to help mitigate the effects of climate change (global warming, sea level rise). The Bank is also a founder and a major participant in the ProVention Consortium, a global partnership aiming at reducing disaster risk in developing countries and making disaster prevention and mitigation an integral part of development efforts. Also, the work of an International Task Force on Commodity Risk Management in Developing Countries, though still at a very early and exploratory stage, may identify ways through which small states could better manage the impact of price volatility on their small farmers. The Bank is also active in assisting in the restructuring of pension systems and improving management of pension system financial reserves.
12. *Protecting the physical environment.* Many small states have vulnerable physical environments as well as vulnerable economies. As development takes place it will be crucial to ensure that it is sustainable, by protecting the environment at the same time.

Many mistakes have already been made in this area, for example in insensitive tourism development and over-exploitation of non-renewable resources. The Bank will step up its support for small states in this regard, both with advice and finance. Coastal zone management operations are planned in several West African small states such as The Gambia and Guinea-Bissau. A focus of the forthcoming Pacific Regional Economic Report will be on identifying and discussing adaptation strategies available to Pacific countries as they respond to climate change. The report will also focus on how Pacific countries manage their ocean resources and the continuing growth of towns in the region.

13. *Knowledge management.* There is a continuing task of accumulation of knowledge about policies and approaches that work and do not work for small states, and sharing this knowledge and experience among states both within and across regions. The Bank intends to help in accumulating and sharing such knowledge (see par. 14-14). A good example of this is the West African Enterprise Network (WAEN), a group of dynamic, second-generation businessmen and women in West Africa. WAEN is supported by the World Bank, the European Union and several bilateral donors; its logistical support is facilitated by a two-person unit in OECD in Paris. It has built a membership of over 350 entrepreneurs in 13 West African countries and has concluded several transnational and national ventures. It is now recognized as a credible partner by African governments, regional institutions and donors, as well as by offshore investor groups in North America, Europe, and Asia.

#### *Enhanced attention to cross-cutting issues*

14. While the bulk of this agenda will be for the Bank regional departments to carry through, in partnership with the countries themselves, there is also a need for a continuing capacity in the Bank to handle issues concerning small states that cut across regions. Some of these issues will be carried forward in parts of the Bank with responsibility for global policy topics. Effort will be made to ensure that the experiences, developments, and challenges facing small states are appropriately reflected in Bank publications, and that the Bank's policy work takes account of the special characteristics of small states. For example, the units dealing with trade policy or environmental issues will incorporate the specific items of concern to small states in their overall activities.
15. In addition, the Bank will continue to learn about and help monitor small states issues, in partnership and cooperation with representatives of small states. Sharing of analyses and experiences with different approaches relevant to small states will be taken up by a planned Bank-wide thematic group. Also, the Bank will develop a small states web site where small states can share experiences and access information, and arrange an annual small states forum at the time of the Bank/Fund Annual Meetings, where new ideas can be discussed and experiences shared. This forum will also provide a structured opportunity for small states' representatives to take stock of their and their partners' progress in implementing the agenda set out in the Task Force report.