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How Can the World Bank Better Support Climate-Vulnerable Lower-Income Small States?

An IDA Policy Agenda for Small States

VICTORIA DIMOND · ROLAND RAJAH · GEORGIA HAMMERSLEY

Abstract

The World Bank's concessional lending arm, the International Development Association (IDA), provides significant assistance to small states for fostering long-term development and responding to climate change. Around half of all small states have access to IDA. While only three percent of IDA's resources go to small states, these countries comprise nearly a third of IDA-eligible countries. IDA plays a large role in the external financing of these countries, making up a third of Official Development Assistance. The IDA Small States Exception plays a critical function in providing these countries access to IDA, and we argue that it accounts for the climate vulnerability faced by small states compared to alternative proposals being explored. We show that small states use IDA for adaptation to a greater extent than non-small states and, given large unmet financing needs, discuss how IDA might scale up its adaptation finance to these countries. We evaluate recent World Bank initiatives to scale up disaster finance and conclude with a discussion of key aspects for small states within the World Bank's SimplifIDA reforms.

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Victoria Dimond
Center for Global Development

Roland Rajah
Lowy Institute

Georgia Hammersley
Lowy Institute

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CENTER FOR GLOBAL DEVELOPMENT
2055 L Street, NW Fifth Floor
Washington, DC 20036

1 Abbey Gardens
Great College Street
London
SW1P 3SE

www.cgdev.org

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Introduction

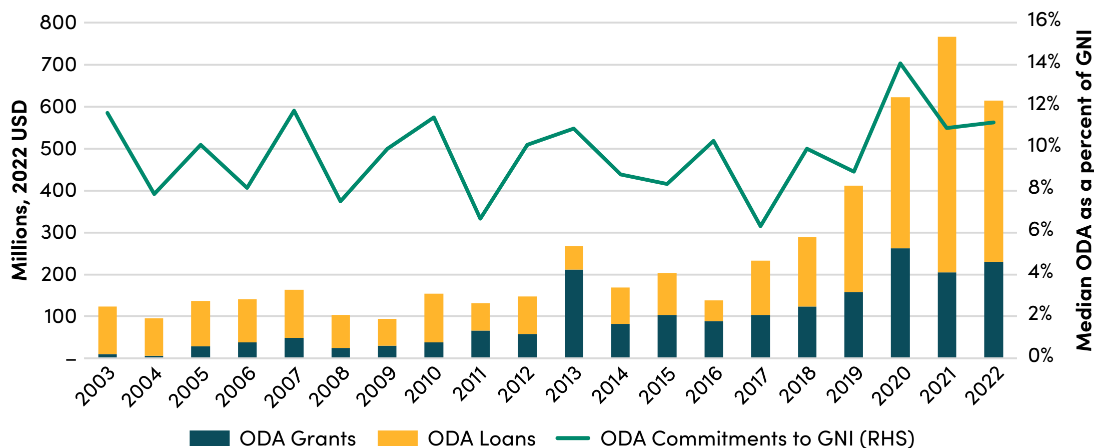
Small states are recognized as warranting special attention from the international development community. Lower-income small states generally experience slower economic growth and development progress, rely heavily on a narrow set of income sources (including international aid), and are highly vulnerable to exogenous shocks. Following the COVID-19 pandemic, economic recovery is slower in small state economies compared to other emerging and developing countries. Rising energy and food prices have also significantly negatively impacted these countries. Small states have contributed negligible amounts of carbon emissions to climate change, yet are at the forefront of its impacts in terms of extreme weather events, sea level rises challenging the existence of some countries, and ocean acidification impacting economic activities.

There are various definitions of small states. Twenty-eight lower-income small states are eligible for the World Bank's concessional arm, the International Development Association (IDA) out of the 53 entities that could be considered 'small'. Of these twenty-eight countries, twenty-three are given access to IDA through the Small States Exception (SEE) where their populations are below 1.5 million and their GNI per capita below the World Bank Group's income classification for high-income countries.[i] This paper focuses on these twenty-three countries and uses the term 'small states' to refer to them.[1]

The World Bank's concessional lending arm, the International Development Association (IDA), provides significant assistance to small states in fostering longer-term development and responding to climate change. Small states represent nearly a third of countries eligible for IDA. However, these countries only represent around one percent of the people in IDA countries[ii] and receive three percent of IDA's total financing.[iii] Yet, IDA is playing a large role in small states. From IDA16 to IDA19 total commitments to small states almost quadrupled from $653 million to $2.5 billion, while commitments to non-small states grew by only 33 percent from $52 billion to $69 billion. On a per capita basis over the same period, commitments to small states on average tripled from $90 to $276, while for non-small states this figure only doubled from $18 to $39. This was largely due to the increase in countries' minimum base allocation levels made in IDA18 which now accounts for four-fifths of IDA's financing to small states. Between 2018 and 2022, IDA accounted for nearly a third of official development assistance (ODA) in small states compared to roughly a quarter in non-small states.[iv] The critical role for IDA small states is also seen in that as IDA has grown over the last two decades, total ODA as a percent of GNI to these countries has largely held steady at a median of nine percent, then climbing in 2020 largely due to the pandemic increasing aid flows and lowering GNIs (see Figure 1 below).[v] The World Bank's Country Opinion Survey program indicates small states are generally satisfied with IDA and view it as trustworthy and effective, with the caveat that survey coverage of small states is still patchy.[vi]

1 Belize, Bhutan, Cabo Verde, Comoros, Djibouti, Dominica, Eswatini, Fiji, Grenada, Kiribati, Maldives, Marshall Islands, Micronesia, Samoa, Sao Tome and Principe, Solomon Islands, St. Lucia, St. Vincent and the Grenadines, Suriname, Timor-Leste, Tonga, Tuvalu, and Vanuatu. Note that Suriname's application is still being processed.

FIGURE 1. IDA disbursements to small states, constant USD 2022



Source: 20 SEE countries with IDA access over this period. Authors' calculations using the OECD Creditor Reporting System, 2002–2022 and World Development Indicators GNI current USD.

Small states benefiting from IDA are geographically diverse. Pacific Island countries comprise half of the 20 small states with access to IDA before 2023 and received 45 percent of IDA commitments to small states during 2018–2022. African small states receive the next largest share of IDA's commitments to small states at 27 percent followed by Latin American and Caribbean small states at 19 percent. South Asian small states, Bhutan and Maldives, are the smallest regional group and receive about 9 percent. IDA's role is also the smallest in these countries, with financing equal to about 1 percent of GDP in South Asian small states compared to 3.5–4 percent of GDP in the other regional groupings.

This year IDA is seeking renewed funding from donors for its next three-year cycle – IDA 21. World Bank President Ajay Banga and recipient countries are calling for it to be the biggest-ever IDA. While possible, this looks to be a difficult task. At the first replenishment meeting in March 2024, IDA Deputies and Borrower Representatives "underscored the importance of continued support to small states … [and] … also reiterated the need to have a common definition on vulnerability and how it affects allocations." Additionally, last year the World Bank launched its Comprehensive Toolkit to Support Countries after Natural Disasters with parts of this exclusively aimed at assisting small states.

This paper will explore the key issues within IDA for small states. The paper has five parts. First, we explore how small states access IDA. Amid the growing focus on climate vulnerability, we argue that the small state exception (SSE) which provides these countries with access to IDA is already functioning like a vulnerability criterion for small states and appears superior to alternative proposals. Second, we explore what small states use IDA for. Here we argue that while small states uniquely use IDA for adaptation, there is a need to reconsider the sectors where this investment is taking place. Third, given large unmet adaptation financing needs and constrained IDA resources,

we suggest allowing some small states to trade some of their IDA grant financing for a larger volume of concessional loans while retaining the SSE; and evaluating how IDA factors debt management into its grant allocation framework. Fourth, we explore the relevance of recent innovations in IDA's toolkit for post-disaster financing in small states. We argue that small states benefit from avenues to access more funding from IDA but tools that introduce greater flexibility in existing financing are relatively new and untested. Lastly, given the limited institutional capacity of small states, we conclude by highlighting the importance of key IDA administrative reform efforts for these countries.

How do small states access IDA? The Small Economies Exception (SEE) and vulnerability

The SEE now covers nearly a third of countries with access to IDA

The Small Economies Exception (SEE) grants countries access to IDA if the population is less than 1.5 million and the GNI per capita is below the World Bank Group income classification for high-income countries. The SEE gives countries access to IDA despite their per capita incomes being above the income threshold for IDA support as the SEE recognizes the unique characteristics of small states – including their size, limited economic base, and remoteness – results in these countries having comparable challenges to other IDA-eligible countries with lower per capita incomes (see Figure 2 below).[vii]

Following the November 2023 IDA mid-term review, the number of states included in the Exception has grown and it now covers nearly a third of IDA and Blend countries. Originally targeted to islands, the SEE has been expanded into a broader small state exception. This expansion allows the SEE to retain its purpose by recognizing that small states "face similar challenges [to Small Island States] and have deep rooted vulnerabilities." The financial implications for IDA will be very small – likely around US 125 million annually in country allocations or roughly 0.4 percent of IDA's annual total pot.[viii]

The SEE also provides more concessional terms for small states compared to other IDA recipients. In the last IDA 20 cycle, IDA hardened some of its terms making it more expensive for some countries to borrow from IDA. However small states under the SEE were exempt from these changes.

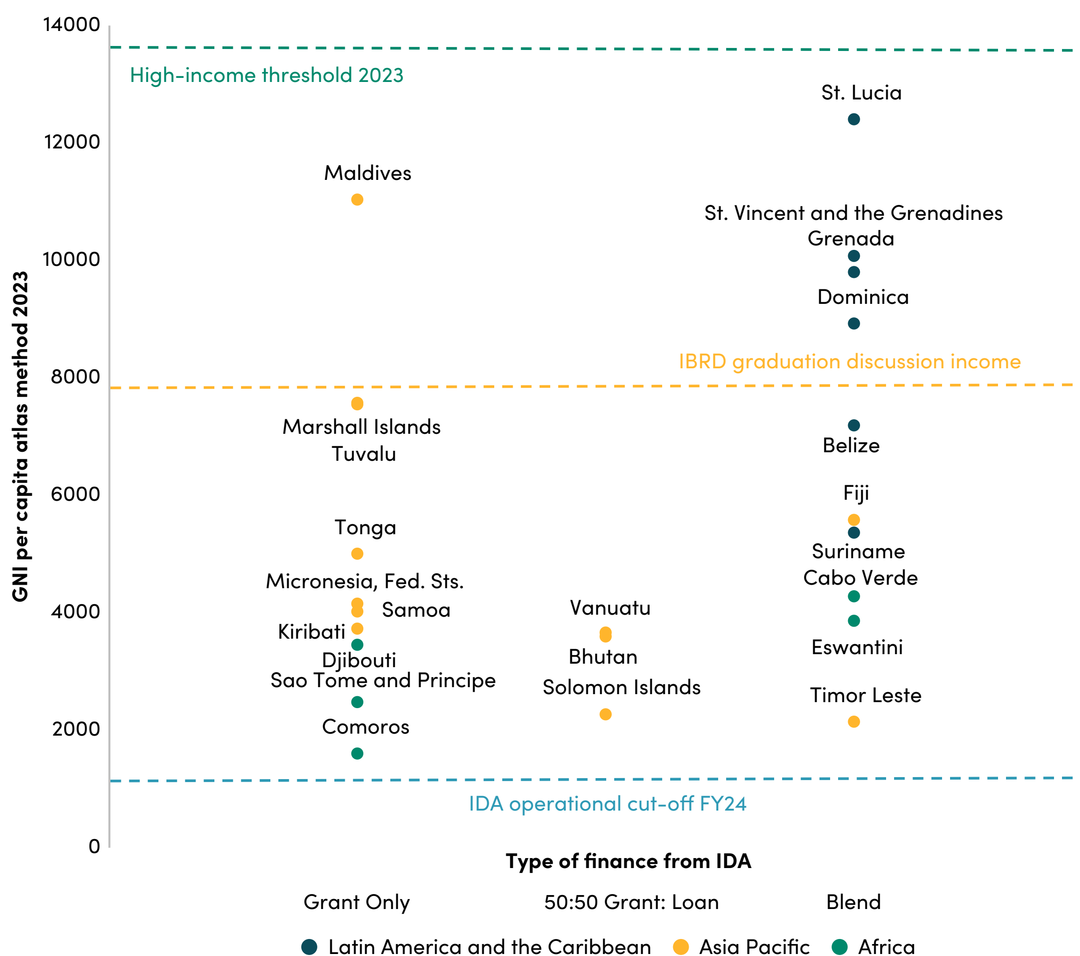
Looking ahead to IDA 21, it is possible that IDA could further harden its terms and if this occurs small states should be exempt from this again. A hardening of terms is possible as IDA's current financing model is under pressure from rising interest rates and a greater number of countries are in worsening debt situations. In the last IDA cycle, small states were excluded from the hardening of terms due to "the larger impact this change would have on the concessionality they receive compared to other … countries and the particularly high vulnerability they face." In IDA 21, small states should again be exempt from any hardening of terms as the reasons justifying their exclusion previously

have not changed. Additionally, continuing to provide the current IDA terms to small states would have a very limited cost to IDA's overall financing envelope but could have significant negative impacts on these countries given the role IDA plays in these countries' total ODA financing and that none of these countries have an investment grade credit rating, indeed most do not have any credit rating.[ix]

A hardening of terms for the wealthier countries under SEE was floated at the November 2023 midterm review but sensibly appears not to have progressed. This change would have likely seen six countries have their borrowing terms changing from SEE to regular IDA terms, with a possible view to having these countries graduate from IDA in the medium term. The countries include Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines in the Caribbean, the Marshall Islands in the Pacific, and the Maldives in Asia. On the one hand, the GNI per capita of these countries is high relative to IDA's other recipients (see Figure 2 below). However, removing these six countries from IDA would have saved little funding (roughly 0.7 percent of IDA's total pot[x]), while potentially significantly limiting the amount of external financing these countries receive. Only one of the Caribbean blend countries – Grenada – has borrowed from the IBRD in the last 10 years[xi] and no country has an investment-grade credit rating.[xii]

Should this issue of graduating SEE countries arise in the future additional factors should be considered. First, given that many of these countries do not have a credit rating, it would be helpful to also consider both a country's GNI and population as potential indicators for whether countries may borrow from the IBRD. Currently, forty percent of IBRD-only small states do not actively borrow from the institution, these countries tend to have smaller populations and/or GNIs compared to other IBRD-borrowing small states.[xiii] This indicates that should some small states no longer be able to borrow from IDA, it is not clear whether they would start borrowing from the IBRD, especially in the context of higher interest rates. For example, for SEE countries with higher GNIs per capita, the Republic of the Marshall Islands and Tuvalu both have smaller GNIs and populations indicating that they may be less likely to borrow from the IBRD if IDA access is removed.[xiv] Secondly, the degree to which IDA is the main source of ODA could be considered as an indicator of whether other donors are prioritizing providing aid to these countries. As shown in Table 1 below, again the Caribbean countries have a particularly high share of IDA as a proportion of their total ODA, and this is much lower for the countries in the Asia-Pacific.

FIGURE 2. SEE income per capita, IDA finance type, and World Bank graduation thresholds



Note: Maldives is eligible for 100 percent grant financing given its risk of debt distress, however as it has breached the Sustainable Development Finance Policy since July 1, 2023, it has received loans only. 2022 data is used for Tonga and Bhutan.

TABLE 1. Wealthier SEE countries IDA as a portion of ODA commitments and risk of debt distress rating

Country	Dominica	Grenada	Maldives	Marshall Islands	St. Lucia	St. Vincent and the Grenadines	Tuvalu
IDA as a proportion of ODA commitments	59%	61%	16%	20%	55%	71%	45%
Risk of Debt Distress Rating	High	In debt distress	High	High	High risk of sovereign stress	High	High

Source: OECD DAC3A ODA commitments 2018–2022 current prices IDA as a proportion of total official donors.

The SEE functions like a vulnerability criterion for small states' access to IDA

Some small states are calling for the World Bank to "go beyond per capita GNI as the criterion for determining eligibility for concessional financing to include climate vulnerability". There is no agreed definition of vulnerability and consequently using 'vulnerability' to determine country eligibility for IDA is inherently difficult. One of the ways some small states are advocating for this change is for the World Bank to consider including the new Multidimensional Vulnerability Index (MVI) as part of the eligibility criteria. The 2022 World Bank Evolution Roadmap states that the World Bank will consider including vulnerability as an eligibility criterion for IDA and IBRD, including for small states. In May 2024, as part of IDA replenishment the World Bank produced a Discussion note on Vulnerability Considerations in IDA's policy and financing framework. This note defines vulnerability as the extent to which individuals, communities, or systems are susceptible to adverse effects from external or internal shocks and focuses on economic, environmental, political and social vulnerabilities. The note finds that "IDA's existing approach to provide targeted support to IDA countries based on their unique vulnerabilities has proved highly effective" including to small states. The note also highlights that in 2010 and 2018, before the development of the MVI, IDA explored incorporating a vulnerability metric into its allocation framework and found it would not lead to improved outcomes, particularly for small Ssates and that currently no Multilateral Development Bank has incorporated a vulnerability index into its standard eligibility criteria.[xv] We show below that for small states the SEE is already providing good coverage against vulnerability considerations.

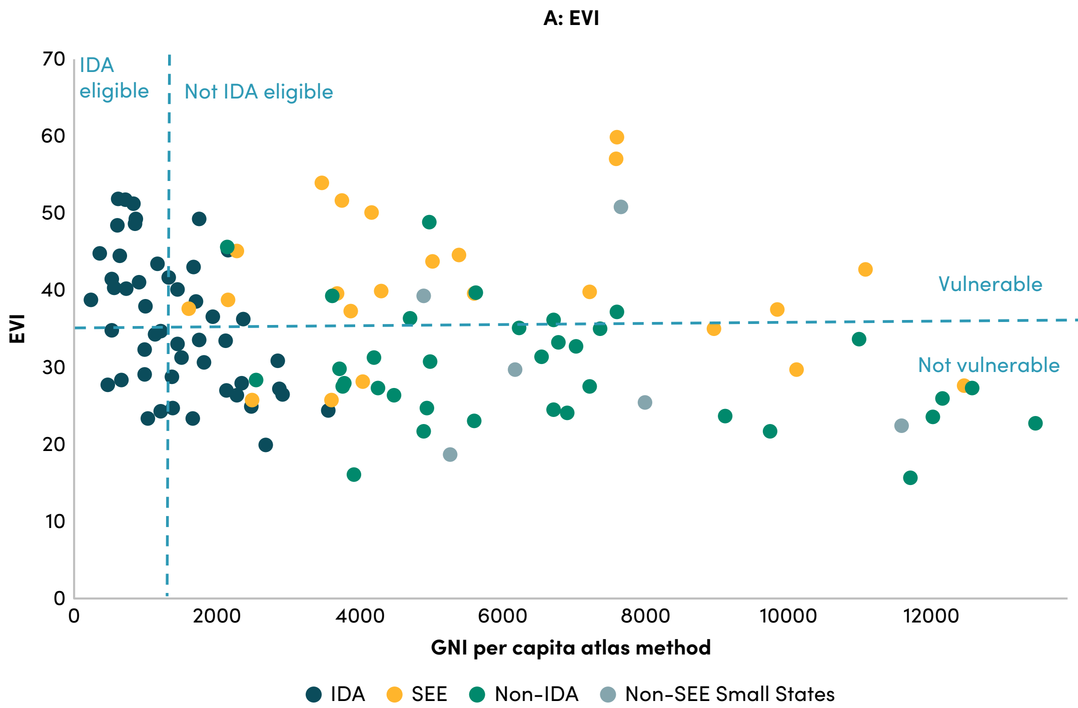
The use of the term 'vulnerability' has become ingrained in the SEE over time. Although not originally part of the Exception, "vulnerability to climate change is now a key criterion for entry into the [SEE]. Though not a formal requirement, [the] Bank's decisions to grant the Exception to Tuvalu, the Marshall Islands and Micronesia [in previous years] all considered vulnerability to natural disasters and climate change. In 2019, revisions to the [SEE] entry criteria for IBRD-only [small states] formally recognized these aspects as part of the rationale for granting the Exception."

The SEE functions like a vulnerability criterion *for small states*. In Figure 3A–C below we divide countries into quadrants for whether they qualify for IDA or not (using the FY24 IDA cut-off and limiting the sample size to GNI per capita under the high-income country threshold), and whether they are considered vulnerable or not (using the three vulnerability indexes the SEE uses as criteria for IBRD entry into IDA – the EVI, CRI, and WRI).[xvi] The graphs show that the SEE is functioning like a vulnerability exception for small states. All but two of the SEE countries fall in the quadrant

of non-IDA eligible and vulnerable for at least one of the vulnerability indices (Bhutan and Sao Tome and Principe). We also consider a broader list of small states beyond those listed under the SEE. Four of these countries also satisfy this criterion (vulnerable on at least one measure). However, three of these 'small' states have populations above the 1.5 million SEE threshold, and the other Mauritius, has an investment-grade credit rating. Note that we are not arguing that because a country is vulnerable and not IDA-eligible (as many countries are) it should be given IDA access. Other criteria such as a country's GNI, GNI per capita, population, and access to other sources of finance should also be considered. Additionally, a broader consideration of including a vulnerability criterion for IDA eligibility would need to be weighed against the impacts it would have on IDA's financing model given that any new vulnerability criterion would likely apply to countries beyond small states.[xvii]

Adding the new Multidimensional Vulnerability Index (MVI) into consideration or substituting it for the SEE would not improve things for small states and would be regressive to small states' income levels. The UN has recently developed a new vulnerability index focused on small island states. There are inherent issues with using one index to determine vulnerability as some factors may be more significant for some countries than others – even the MVI which was designed for small states would not produce a better outcome for these countries compared to the SSE which has greater flexibility for considering individual country needs. In Figure 3D below we assess a broad list of small states and assume a similar cut-off for vulnerability as used by the SEE for other indexes.[xviii] Under the MVI Antigua and Barbuda, Bahrain, Bahamas, Barbados, Botswana, Namibia, Nauru, and Palau[xix] are rated vulnerable, and only Botswana has an investment-grade credit rating.[xx] However, the global community is unlikely to welcome the inclusion of these countries into IDA as on average these countries have a GNI per capita nearly *fifteen times* that of the FY24 IDA cut-off.[xxi] All countries except Botswana and Namibia have GNI per capita above the High-Income threshold.[xxii] Botswana and Namibia have GNIs per capita below the IBRD GDI cut-off needed for IBRD countries to enter the SEE, yet both countries have populations above the 1.5 million SEE criterion.[xxiii] Additionally, if the MVI was used instead of the SEE, a third of SEE countries would lose out as they would not be considered vulnerable: Belize, Bhutan, Fiji, Sao Tome and Principe, Suriname, Timor-Leste, and Vanuatu.

FIGURE 3. Vulnerability Indexes and GNI per capita: EVI, CRI, WRI and MVI respectively



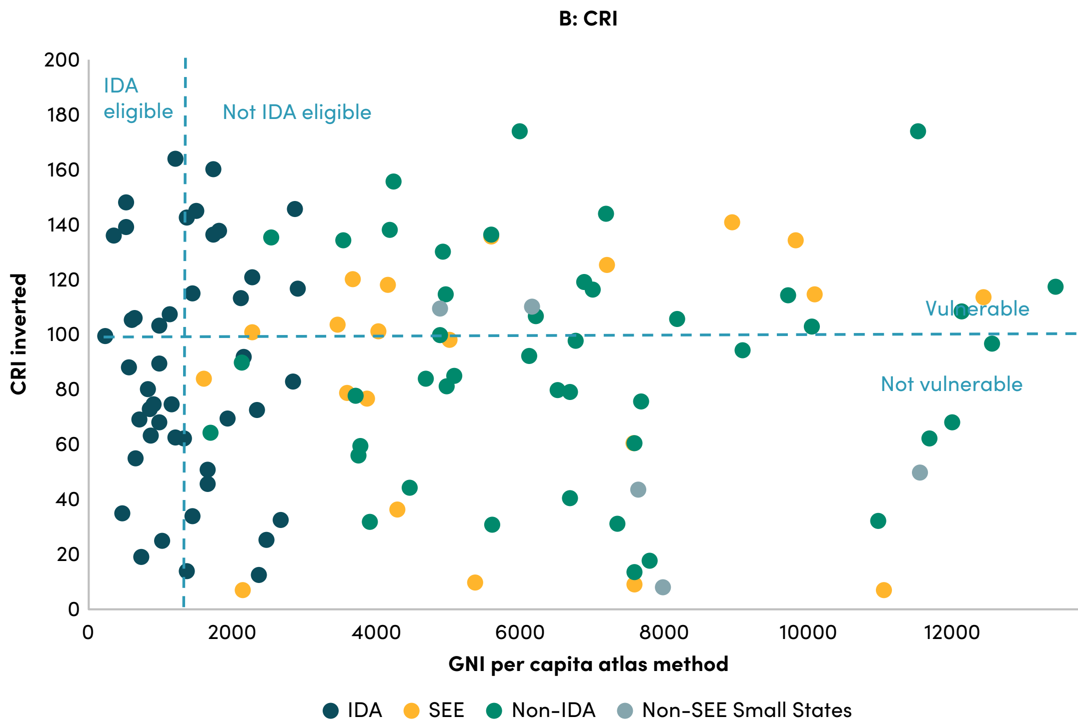
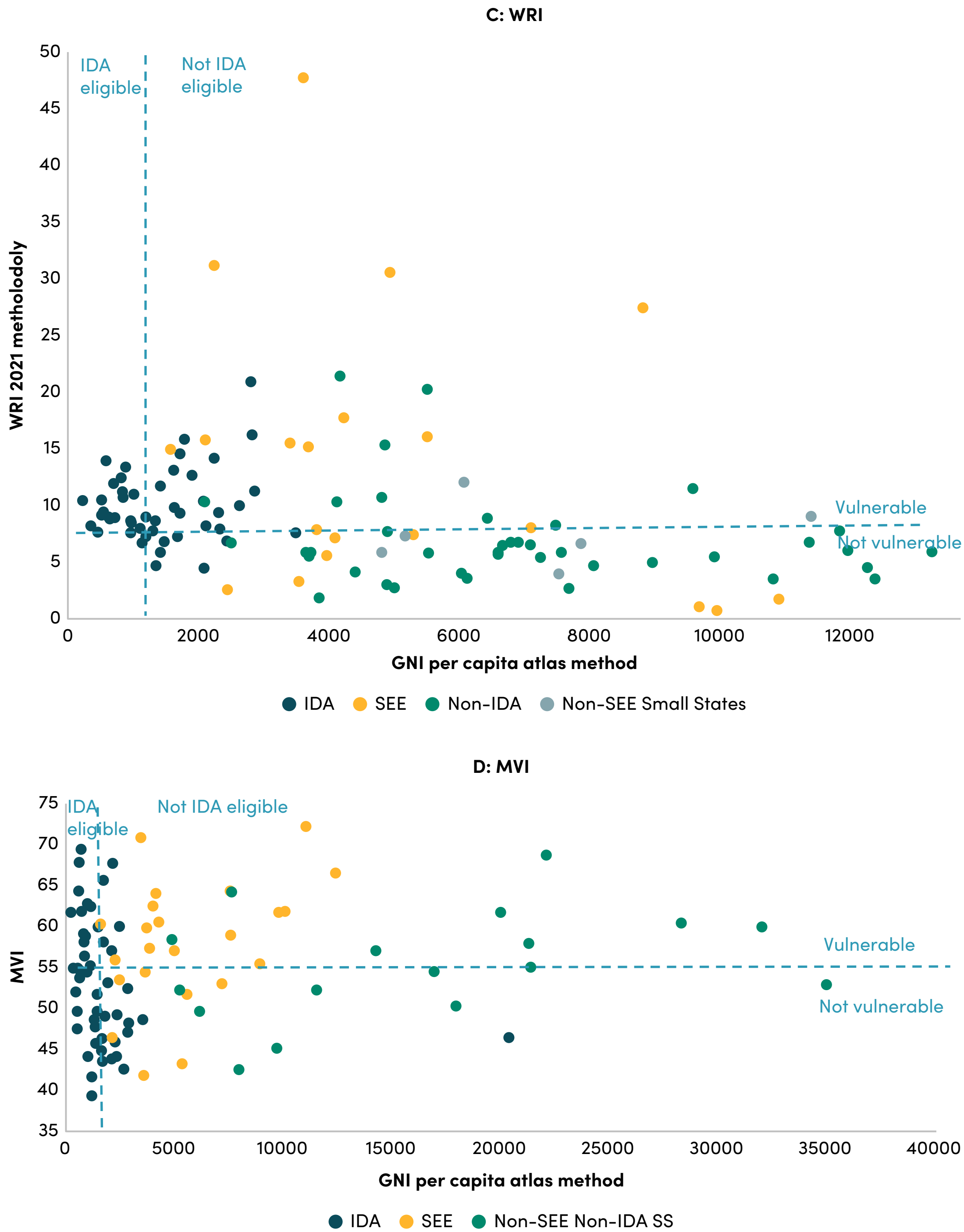


FIGURE 3. (Continued)



Note: Many countries labelled as IDA are above the IDA eligible cut off as they are gap or blend countries.
Sources: World Development Indicators GNI per capita Atlas Method latest, EVI, CRI, WRI 2021 and MVI. In 2022, the WRI changed its methodology to account for population sizes and this resulted in many island states no longer being at the top of the risk ranking. The World Bank rule relating to the WRI predates this being from 2019 however the current application of this rule uses the 2022 methodology. For the EVI Botswana and Namibia are non-SEE small states that are vulnerable, however both have populations above 1.5 million. For the CRI Jamaica and Namibia are also vulnerable, their populations are also over the threshold. For the WRI both Jamacia and Mauritius also appear vulnerable. However, Mauritius is not vulnerable under the 2022 WRI methodology, and has an investment-grade credit rating. In the end notes we also examine the ND-Gain index.[xxiv] The data in figure 3 is available for download here.

Small states use IDA to invest in place-based adaptation. Future investments in people-based adaptation could also be useful

Small states use IDA to invest in places, compared to non-small states which invest proportionally more in people. Between 2018 and 2022, non-SEE countries spend a third of their IDA commitments on people in health, education, and social services, while small states spend only 21 percent. Small states use IDA to invest more in transport and storage and disaster prevention, 36 percent, compared to non-small states at 14 percent – see Table 2 below.

TABLE 2. The proportion of IDA commitments 2018-2022 on average across sectors

Sectors	SEE Total Sectors	Non-SEE Total Sectors
People-based sectors (health, education, and social services)	21%	33%
Transport and Storage	19%	6%
Disaster Prevention and Preparedness	17%	8%
Agriculture and Water	10%	12%
Energy	4%	11%

Source: 20 SEE countries with IDA access over this period. OECD Creditor Reporting System, 2018–2022, current prices, all channels and modalities, commitments, ODA, sectors explored include education, health, population, water, government and civil society, other social infrastructure and services, transport and storage, communications, energy, banking, business and other services, agriculture, industry, trade policies, tourism general environmental protection, other multisector, reconstruction, and disasters prevention.

These differing investment patterns are likely explained by the unique development challenges small states face. Small states face issues of remoteness, both from major markets and sometimes internally with populations spread over numerous islands. Additionally, small states are highly vulnerable to weather events. Investments in transport and storage and disaster preparedness make sense in these contexts. Proportionally lower investment in people may also make sense – in 2022, SEE countries had an average Human Development Index value of 0.670, compared to non-SEE IDA countries of 0.533.[xxv]

Small states, particularly Pacific small states, have more of their IDA finance tagged as adaptation compared to other IDA recipients. Vanuatu, Tonga, Samoa, Tuvalu, Micronesia, Marshall Islands, and Kiribati fall in the list of top 10 IDA-only countries with the highest share of their IDA finance tagged as adaptation with at least 30 percent of financing tagged as adaptation over the last decade.

Small state's adaptation finance is concentrated on place-based investments in transport and disaster prevention. Between 2018 and 2022, SEE countries had over fifty percent of their adaption commitments in these two sectors, compared to less than a quarter for non-SEE countries.[xxvi]

Investments in people-based resilience have proportionally received less adaptation finance in small states – see Table 3 below. This distribution is unsurprising as IDA's adaptation finance is a function of its overall programming with projects tagged as also being for climate purposes. Given the way the World Bank tags its climate finance and that infrastructure projects can be more expensive than human development projects, we also explored the proportion of project titles with adaptation finance and found a similar pattern across sectors – also see Table 3 below.

TABLE 3. The proportion of IDA adaptation finance and projects 2018–2022 on average across sectors

Sectors	SEE Adaptation Finance	Non-SEE Adaptation Finance	SEE Adaptation Projects	Non-SEE Adaptation Projects
People-based sectors (health, education, and social services)	15%	20%	28%	34%
Transport and Storage	30%	15%	10%	5%
Disaster Prevention and Preparedness	21%	8%	16%	7%
Agriculture and Water	18%	29%	7%	11%
Energy	1%	3%	4%	4%

Source: 20 SEE countries with IDA access over this period, and other countries listed with IDA as the provider excluding graduated countries for the period. OECD Development Finance for Climate and Environment Recipient Dataset.

Going forward, small states may benefit from making investments in people-based adaptation and resilience as well as place-based adaptation. The IMF estimates that small states need to invest in scaling up health and education spending by 3 percent of GDP, comparable to the 3.7 percent of GDP needed for scaling up physical infrastructure to meet their development and climate objectives. The Asian Development Bank also highlights the role of investing in education and health, as well as energy and transport for climate adjustments in the region. In the Pacific region, which contains half of IDA's SEE countries, World Bank investments in human capital are also potentially needed as other donors in have shifted their financing to budget support and infrastructure investments in recent years. Examples of people-based adaptation investments could include social protection systems, which the IMF and the Asian Development Bank notes are critical for adaptation in small states and are underdeveloped in many of these countries.

Small states may already want to shift their IDA investment to people-based activities. Although IDA financing is demand-driven by countries, the World Bank Country Opinion Surveys[xxvii] reveal that approximately one-third of respondents from small states identified education, job creation, and health as their top three development priorities. In contrast, less than 10 percent of respondents prioritized place-based investments such as transport, infrastructure, and disaster risk preparedness.

Meeting the need for scaled-up adaptation investment: Two options

Scaling up investment in adaptation is the most important way to enhance resilience in climate-vulnerable small states. Further prioritization of small states within IDA is unlikely given small states already receive considerable preferential treatment. Below we consider two options for scaling up adaptation finance by IDA in small states without preferencing these countries with new resources.

Option one: Allow small states that receive IDA grants the ability to trade some of this grant financing for a larger volume of concessional loans while retaining the SEE

Allow small states that receive IDA grants the ability to trade some of this grant financing for a larger volume of concessional loans while retaining the SEE. Unlocking larger volumes of finance could be beneficial to some small states both because of their unique debt situation and because of the necessity of adaptation investments to enhance macro-economic resilience and debt sustainability. IDA provides many small states grants depending on the country's income level and their risk of debt distress. Yet some small states are preemptively rated at elevated risk of debt distress due to the low debt-carrying capacity of their economies, rather than having high debt or unsustainable fiscal settings – see Table 4 below. As such, there may be cases where additional concessional lending could be beneficial for small states looking to finance macro-critical adaptation investments but are unable to do so while primarily relying on grant financing, especially if these loans have climate resilience debt clauses (discussed further in the next section). By investing in adaptation, countries can reduce the costs of future natural disaster shocks, thereby reducing their vulnerability to future debt problems despite increased borrowing. For example, recent IMF modeling for Samoa incorporating the resiliency benefits of large upfront adaptation investment significantly improved the outlook for debt sustainability, even if this was financed by new debt. Other modeling by the IMF for Vanuatu and Tonga illustrates that without additional resources, natural disasters could push these countries into debt distress, highlighting the need to further scale up adaptation investments.

TABLE 4. SEE IDA grant recipients sample of debt statistics

SSE Countries that Receive Grants from IDA	Debt to GDP 2024	World Bank-IMF Risk of Debt Distress Rating	IDA 19 Percent of Total IDA Commitments	Debt to Private Creditors?	Share of Debt that is Concessional	IDA NCBP and SDFP^ Infringements (including waivers)
Bhutan	111%	Moderate	0.2%	Yes	26%	
Comoros	36%	High	0.2%	No	88%	2013 waiver, 2018 ceiling suggested, 2019 ceiling established
Djibouti	57%	High	0.3%	No	26%	
Kiribati	10%	High	0.1%	N/A	N/A	
Maldives	121%	High	0.1%	Yes	15%	2017, 2018, 2019 and 2023 hardened terms
Marshall Islands	17%	High	0.1%	N/A	N/A	
Micronesia	11%	Moderate	0.1%	N/A	N/A	
Samoa	29%	High	0.1%	No	63%	
Sao Tome and Principe	43%	In distress	0.1%	Yes	70%	2014 waiver
Solomon Islands	20%	Moderate	0.2%	No	91%	
Tonga	44%	High	0.2%	No	37%#	
Tuvalu	7%	High	0.1%	N/A	N/A	
Vanuatu	44%	Moderate	0.1%	No	50%#	
Average	**42%**	–	**0.15%**	–	**52%**	–

Source: WEO April 2024 General Gross Government Debt percent of GDP, World Bank DSA Ratings; IDA-19 Commitments and International Debt Statistics PPG, private creditors (DOD, current US$) 2022. Concessional debt is sourced from International Debt Statistics 2022 and is the sum of PPG, bilateral and multilateral concessional; divided by the sum of PPG, bilateral, multilateral and private creditors (DOD, current US$) N/A is not available. ^NCBP is the Non-Concessional Borrowing Policy and SDFP is the Sustainable Development Finance Policy. #Note that some of Tonga's and Vanuatu's debt to China does not show up in the International Debt Statistics as concessional in recent years, other sources indicate this debt likely is concessional. This may be the case for other countries as well.

The debt sustainability analyses carried out by the World Bank and IMF would play a central role in working out the scope for additional concessional borrowing, however this needs to more consistently factor in the effects of climate change. IDA grant recipient small states are assessed according to the Low-Income Country Debt Sustainability Framework (LIC DSF). This is currently under review. A key priority for small states in the medium term will be developing a consistent and prudent way to incorporate escalating climate impacts and the benefits of investing in adaptation to minimize these costs into the LIC DSF. Climate change and natural disasters are already incorporated into the debt sustainability assessments (DSA) of most small island states (SIDS). However, the longer-term risks from natural disasters and/or climate change are applied to the LIC DSF via judgment of IMF staff rather than a transparent and replicable methodology[xxviii] A 2023 World Bank Independent Evaluation Group report into the LIC DSF found that "DSA's for some SIDS treat financing for climate adaptation as both a source of fiscal stress and a necessity to maintain debt sustainability in the long term ... generally, DSA's suggest that this is a good use of resources, given it will reduce costly damages later." This thinking should be consistently applied across all DSAs. In August 2024, the IMF issued a Supplement to 2018 Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries. This Note highlights that the IMF is continuing to strengthen the inclusion of climate change in the LIC-DSF. However, the Note generally only requires the DSA authors to be clearer on how climate change has been factored into the assessment, without providing guidance on how this should be done. At present having a flexible approach is sensible as the macro-modelling of climate change is still relatively new for the Fund and predictions on the effects of climate change can change. However, there is a need for a more consistent approach in the areas outlined above, and the Fund should check that different approaches being applied are not resulting in different outcomes, particularly if this impacts the financing countries receive from the International Financial Institutions. In the meantime, the scope for flexible additional borrowing by small states would have to be worked out on a case-by-case basis at the country and project level.

Allowing greater flexibility in applying the existing LIC-DSF could help identify opportunities for scaled-up adaptation investment financed by concessional borrowing. The current LIC DSF requires all multilateral development bank (MDB) financing to be assumed to be provided on full credit terms to identify where MDB lending would lead to an irresponsible increase in debt and therefore grants or a mix of grants and loans should be provided.[xxix] This is critical to sustainable MDB lending decisions. However, applying this assumption too rigidly can underestimate the scope for useful additional borrowing in heavily aid-dependent countries.[xxx] In the case of Samoa, the IMF determined that financing its adaptation plans via additional debt was still an unsustainable proposition, despite the resiliency benefits. This conclusion however reflected the IMF analysis maintaining the usual assumption that Samoa would receive its MDB country allocations as loans, even though it is eligible and receives entirely grant financing.[xxxi] With annual MDB grants averaging 4 percent of Samoa's GDP, the IMF analysis assumed a large base amount of borrowing that will not occur, thereby limiting

the assessed scope for additional debt. If the analysis recognized that MDB country allocations take the form of grants, this would likely have revealed some meaningful scope for concessional loans to help meet Samoa's large adaptation needs. Several other small states are likely in a similar position: over half of the IDA-eligible small states at moderate or high risk of debt distress receive annual MDB grants equal to more than 2 percent of GDP. [xxxii]

This option to scale up concessional lending would need to be managed cautiously. Loans should only be provided for projects that could not otherwise be financed by grants due to the scale of funding needed and would need to be provided on concessional terms. Projects would also need to be carefully selected so that they provide sufficient returns relative to taking on debt financing. The World Bank offering this lending also should not set a precedent for other donors to switch from grants to loans. Rather this approach should be seen as an exceptional response to a critical problem, where grant financing is scarce and the resiliency benefits of scaled up adaptation investment warrant taking on the debt. Such treatment would be similar to the ability of IDA countries to access the Scale Up Window on IBRD terms on a case-by-case basis. Lastly, we acknowledge that many developing countries continue to advocate for adaptation financing to be provided on grant terms given the historic injustices of this issue. This option is proposed given the lack of grant financing that has been forthcoming for adaptation.

Option two: Strengthening consideration of the causes of debt distress when allocating IDA's grant financing

Given IDA is facing funding pressures in part due to more countries being rated at a higher risk of debt distress it is worth examining the causes for this and considering in future IDA cycles whether countries with poor debt management should continue to receive grant financing. Under IDA's Grant Allocation Framework, the risk of debt distress is the key factor influencing whether countries receive grants from IDA. This can inadvertently reward countries that mismanage their debt. As mentioned above many small states are preemptively rated at moderate or high risk of debt distress due to the low debt-carrying capacity of their economies. This contrasts with many other recipients of IDA grant financing who have a high risk of or in-debt distress ratings due in part to having taken on significant amounts of non-concessional debt. These countries are in effect 'rewarded' with more concessional grant financing from IDA for their 'poor performance'. For example, Table 5 below illustrates that some of the countries that are to receive the largest share of grants from IDA 21 have expensive debt to private bondholders including Ethiopia, and Mozambique. In IDA 19, Ethiopia received twice the funding allocation of all small states combined. Table 4 above shows that the small states that receive grant financing from IDA have typically not taken on this type of debt excluding Bhutan, the Maldives, and Sao Tome and Principe.

In 2020, IDA introduced the Sustainable Development Finance Policy (SDFP) which financially penalizes countries for debt mismanagement. Under the SDFP countries agree to performance and policy actions (PPAs) related to improving debt transparency, fiscal sustainability, and improving debt management. If a country fails to meet the PPAs then between 10- to 20 percent of IDA's annual country allocation can be withheld. [xxxiii] Repeated or severe breaches can lead to a hardening of IDA terms. Funding withheld is returned to the overall IDA pot and subsequently redistributed to countries that do not breach the SDFP. This implicitly can benefit countries that have not had poor debt behavior, including small states.

There are questions about the effectiveness of the SDFP in large economies given that its predecessor, the Non-Concessional Borrowing Policy (NCBP) established in 2006 was largely unsuccessful in these countries, and the financial incentives in the SDFP have not been strengthened. The NCBP "lacked the capacity to stem the rise in IDA-eligible countries' non-concessional external borrowing over the last decade". This was in large part because IDA's financing is small relative to other financing sources. A review of the NCBP found that public debt rose substantially in IDA countries over the period, but only modestly in small states where IDA financing is more critical. The SDFP has an expanded mandate with more countries and a wider analysis of debt dynamics, however, it does not have substantially stronger financial incentives to encourage good behavior. To date, the SDFP has only hardened terms for one country, a small state, the Maldives for repeated breaches of the non-concessional borrowing policy.

TABLE 5. Non-SEE IDA grant recipients sample of debt statistics

Non-SSE Countries that Receive Grants from IDA	Debt to GDP 2024	Risk of Debt Distress Rating	IDA 19 Percent of Total IDA Commitments	Debt to Private Creditors?	Share of Debt that is Concessional	IDA NCBP and SDFP^ Infringements (including waivers)
Afghanistan	11%	High	1.0%	No	48%	
Burundi	73%	High	0.7%	No	82%	2011 and 2013 waivers
Central African Republic	56%	High	0.6%	Yes	70%	
Chad	32%	High	1.4%	Yes	26%	2010 volume reduction, 2013–14 Waiver
Ethiopia	30%	High	6.0%	Yes	54%	2011 waiver, 2013–14 volume reduction and hardened terms, 2015 & 2016 hardened terms, 2017 no response, 2018 & 2019 hardened terms
The Gambia	64%	High	0.3%	No	64%	
Guinea-Bissau	77%	High	0.1%	Yes	37%	
Malawi	75%	In distress	1.3%	No	84%	
Mozambique	97%	High	3.6%	Yes	57%	2016 volume reduction and hardened terms, 2017 & 2018 volume reduction, 2019 no response and waiver
Sierra Leone	70%	High	0.6%	N/A	N/A	
South Sudan	48%	High	1.1%	Yes	N/A	
Sudan	280%	In distress	2.6%	Yes	13%	
Tajikistan	31%	High	0.8%	Yes	32%	2018 waiver and 2019 no response
Zambia	115%	In distress	0.9%	Yes	12%	2011–12 waiver, 2013–14 no response
Average	**76%**	**–**	**1.50%**	**–**	**48%**	**–**

Source: WEO April 2024 General Gross Government Debt percent of GDP – Afghanistan 2022, and Zambia 2023, World Bank DSA Ratings; IDA-19 Commitments and International Debt Statistics PPG, private creditors (DOD, current US$) 2022 and South Sudan. Concessional debt is sourced from International Debt Statistics 2022 and is the sum of PPG, bilateral and multilateral concessional; divided by the sum of PPG, bilateral, multilateral and private creditors (DOD, current US$). ^NCBP is the Non-Concessional Borrowing Policy and SDFP is the Sustainable Development Finance Policy. N/A is not available.

An alternative to the SDFP is introducing a variable that captures debt management into the grant allocation framework – this would likely benefit most small states. In 2021, the Inter-American Development Bank (IDB) introduced an index of non-concessional borrowing into consideration for the level of concessionality it provides to countries.[xxxiv] Non-concessional borrowing is measured as the sum of non-concessional public and publicly guaranteed external debt from private creditors and bilateral creditors, divided by the country's GNI. The IDB does not have an SDFP or NCBP equivalent. If an IDB-like approach was adopted it should benefit most small states as well as other IDA recipients, but details would need to be worked out. For example, given that some of IDA 21's largest grant recipients are those with past poor debt management including Ethiopia and Mozambique (see Table 5), if these countries' grant resources were constrained, this would free up resources to benefit other IDA recipients, including small states who typically have relatively good historic debt management (see Table 4).

However, there are several limitations to this alternative. First, it penalizes countries at a point in time for past behavior with little avenue to reward subsequent good behavior. The SDFP is future-focused and more responsive to changes in debt management. Secondly, this approach does not consider the frequency of poor debt management, and one bad decision can penalize a country for a long time. Thirdly, the data inputs would need to be carefully managed. For example, Tonga has a much larger share of non-concessional debt than Ethiopia with only 37 percent of Tonga's debt being concessional compared to Ethiopia at 54 percent – see Tables 4 & 5. In Tonga's case, this debt that is not reported as concessional likely stems from one instance of taking on loans from China in 2008. Unlike China's lending in other parts of the world, these loans to Tonga were concessional but this is not captured in the International Debt Statistics data.[xxxv] Tonga has not otherwise borrowed from non-concessional sources. Additionally, Ethiopia, on the other hand, has repeatedly taken on non-concessional debt over the last decade as indicated by its breaches of the NCBP.

A new way to factor in debt management by large economies is potentially needed for IDA's grant allocation. As both the SDFP and IDB approaches are relatively new, these mechanisms should be evaluated in the coming years for their impact on debt management practices. If the SDFP is found to be largely ineffective as the NCBP was in the past, especially in large IDA grant recipients, and these countries continue poor debt management practices, the validity of allocating future grants to these countries should be evaluated, particularly if grant resources remain constrained. This could result in a future mechanism where an SDFP-like approach is used for smaller countries where it is effective, and for larger countries where the SDFP does not have an impact another approach is adopted with harder terms for poor past performers.

New instruments for disaster response

Beyond adaptation finance, small states have a significant need for improved disaster financing. In June 2023, the World Bank launched its Comprehensive Toolkit to Support Countries after Natural Disasters which contains new initiatives to scale up financing available. Historically small states have benefited the most from IDA's disaster products when they provide new funding, and countries can control their access to these (rather than being dependent on a disaster meeting a predefined trigger). These tools have typically been small relative to the size of the disaster. New tools designed to scale up financing in disasters mostly provide flexibility for using existing funding, rather than new resources. These tools range in the size of their response and the degree of control countries have in using them. Ideally these new tools will provide countries with greater flexibility for using their World Bank funds and could be deployed together for a greater impact. As these tools are new, their usefulness is untested.

Historical tools: Avenues to receive more funding when a crisis occurs are highly valued by small states

DPF Cat-DDOs and the Crisis Response Window have been useful but are small in scale

SEE countries frequently take up opportunities to access IDA funding beyond their country allocation. The World Bank offers a Development Policy Financing Catastrophe Deferred Drawdown Option (DPF Cat-DDO), where countries can receive immediate financing to address natural disasters and/or health-related events. This financing is generally sourced from the country's IDA allocation and additional IDA resources. Accessing this financing is within the country's control usually based on a declaration of a state of emergency. Thirty-five countries appear to have or have had a DPF Cat-DDO, with three more in the pipeline, around 40 percent of these are SEEs – or to put this another way, nearly two-thirds of SEE countries have had or are considering a DPF Cat-DDO.[xxxvi] DPF Cat-DDOs need to be renewed every three years. Most small states where enough time has passed appear to have renewed these.[xxxvii] Another example of how small states can access additional funding is the Crisis Response Window (CRW). The CRW provides financing when a severe external economic shock, health crisis, or natural disaster occurs. A country's access to and the amount received from the CRW depends on the magnitude of the impact of the crisis, the country's access to alternative sources of financing, and a country's ability to use its own resources. Since FY18 a fifth of SEE countries have accessed the CRW, excluding the COVID-19 years of FY20 and FY21 where nearly every country accessed the CRW.[xxxviii]

A limitation of these instruments is their small size relative to major disasters. For example, in 2022 the Hunga-Tonga-Hunga-Ha'apai volcanic eruption and subsequent tsunami near Tonga caused US $182 million in loss and damages, equivalent to over a third of Tonga's GDP. It was the most explosive volcanic eruption in the world in nearly 30 years. IDA provided an unprecedented level of support with Tonga's Cat-DDO disbursing US $8 million and the CRW providing an additional US $15 million. However, with support from other donors and the Tongan government, there was still a significant financing gap of $20 million or 4 percent of GDP in FY22 for recovery efforts.

Initiatives in Sovereign Disaster Insurance have at best been building blocks for future initiatives: CCRIF SPC and PCRAFI

Historically small states have been the first movers in World Bank sovereign disaster insurance, however, to date these programs have at best been building blocks for future initiatives. The two main programs have been the Caribbean Catastrophe Risk Insurance Facility (CCRIF SPC) which included the use of a Catastrophe Bond, and the Pacific Catastrophe Risk Assessment and Financing Initiative (PCRAFI). According to a 2022 World Bank Independent Evaluations Group (IEG) Report on Reducing Disaster Risks from Natural Hazards, these initiatives have "only been partially successful". While 22 countries have joined the CRRIF SPC, these countries "have not significantly increased their [disaster insurance] coverage". Less than half of the eligible countries participated in the PCRAFI, and half of the participating countries have discontinued their involvement because the disasters experienced did not meet the insurance payout trigger. This has left just three active members. Though the new iteration of the Pacific Catastrophe Risk Insurance Foundation now has six members. Overall, the IEG report found that "disaster insurance activities have had a limited impact because insurance programs have had difficulty in reaching scale. However, these activities have made progress in awareness raising, capacity building, and product development ... which are important building blocks for future progress on insurance." Additionally, previously for these initiatives countries had to cover the costs of insurance premiums. The new Disaster Toolkit allows countries to embed the cost of insurance into their IDA operations. This may improve the affordability and take-up of these instruments. However, this expense would need to be worthwhile relative to other potential IDA investments.

New tools: More flexibility in using existing financing during crises is yet to be fully rolled out and tested

Given that the above tools do not provide sufficient scale, the World Bank has created several new instruments that allow countries to use their existing financing more flexibly in a disaster. These instruments typically do not provide new funding. As these tools are relatively new their take-up, usefulness in a disaster, and impact on other programming in the country remains to be seen. Going forward this should be evaluated individually for each instrument, and collectively to determine if these instruments work together to provide a greater level of assistance.

Expanded disaster draw-down options: Rapid Response Option (RRO), DPF Cat-DDO scale up, and IFP-DDO – early days with some take up by small states

The World Bank has recently introduced three new disaster financing options that allow countries to access some of their unused funding when a crisis occurs, however, it remains to be seen how this will impact other World Bank programming in countries when accessed. The Rapid Response Option (RRO) "allows countries to quickly repurpose a portion of their unused Bank financing across their portfolio to address emergency needs during a crisis." Seven countries have adopted the RRO, three of them small states: Belize, Grenada, St. Lucia. The Scalable DPF feature increases "disbursements related to the DPF Cat-DDO if a substantial shock occurs". Given the large take-up of DPF Cat-DDO's by small states, it is anticipated that this tool could be useful as it allows for a greater level of budget support funding to become available in disasters. In addition, the World Bank has doubled the country limits on Cat-DDO's with special provisions to increase access for small states. Lastly, Investment Project Finance (IPF) DDOs will provide contingent finance for pre-specified expenditures related to an existing project if a trigger event occurs, and where other instruments to support this are unavailable. As of April 2024, only two non-small states, Malawi and Burundi, have taken up IPF-DDOs. Interest in these options will likely depend on the intersection of disasters and World Bank programming in countries. As these instruments are untested, it remains to be seen what the implications could be for other World Bank programming in these countries if funding is diverted away from these activities to disaster response.

Climate Resilient Debt Pause Clauses are likely to be more useful to wealthier small states

In December 2023, the World Bank announced that it would expand its plans for Climate Resilience Debt Clauses (CRDCs) offering 45 small states the ability to pause debt service on all existing World Bank loans in the event of an earthquake or tropical cyclone meeting predefined triggers. This provides temporary liquidity support for up to two years but does not change a country's debt to the World Bank. The countries that are more likely to be interested in using these clauses are thought to be wealthier small states that have historically borrowed from IDA and/or the IBRD, rather than the less well-off countries that have historically received grant financing. The World Bank announced the introduction of these clauses just over a year ago. To date, it appears that only blend and IBRD countries have taken these up: Bahamas, Barbados, Belize, Grenada, Montenegro, St. Lucia, and Saint Vincent and the Grenadines. The World Bank recently announced that the 5 basis points per annum fees associated can be covered by other parts of the World Bank. This may mean that more countries will take up the offering, even if the amount of debt to be paused is not large.

The relative usefulness in response to disasters remains to be seen. The first adopter countries on average have high debt to GDP at 77 percent[xxxix] and the World Bank makes up around 13 percent of

their debt service annually going forward.[xl] The potential debt pause is material at around $10 million annually.[xli] However, this may not be significant in comparison to the size of a disaster as this amount equates to these country's *annual average loss* from earthquakes and tropical storms, with actual disasters typically being much larger events – noting that CCDRs are to provide liquidity and be used in conjunction with other disaster financing tools.[xlii] Lastly, the design of the World Bank's triggers for payment for these events is also yet to be tested.

The World Bank could have a demonstration effect for other creditors. This is critical as these tools are thought to be more effective when they are offered by all creditors. The World Bank and other MDBs should explore offering these clauses for a wider range of events and to more countries. The Inter-American Development Bank was the first MDB to offer these clauses, and most other large MDBs are now exploring them. Only two countries, both small states, have fully adopted these clauses into their external debt stock, Grenada and Barbados.

Key administrative reform issues for small states

There is a need to improve the way the World Bank operates administratively and collects data in small states. Small states are capacity-constrained with smaller institutions than many other IDA countries. Additionally, given the lower volume of overall IDA financing, these countries receive less corporate attention from the institution. The below explores the implications of this in the new World Bank Scorecard, SimplifIDA, and Country Opinion Surveys.

The introduction of a World Bank Scorecard presents opportunities and risks for small states. The Scorecard aims to have a clearer focus on development outcomes rather than money out the door and as such consists of 22 indicators rather than the current 150.[xliii] Initial results released in June 2024[xliv] demonstrate that small states have made good progress through debt sustainability reforms, but are falling short in areas like education, water and sanitation, electricity access, and food security. For small states, disaggregation of results will ensure that IDA's performance and areas for improvement are accurately understood without the influence of results from larger countries. But for greater impact, the Bank should avoid overemphasizing absolute figures, given the small populations of these states, and instead recognize performance diversity within the group. Meanwhile, perennial data quality issues could also pose challenges for ensuring adequate and timely coverage in small states. Thus, streamlining efforts will benefit small states, but striking the right balance remains crucial.

Efforts to streamline administrative processes could increase the speed and impact of IDA development solutions and be especially beneficial for capacity-constrained small states. IDA is seeking to reduce the complexity of its policy and financing framework through the SimplifIDA initiative.[xlv] This effort responds to client concerns about operational delays caused by cumbersome

processes, which have proven especially problematic and burdensome for small states with limited capacity. Nearly one-fifth of respondents in small states identified slow and complex procedures as a key weakness of the World Bank in the Country Opinion Survey Program.[xlvi]

Improvements in the World Bank's data initiatives are needed to better capture the interests of small states. Since 2012, the World Bank's Country Opinion Surveys (COS) Program has surveyed 131 countries to measure and track clients' development priorities and perceptions of the World Bank Group, guiding project priorities and operational decisions. Yet only 56 percent of IDA small states have been included.[xlvii] This gap stems from poor coverage in the Pacific Islands, which constitute almost half of the current IDA small states group. Only the larger islands – Fiji and the Solomon Islands – have been surveyed, overlooking the views of the more vulnerable micro-states, such as Kiribati, Samoa, and Tonga, despite IDA's longstanding presence in these countries. At a minimum, the Country Opinion Surveys should include all client countries to comprehensively and fairly inform operational and policy planning.

Conclusion

A successful IDA 21 replenishment will be vital for small states, but key policy reforms could also improve the World Bank's effectiveness in these countries. Given the financial pressures facing IDA, a strong replenishment is required from donors. Changes that would reduce access for small states or harden their financing terms would impose high costs on these countries while freeing up little in additional IDA resources. The Small States Exception helps ensure these more vulnerable countries have access to IDA. Small states use the concessional window to invest in adaptation, though this is concentrated in place-based resilience, likely neglecting people-based resilience investments. Looking forward, IDA needs to explore how to provide small states with a greater volume of adaptation finance. Allowing small states to trade some of their grant financing for expanded volumes of concessional loans for adaptation could be one way to do this. A stronger focus on the causes of debt distress when allocating IDA's volume of grant financing would also likely benefit many small states which generally run relatively prudent fiscal policies. Recent innovations in IDA's programming toolkit aimed at enhancing resilience offer potential benefits to small states, however, some of the changes are less relevant to poorer and more vulnerable countries. Lastly, while World Bank administrative reform efforts could be beneficial for capacity-constrained small states, a focus on addressing data-related issues will be critical.

Endnotes

i. Note for an IBRD small state to enter IDA it must have a GNI per capita below the IBRD Graduation Discussion Income Level. As some existing SEE countries are above this, we use the High Income cut-off that is used for hardening terms to SEE countries.

ii. World Development Indicators Population 2023.

iii. SEE countries. Source: https://ida.worldbank.org/en/financing

iv. Authors' calculations using the OECD Creditor Reporting System and World Bank Open Data GDP (current US$) 2018–2022.

v. For the 20 SEE countries that have historically received IDA financing over this period. OECD Statistics DAC 3A IDA current prices as a percentage of Official Donors ODA Commitments, and Creditor Reporting System, ODA commitments current prices, and World Development Statistics GNI current USD.

vi. Authors' analysis of the most recent reports for the 14 out of 23 small states participating in the World Bank Country Opinion Program including Bhutan (2019), Cabo Verde (2023), Comoros (2021), Djibouti (2023), Fiji (2023), Eastern Caribbean States (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) (2021), Eswatini (2021), Maldives (2021), Sao Tome and Principe (2023), Solomon Islands (2021), and Timor Leste (2020).

vii. From the recent Mid Term Review: "Countries are granted the Exception once their per capita income crosses the IDA operational cut-off and it allows them to remain eligible for highly concessional loan terms that IDA offers… The Exception allows SIEs that are in principle Gap countries to remain classified as IDA-only countries, thus potentially becoming eligible for IDA grants depending on their risk of external debt distress. In 2019, the then Small Island States Exception (SIEE) was revised to allow IBRD-only SIEs to be eligible for the exception, as a result of which, Fiji was granted the exception effective 1st July 2019."

viii. Authors' calculations are based on a simplified calculation assuming an IDA21 of $100 billion and therefore $33 billion provided annually and the calculations provided in the MTR document paragraph 51 assume 1 SDR = 1.33 USD.

The changes will impact six countries. For existing IDA countries, Bhutan, Djibouti, and Timor-Leste, will now fall under the SEE. These countries already receive access to small island credit terms resulting from a decision under IDA18. The key change is that Bhutan and Djibouti are now eligible to receive grants. For countries previously receiving finance only from the World Bank's hard lending window, the International Bank for Reconstruction and Development (IBRD): Belize, Eswatini, and Suriname have gained access to IDA with Blend financing terms. Note that Suriname's application is still being processed. The inclusion of these countries in IDA was based on per capita income levels,

vulnerability to natural disasters and long-term climate change, and access to commercial finance. Vulnerability to natural disasters and long-term climate change is measured by if a country falls in the highest or second-highest quintile of vulnerability as measured by the CRI or EVI, or is classified as "high risk" or "very high risk" by the WRI, it will have met the vulnerability criterion for entry/re-entry. These countries could benefit from IDA access: their GNI per capita is lower than several IDA small states (see Figure 2 above) and other IBRD small economies are far wealthier (this last group of countries would need to see their GNI per capita income fall by at least a third before becoming eligible for IDA under this rule). Authors' calculations based off World Development Indicators GNI Atlas Method 2023 and IBRD GDI criteria cut off USD 7,805 and other criteria outlined on page 26 of the mid-term review document.

ix. Source: Trading Economics.

x. Source: https://ida.worldbank.org/en/financing using IDA 19 commitments. Additionally, these countries on average receive two-thirds of the IDA allocation of other SIEE countries around a tenth of the allocation of other non-SIEE countries using IDA 19 commitment.

xi Dominica, St. Lucia, and St. Vincent and the Grenadines have had no gross disbursements from the IBRD since 2014 Source: IBRD Net Flows & Commitments Trend chart | WBG Open Finances (worldbank.org). Fiji is excluded here as it was an IBRD-only country until 2019.

xii. Source: Trading Economics.

xiii. Measured as no gross disbursements in the last five years: Equatorial Guinea, Mauritius, Namibia, Nauru, Palau, St. Kitts and Nevis. In addition, Trinidad and Tobago only started borrowing recently and Montenegro borrows but has consistent net negative transfers. Source: IBRD Net Flows & Commitments Trend chart | WBG Open Finances (worldbank.org) and list of small states. World Development Indicators GNI current USD and population.

xiv. World Development Indicators Population and GNI current USD.

xv. "The Caribbean Development Bank (CDB) and the International Fund for Agricultural Development (IFAD) have incorporated a vulnerability index into their allocation formulas (i.e., for determination of resources). In 2020, the Asian Development Bank (AsDB) introduced an economic vulnerability premium for small island states that are eligible for Asian Development Fund grants and in 2023, it introduced new financing terms for eligible SIDS that are similar to IDA's Small Economy Terms. In 2021, the Inter-American Development Bank (IDB) incorporated a vulnerability index for determination of financing terms/concessionality." May 2024 World Bank Document.

xvi. The 2019 SEE entry criteria for IBRD-only small states requires a country falls in the highest or second-highest quintile of vulnerability as measured by the climate indexes CRI or EVI; or is classified as "high risk" or "very high risk" by the WRI.

xvii. For a discussion on how the Inter-American Development Bank considers vulnerability please see: A Comment on IDA's Debt Sustainability Framework | Center For Global Development (cgdev.org).

xviii. The top and second most vulnerable quintiles.

xix. For the list of countries considered we use the World Bank Small States Forum Members.

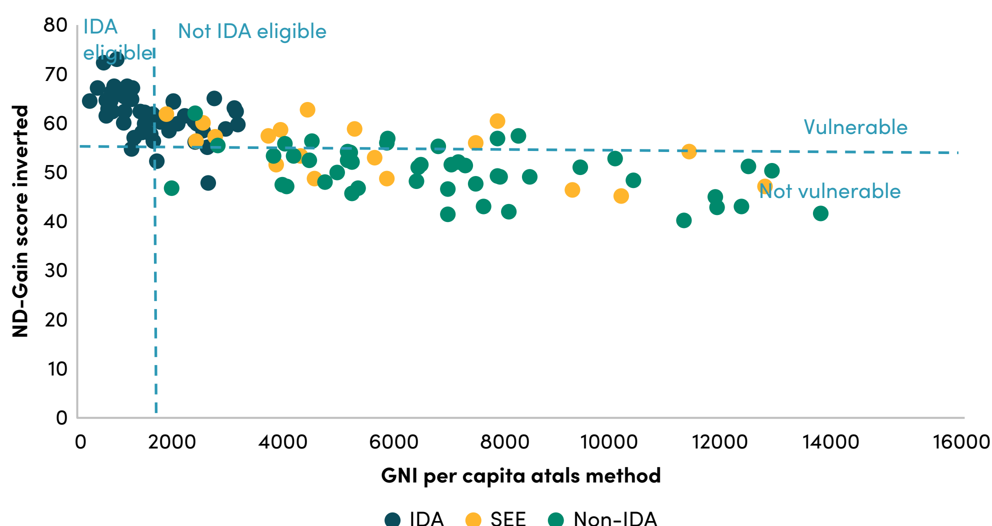
xx. Trading Economics.

xxi. World Development Indicators GNI per Capita Atlas Method.

xxii. World Development Indicators GNI per Capita Atlas Method.

xxiii. World Development Indicators GNI per Capita Atlas Method and Population.

xxiv. We also examined the ND-Gain Index 2021 as the other major climate vulnerability index and similarly found that the SEE performs better for the countries it serves.



xxv. Source: https://hdr.undp.org/data-center/human-development-index#/indicies/HDI 2022.

xxvi. Sourced from OECD recipient perspective on development finance for climate and the environment.

xxvii. Authors' analysis of the most recent reports for the 14 out of 23 small states included in the World Bank Country Opinion Program including Bhutan (2019), Cabo Verde (2023), Comoros (2021), Djibouti (2023), Fiji (2023), Eastern Caribbean States (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) (2021), Eswatini (2021), Maldives (2021), Sao Tome and Principe (2023), Solomon Islands (2021), and Timor Leste (2020).

xxviii. The LIC DSF accounts for the short and medium-term impacts of natural disasters.

xxix. See the IMF LIC-DSF staff guidance note (paragraph 37): "For the World Bank (IDA) and other MDBs, regular credit terms on all lending should be assumed for all years in the projection

period for which grant finance has not already been committed." https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf.

xxx. See the discussion of this in the Pacific Islands during COVID-19 in Rajah and Dayant (2022), *Pacific Islands' debt: financing post-COVID-19 recovery amid precarious sustainability* in ADB: https://www.adb.org/sites/default/files/publication/788366/sustainability-asia-debt.pdf.

xxxi. See above source: Analysis by the authors shows that treating MDB financing as grants rather than loans while retaining other IMF projection assumptions suggests Samoa would stay below the relevant debt-to-GDP warning threshold over the 20-year horizon used by the IMF analysis.

xxxii. Authors' calculations using the OECD Creditor Reporting System and World Bank Open Data GDP (current US$) 2018–2022.

xxxiii. Note that for IDA 21 it is proposed that countries subject to the SDFP instead start with a lower country allocation and receive a top-up payment when they satisfactorily complete their PPAs shifting the SDFP from a negative to positive incentive. However, overall, this does not appear to be a change to the amount of financing a country can access.

xxxiv. The IDB does not have an SDFP or NCBP equivalent but has relied on the IMF and World Bank policies on non-concessional borrowing and has an income cut-off for concessional resources more than twice that of IDA resulting in some higher-income countries at high risk of debt distress receiving highly concessional financing.

xxxv. In the International Debt Statistics, PPG Concessional DOD Tonga and Vanuatu's debt to China does not show up as concessional in recent years. Some of China's debt to other countries does show up as concessional.

xxxvi. We searched the World Bank documents database and World Bank project list for the terms "Cat DDO" and "Catastrophe Deferred Drawdown Option" on 18 July and 26 July 2024 respectively and extracted from this a list of countries that came up in the search and had program documents associated. These include Benin, Bhutan, Colombia, Costa Rica, Cabo Verde, Dominica, Dominican Republic, Fiji, the Gambia, Grenada, Guatemala, Honduras, Kenya, Kiribati, Sri Lanka, Mauritania, Morocco, Madagascar, Marshall Islands, Maldives, Malawi, Nepal, Panama, Peru, Philippines, Romania, Seychelles, El Salvador, Tonga, Tuvalu, St. Vincent and the Grenadines, Vanuatu, Samoa, Serbia and the Solomon Islands. St. Lucia, Rwanda and Tajikistan appear to have CAT-DDO's in the pipeline.

xxxvii. Using the same dataset above we examined the date range of the documents provided to see if they spanned a six-year period (allowing for time before the projects were up and running).

xxxviii. Cabo Verde, Comoros, Djibouti, Dominica, and Tonga.

xxxix. IMF WEO April 2024 General government gross debt percent of GDP Bahamas, Barbados, Belize, Grenada, Montenegro, St. Lucia and St. Vincent and the Grenadines.

xl. International Debt Statistics, PPG Debt Service 2025 to 2029 Belize, Grenada, Montenegro, St. Lucia and St. Vincent and the Grenadines to IDA and IBRD as a percent of World. Bahama's and Barbados are not available.

xli. Average debt service payments to the World Bank fall to $5 million if Montenegro is excluded.

xlii. Annual Average Loss available for Belize, Grenada, and St. Lucia. Estimates not found for the other countries.

xliii. World Bank (2024). https://www.worldbank.org/en/news/press-release/2024/04/09/world-bank-group-announces-new-approach-to-measuring-impact.

xliv. World Bank (2024). World Bank Group Scorecard https://scorecard.worldbank.org/content/dam/sites/scorecard/doc/WBG-Scorecard-June-release.pdf.

xlv. World Bank (2024). International Development Association 21st Replenishment: Proposed strategic directions https://documents1.worldbank.org/curated/en/099051724171538554/pdf/BOSIB19313f22e0391841d1e0f6ea594ec9.pdf.

xlvi. Authors' analysis of the most recent reports for the 14 out of 23 small states included in the World Bank Country Opinion Program including Bhutan (2019), Cabo Verde (2023), Comoros (2021), Djibouti (2023), Fiji (2023), Eastern Caribbean States (Dominica, Grenada, St. Lucia, and St. Vincent and the Grenadines) (2021), Eswatini (2021), Maldives (2021), Sao Tome and Principe (2023), Solomon Islands (2021), and Timor Leste (2020).

xlvii. World Bank Country Opinion Surveys Program https://www.worldbank.org/en/programs/world-bank-country-opinion-surveys#:~:text=The%20World%20Bank%20Group%20Country,client%20countries%20across%20the%20globe.