

Third International Conference on Small Island Developing States

International Monetary Fund Statement for the Plenary Session September 4, 2014 Apia, Samoa

Small states are an important constituency of the International Monetary Fund (IMF). They account for more than a fifth of the 188 IMF members. Three out of four small states are islands or widely dispersed multi-island states. Small states are a diverse group representing all income categories, but all of them face size-related constraints and their economies have unique features, such as relatively higher costs, higher public spending needs, and more volatile economies vulnerable to external shocks. Unfortunately, Small States' economic growth has not matched the improved economic performance of the rest of the world since the late 1990s, despite many efforts over the years.

The Fund has increasingly recognized the unique challenges and specific features of small states. It has stepped up its engagement with small states to address their needs more effectively, but more remains to be done. In a recent speech to Caribbean members, the IMF Managing Director reiterated that success in adapting to a new global environment and ensuring sustainable and shared prosperity will require "*ownership, stewardship, and partnership*. Ownership of the reform program—so that all citizens have a stake in success. Stewardship of the economy—nurturing its resources and

investing in its people. Partnership with each other and with the international community—including the IMF.”

The IMF promotes international financial stability and monetary cooperation. It also seeks to facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Its activities include multilateral and bilateral surveillance, financial assistance and capacity development.

Surveillance. To maintain stability and prevent crises in the international monetary system, the IMF reviews not only country policies but also regional and global economic and financial developments through a formal system known as surveillance.

The deterioration in small states’ relative economic performance since the late 90s warranted a review of the small states challenges to promote improved dialogue and partnership with small states. This was achieved through a review of macroeconomic issues in small states and their implications for Fund engagement, which was discussed in a series of papers by the IMF Board of Executive Directors in 2013. A Staff Guidance Note on Fund Engagement with Small States was published in March 2014; it provides operational guidance on Fund engagement with such countries, including on how small country size might influence the use of Fund facilities and instruments, program design, capacity building activities, and collaboration with other institutions and donors.

In addition to this analytical work, internal Fund collaboration has increased and a small states group was formed to facilitate

the sharing of insights and lessons learned by Fund staff. A work program aims at providing better policy advice to small states, encouraging policies that foster economic stability and inclusive growth, and helping countries reduce their vulnerability to economic and financial shocks and raise living standards. Several of the IMF's Executive Board members have also created a working group on economic issues in small states. The IMF publishes a series of regional economic outlooks that are of particular relevance to small states; and it continues to fine-tune its engagement in small states members through various outreach activities and participation in conferences and fora on small states, such as this 2014 SIDS Conference.

Financial assistance. The second way the Fund helps is through its lending and financial support of economic and financial reform programs. IMF financing provides member countries the breathing room they need to correct balance of payments problems. Seychelles is an excellent example of a small state that has been able to address its macroeconomic difficulties through ownership, stewardship and partnership, including active Fund support.

The recent global crisis called for a global response, and the IMF's safety net played an essential role in avoiding an economic meltdown. The IMF did what it was founded to do. It has worked hard since the crisis broke out six years ago—making 159 new lending commitments and disbursing almost \$200 billion to help ease the pain of adjustment in countries all across the world. It did it by partnering with countries and supporting their efforts to get out of crisis. These countries include SIDS such as Antigua and Barbuda, St. Kitts and

Nevis, Grenada, the Solomon Islands, the Comoros, and Sao Tome and Principe. The Fund also helped countries get back on their feet after the devastation of natural disasters—including in Haiti, Dominica, St. Lucia, St. Vincent and the Grenadines, and the Solomon Islands. Encouraging progress toward restoring economic stability has been achieved in these countries that are navigating their way through difficult reforms. For example, public debt has fallen by 15 percent of GDP in Antigua, and by one third in St. Kitts and Nevis. In some countries, growth is on the rebound—St. Kitts and Nevis, for example, grew by almost 4 percent last year, after years of decline.

To better support its member countries, the IMF increased its lending capacity and approved in 2009 a major overhaul of its lending facilities framework by offering higher amounts and tailoring loan terms to countries' varying strengths and circumstances. In particular, the non-concessional Rapid Financing Instrument (RFI) was introduced to replace and broaden the scope of earlier emergency assistance facility. Criteria to qualify for concessional lending under the Poverty Reduction and Growth Trust (PRGT) were further eased in 2013: they allowed three Pacific micro states to be eligible (Marshall Islands, Micronesia, and Tuvalu), and kept Dominica and St Vincent and the Grenadines PRGT eligible—they would otherwise have graduated. The interest rate on Fund concessional lending has been kept at zero percent until end-2014.

Capacity building. The third way the IMF helps is through capacity building—technical assistance and training. This is about helping countries design, build, and strengthen the

institutions that make up the core building blocks of economic success. The Fund is heavily involved in helping small states build capacity, including through its regional technical assistance centers in Barbados, Fiji and Mauritius.

A changing IMF, the way forward. The ownership of reforms and stewardship of economic and financial policies go hand in hand with strengthened partnership, a key focus of this conference. How a changing IMF can help changing small states?

Today, the Fund is putting the highest priority on growth and jobs. It is getting more involved in less traditional areas that matter for growth and stability—such as taming excessive income inequality, grappling with climate change, and encouraging policy reforms that make labor markets more attractive to women. It is putting more emphasis on protecting social safety nets and sharing the burden of adjustment fairly. Small states are particularly concerned by inclusive growth, debt accumulation, and climate change, as well as competitiveness issues, business climate and energy costs.

Looking forward, the IMF remains committed to build stronger partnerships with small states and SIDS, and help them address their economic challenges with appropriate policy answers and financial support. It will draw the lessons from this conference and integrate them in its activities and work program.