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Independent Evaluation Group

THE WORLD BANK

Small States: Making the Most of Development Assistance

A Synthesis of World Bank Evaluation Findings

THE WORLD BANK GROUP

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A Synthesis of World Bank Evaluation Findings

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Preface

At the request of the Committee on Development Effectiveness Subcommittee, this synthesis note highlights findings and lessons from Independent Evaluation Group (IEG) evaluations of the Bank's activities in small states. This note drew from Country Assistance Evaluations, IEG's review of the completion reports for Country Assistance Strategies (CAS), Implementation Completion Report (ICR) Reviews, and Project Performance Assessment Reports (PPARs).

This note is based on a background paper by V.V. Desai. The final synthesis note was prepared by Gene Tidrick and Barbara Yale. Jane Hwang provided research and data support. William B. Hurlbut provided editorial assistance. Caroline McEuen edited the note for publication. Vikki Taaka provided administrative assistance.

This note includes a contribution of the Independent Evaluation Group of the World Bank's International Finance Corporation (IEG-IFC) (see box 3.1), prepared by Hiroyuki Hatashima.

ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
APL	Adaptable Program Loan
AusAid	Australian Agency for International Development
CAE	Country Assistance Evaluation
CAS	Country Assistance Strategy
ESW	Economic and sector work
FIAS	Foreign investment advisory services
GNI	Gross national income
ICR	Implementation Completion Report
IDA	International Development Association
IDI	Institutional development impact
IEG	Independent Evaluation Group
IFC	International Finance Corporation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD-DAC	Organisation for Economic Co-operation and Development, Development Assistance Committee
OECS	Organization of Eastern Caribbean States
PRSP	Poverty Reduction Strategy Paper
TAAS	Technical assistance and advisory services
UN	United Nations
XPSR	Expanded Project Supervision Report

Distinguishing Characteristics of Small States

From 1998 to 2000, the Small States[1] Task Force, a joint effort of the World Bank and the Commonwealth Secretariat,[2] deliberated on the unique circumstances of small states in a rapidly globalizing economy and worked toward a strategy to assist those countries with their transition. A follow-up effort has included several conferences on small state issues and led to a recent review of the international agenda for small states (Briguglo, Persaud, and Stern 2005).

IEG has prepared this synthesis note as an input to the ongoing process surrounding this agenda. Its purpose is to provide a perspective on some of the issues small states face through a review of World Bank experience with country and project assistance.[3]

Small states, generally countries with a population of fewer than 1.5 million, are a very diverse group. They are also numerous: at least 45 of the Bank's member states—nearly a third of its total membership—fall into this category. A few of these have high incomes. What the others share, according to the Small States Task Force, is:

- *Remoteness and Insularity.* Many of the small states are islands, which are located far from major markets.
- *Susceptibility to Natural Disasters.*[4] Most small states are in regions frequently affected by diverse climatic and other natural events, which

Box 1.1: Sources of Data and Analysis

This synthesis note is based on World Bank assistance experience in 33 small states. Information and analysis was drawn from the IEG Country Assistance Evaluations for Bhutan, Jamaica, Lesotho, Maldives, and nine Pacific islands as a group (Fiji, Kiribati, Marshall Islands, the Federated States of Micronesia, Palau, Samoa, Solomon Islands, Tonga, and Vanuatu), and a number of IEG reviews of completion reports for Country Assistance Strategies.

It also draws from the project Implementation Completion Report Reviews and Project Performance Assessment Reports of 197 Bank projects completed during the period 1995–2005. Other Bank and non-Bank documents, progress reports submitted to the 2002–2004 Small States' Forum, and the Asian Development Bank's "Pacific Strategy 2005–2009" (ADB 2004) were also consulted.

typically impact the entire population and economy when they occur, in contrast to larger states.

- *Institutional Capacity Constraints.* Small states face higher per capita costs than do larger economies to provide public services.

- *Limited Economic Diversification.* Because of narrow resource bases and small domestic markets, the production base and exports of small states are often undiversified.

- *Openness.* Small states tend to rely heavily on external trade and foreign investment to overcome their scale and resource limitations, increasing their vulnerability to external economic and environmental shocks.

- *Income Volatility and Poverty.* Some evidence points to higher levels of poverty and more uneven distribution of income in smaller states.

Small states receive substantial amounts of Official Development Assistance (ODA) relative to the size of their economies and populations.[5] During 1999–2003, they received an annual average of $201 per capita, while the average for all developing countries was $12 per capita ($18 per capita for all developing countries excluding India and China) (see figure 1.1, appendix A). ODA is also a high proportion of the gross national income (GNI) of small countries: it averages almost 15 percent of GNI in small states, compared with about one percent for all other developing countries.

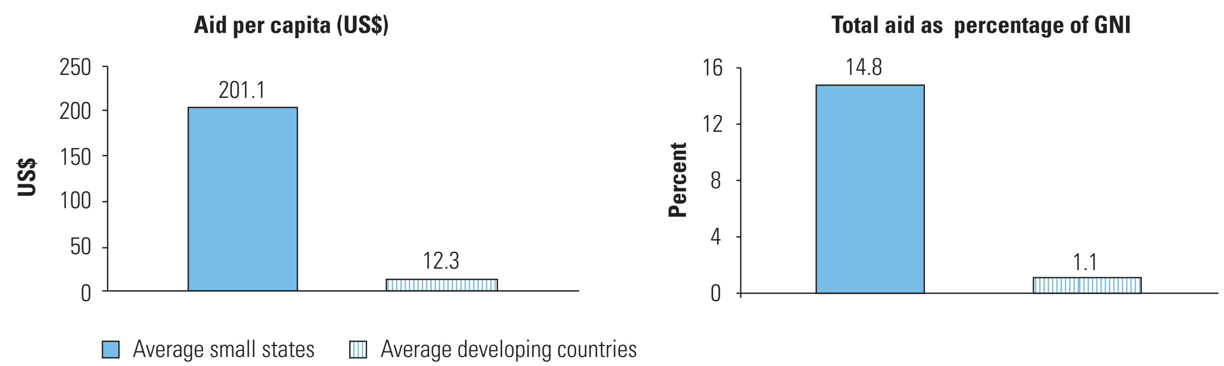
Small States receive substantial amounts of ODA relative to the size of their economies and populations.

The Bank also provides more ODA per capita to small states ($12.50) than to other developing countries ($2.30) (see figure 1.2). But because of the high level of other ODA—most of it in the form of grants—the Bank is a small player in most small states. World Bank financing constitutes only about 6 percent of the total assistance they collectively receive, compared with about 19 percent for all developing countries[6] (see figure 1.3).

IEG has found that this lending also tends to be slow and sporadic. In the Maldives, for example, the Bank financed six projects for $47 million over a 21-year period. Such a lending profile results in discontinuities in policy dialogue and staffing that can be detrimental to long-term outcomes.

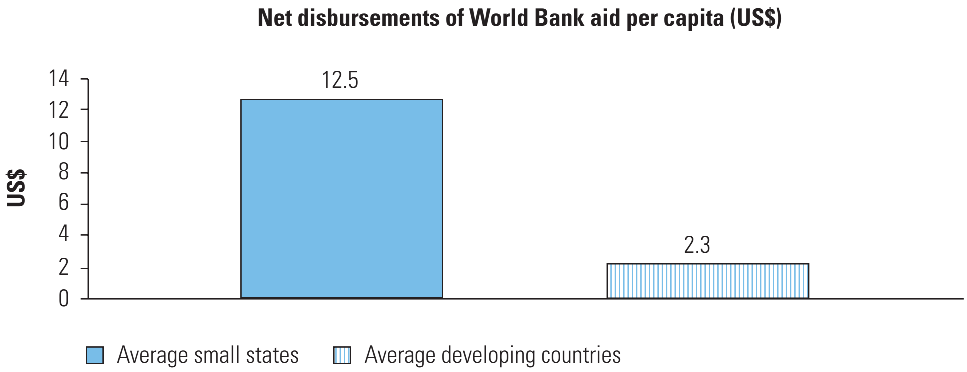
The cost of Bank operations in small states results from higher-than-average processing costs, as well as high supervision costs. The higher processing costs arise, in part, from having to spread relatively fixed preparation costs over small loan amounts. But they are also caused by the high incidence of projects aborted

Figure 1.1: Small States Receive More Aid



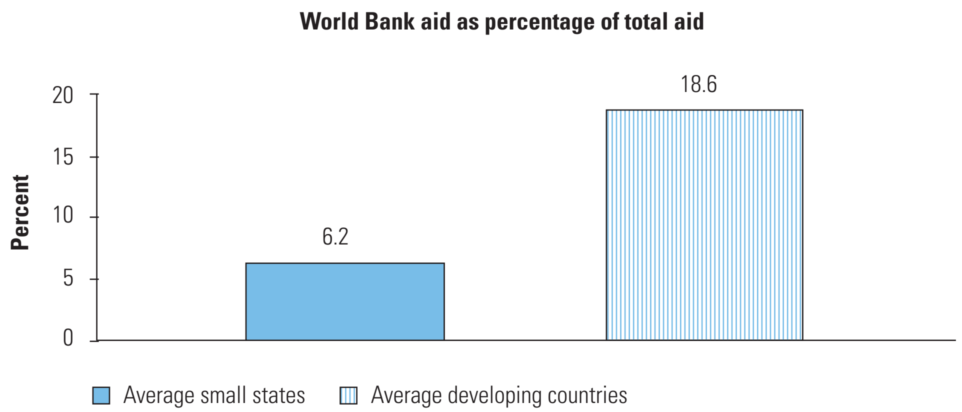
Source: OECD, DAC database, "Reference Section: Total Official Flows," World Bank database.

Figure 1.2: World Bank also Provides More to Small States



Source: OECD, DAC database, "Reference Section: Total Official Flows," World Bank database.

Figure 1.3: But the World Bank Is a Relatively Small Player



Source: OECD, DAC database, "Reference Section: Total Official Flows," World Bank database.

before approval and by large cancellations of commitments after approval. In the Pacific Islands, for example, nearly three projects were dropped for every one approved, compared with an overall Bank average of one for one.

Bank-wide, between 1995 and 2005, the percentage of dropped projects in small states was one and a half times greater than the Bank average (see table 1.1). Supervision costs are higher because missions are often supervising only a single loan, and travel expenses can be greater. Moreover, because of capacity constraints in small states, the provision of institutional support and technical assistance requires more intensive and costly supervision work. As a result, the cost per dollar lent of Bank operations is three times higher in small states ($86 for every $1,000 of commitments, compared with a Bank average of $27) (see appendix B).

Because of the high level of other ODA—most of it in the form of grants—the Bank is a small player in most small states.

Table 1.1: Dropped World Bank Projects, Fiscal 1995–2005

	Approved projects	Dropped projects	Ratio of dropped to approved projects
Bank-wide	2,744	2,933	106.9
Small states	150	240	160.0

Source: World Bank's internal database as of June 23, 2006.

Performance of Bank Assistance

How well does Bank-supported assistance in small states perform? IEG evaluations show that the performance is below average on both the country and the project levels.

IEG Country Assistance Evaluations (CAEs) of 13 small states found overall satisfactory outcomes in only two (Bhutan and Maldives). IEG reviews of completion reports for Country Assistance Strategies (CASs) also found unsatisfactory outcomes to be high. The evaluations attribute these unsatisfactory outcomes to a variety of factors: lack of focus in assistance strategies and programs, inadequate attention to the policy framework, insufficient budget allocations or management attention, incomplete understanding of sociopolitical conditions in assisted states, weak or absent economic and sector work (ESW), and the lack of participation and ownership in recipient states.

IEG project evaluations of investment lending and technical assistance projects in 33 small states found that 131 of the 197 completed projects between 1995 and 2005 had satisfactory outcomes (see table 2.1). The 67 percent of projects rated satisfactory is below the Bank-wide average of 74 percent satisfactory. The finding of lower outcome ratings is robust across income classifications—in other words, for all income classifications small states have lower ratings (see appendix E). Moreover, in 10 of the 33 small states with projects, 50 percent or more of the projects are rated unsatisfactory, suggesting failure to remedy the situation over a long period (see appendix C).

CAEs of 13 small states found overall satisfactory outcomes in only two.

IEG's reviews found that unsatisfactory project performance was a product of overly ambitious and flawed project designs, unrealistic expectations, lack of stakeholder participation and underestimation of governance and social constraints, inadequate human resources and institutional capacities, and complex and uncoordinated donor procedures and requirements. What is striking about these findings is that none of the factors is distinctive to small states.

The importance of capacity constraints is underscored by overall project ratings on institutional development impact.

Limited capacity, however, is cited so frequently as a factor in poor project performance that it amounts to a difference in kind, not just in

Table 2.1: IEG Ratings for Projects in Small States, Fiscal 1995–2005

	Total net commitments evaluated ($M)	Total evaluated (no.)	Outcome: percent satisfactory ($)	Outcome percent satisfactory (no.)	IDI: percent substantial ($)	IDI: percent substantial (no.)	Sustainability: percent likely ($)	Sustainability: percent likely (no.)
Small states	2,576.9	197	71.9	66.7	44.0	36.3	52.2	51.6
Bank-wide	219,178.3	2,955	78.5	74.0	47.4	44.4	72.3	64.4

Source: World Bank's internal database as of June 5, 2006.
Note: IDI = Institutional development impact.

degree. The importance of capacity constraints is underscored by overall project ratings on institutional development impact (IDI). Table 2.1 shows that while IDI was substantial for only 44 percent of projects in all developing countries, in small states it was substantial for only 36 percent.

Other ODA may be no more effective than the Bank's contribution, as dissatisfaction with assistance to small states is shared by other donors.

To put the performance of Bank assistance in perspective, however, other ODA may be no more effective than the Bank's contribution, since dissatisfaction with assistance to small states is shared by other donors. The Asian Development Bank, (ADB) in a review of its assistance and that of other donors to Pacific countries, concluded that there was no evidence to show that external assistance was successful in promoting growth in the Pacific. "The most common picture," it stated, "is one of disappointing economic growth" (ADB 2004). While growth rates have varied widely both across countries and over time, average growth rates in small states have been lower than those in larger developing countries (see table 2.2). The median growth rate in small states from 1999 to 2004 was 2.5 percent, compared with 3.7 percent for all developing countries.

The core of the issue is not that there is too much aid, but that aid is not used efficiently and effectively.

Does low growth and limited capacity mean that small states have been receiving too much aid? Has aid, for example, fostered dependency rather than growth (Hughes 2003)? While this cannot be ruled out in individual cases, it is not uniformly true. Some countries, such as Bhutan and the Maldives, have been able to use high levels of aid effectively. Many small states face such formidable geographical and other obstacles to growth that little beneficial impact

Table 2.2: GDP Growth in Small States, 1999–2004

	2004 Total population (thousands)	2004 GNI per capita, Atlas method (current US$)	Average GDP growth (annual %)
Small states average	677.1	3,443.8	2.8
Small states median	457.0	2,370.0	2.5
Bank-wide median	5,787.0	1,275.0	3.7

Source: World Bank's internal database as of March 13, 2006.
Note: GDP = Gross domestic product.

could be expected from cutting aid.[1] What can be said is that the amount of aid to small states is generally not a constraint. The core of the issue is not that there is too much aid, but that aid is not used efficiently or effectively. Experience at the country and project levels reviewed in the next chapter offers many lessons for making Bank assistance more relevant and effective.

Making the Most of World Bank Assistance

So how can the World Bank make the most of its assistance to small states? What are the Bank's comparative strengths and weaknesses in helping small states? How can it help address their specific and unique development problems and put them on a stronger growth path?

Evaluation suggests several possible strategies within what will inevitably remain a limited Bank role. Because the Bank is a small player in these states, focused assistance, analysis, and advisory services are essential. Because the Bank is operating in an environment with a high level of grant assistance from other donors, it is imperative to work toward improved donor coordination, ideally with the countries taking the lead. In addition, the Bank can help broker regional cooperation in specific functional areas such as fisheries, telecommunications, transport, and disaster risk management, at least among the Caribbean and African small states.

The Bank's Comparative Advantage

The Bank has two main strengths: it is an international organization, and, unlike many other donors, the Bank regularly does analytical work and has a great deal of relevant experience and knowledge from experience in other countries (including other small states). But the Bank also has several disadvantages for operating in small states:

- Most small states have access to substantial grants from other donors, so that even International Development Association (IDA) credits may be relatively unattractive.[1]
- Unlike the United Nations (UN) and many bilaterals, the Bank rarely has a field presence in small states.
- Small projects in general have a lower rate of satisfactory outcome ratings, which indicates that the Bank is ill equipped in experience and procedures to undertake them.[2]

> *Because the Bank is a small player in these states, focused assistance, analysis, and advisory services are essential.*

Some have argued that these disadvantages imply that the Bank should leave most activities, especially lending, in small states to bilateral donors and regional development banks that are better placed to serve their needs. Parts of the Bank have pursued a minimalist strategy in the past. From 1992 to 1997, for example, the Bank made only two loans to Pacific member countries and limited its analytical work to a biannual Regional Economic Review.

However, both the countries themselves and bilateral donors requested more Bank assistance. The prevailing view is that, because the World Bank is a cooperative international institution, all member states that meet eligibility criteria are entitled to some Bank services, regardless of country size. In this view, the Bank has an obligation to assist small states. But recognition of its strengths and weaknesses should put a premium on selectivity and coordination of Bank activities with other donors.

Recognition of the Bank's strengths and weaknesses should put a premium on selectivity and coordination of Bank activities with other donors.

Focused Assistance, Analysis, and Advisory Services

In several small states (Bhutan, Solomon Islands, and the Maldives), the Bank has had an explicit strategy of focusing on particular sectors. IEG evaluations have found that human development projects in those countries have improved access to services and provided inputs necessary to improve service quality. But being selective can only work where there are clear sectoral objectives. In the Pacific member states, IEG found that a lack of clear sector and project-specific objectives resulted in a focus on inputs and, consequently, limited outcomes.

Selective lending can enable the Bank to maintain a presence in the focus sectors and to develop close working relationships among Bank staff, government officials, and other donors. Continuity of support in critical sectors with weak institutional capacity is also vital for sustained impact. In Equatorial Guinea, for example, the outcome of a second technical assistance project to the petroleum ministry was moderately satisfactory, but the continuity of Bank involvement made sustainability of project benefits likely.

Where Bank staff continuity has been greater, effectiveness has improved.

Such a strategy, however, can be undermined by the limited absorptive capacity of the selected sectors, which means lending opportunities may arise only after irregular and lengthy intervals. This results in discontinuities in operations, with implications for work planning and staff deployment. In Bhutan, the Pacific Islands, and the Maldives, discontinuities in staffing reduced the effectiveness of Bank-financed operations.

Where Bank staff continuity has been greater, effectiveness has improved. For example, in Samoa, the Infrastructure Asset Management Project benefited from the sustained involvement of an experienced project team, in addition to sector specialists brought in when necessary, which contributed to the project's satisfactory outcome and high IDI.

Another consequence of irregular and lengthy intervals between projects has been abandonment of the selective approach. In Lesotho and some Pacific member states, ad hoc interventions outside the focus sectors were found to yield unsatisfactory results. In the Solomon Islands, the Bank abandoned selectivity in the education sector by attempting a sectorwide education project. It was unsuccessful.[3] IEG recommended that rather than do one large project spanning multiple sectors in a small country with limited implementation capacity, it would have been better to do multiple small loans, using instruments such as Adaptable Lending Programs (APLs).[4]

Focused lending is more effective when the Bank's analytical work is similarly focused and of high quality. IEG evaluations found that outcomes of projects in the Comoros, Equatorial Guinea, Guyana, and Jamaica were undermined by weak ESW and institutional analysis. Experience shows, however, that analysis of issues beyond the narrow sectoral concerns of individual projects is also needed. Among the characteristics of small states are several issues that may need particular analytic attention, such as natural disaster risk management, sociopolitical instability, public sector management, and the macro economy.

The Bank has sometimes proposed that it should be selective by function rather than by sector in small states. Specifically, the Bank has proposed being a "knowledge bank" by focusing on ESW. Again, however, it is important to be selective—it is difficult to be a knowledge bank in a small country where the work needed to tailor Bank knowledge to local conditions may be too expensive for the Bank, and too demanding on the government's limited human and institutional resources. The Bank's proposed strategy for Bhutan in 2000 of doing wide-ranging ESW was rejected by the government, in part because of the high opportunity cost of interacting with the Bank.

Improved Donor Coordination

The governments of small states incur significant transaction costs for managing assistance from multiple donors, each with distinct objectives, procedures, and reporting requirements. Working with multiple donors also creates opportunity costs when governments must redeploy their best-trained officials from other essential tasks to manage the administrative and liaison work required. Although this can happen to any Bank borrower, in small states the effect is magnified because the public sector talent pool is correspondingly smaller.

At the most elementary level of donor coordination, the Bank needs to take account of what other donors are doing when formulating its own strategy. IEG concluded that the Bank should have avoided lending in the social sectors in the Pacific Islands because of the widespread availability of grant funding for those sectors. The point is not to avoid the social sectors, but to ensure complementarity.[5]

Comparative advantage is another important issue. For example, in the Organization of Eastern Caribbean States (OECS), despite the importance of the agriculture sector, the Bank has not taken an active role in this sector, because the European Union and Food and Agricultural Organization have taken the lead. While the Bank maintains an active role in the transition from agriculture in the OECS, this division of labor allows the Bank to focus its assistance toward other areas of economic diversification in the region.

Focused lending is more effective when the Bank's analytical work is similarly focused and of high quality.

While donor coordination is ideally to be done by countries themselves, only one of the small states covered by IEG evaluations has fully done so. Bhutan has exercised a strong hand in coordination, and has done so largely outside the Poverty Reduction Strategy process that is intended to serve that purpose.[6] Samoa has taken some steps toward assuming this responsibility by establishing coordinating agencies for multilateral and bilateral aid.

The Bank needs to take account of what other donors are doing when formulating its own strategy.

Beyond the country efforts to coordinate aid, agencies other than the World Bank often take the lead in small states. Typically the United Nations Development Programme or one of the regional multilateral lenders convenes a donor roundtable. One objective of this exercise is to minimize overlap among the activities of different donors. In Lesotho, however, the 2002 IEG CAE found that although donors collaborate in major sectors, there is almost no leadership and that there had not been a donor roundtable since 1997.[7]

While donor coordination is ideally to be done by countries themselves, only one of the small states covered by IEG evaluations has fully done so.

In some countries the Bank's selected focus reflects this kind of coordination by filling gaps

Box 3.1: IFC Operations in Small States: Fiscal 1990–2005

The International Finance Corporation (IFC) operated in almost all small states, mainly providing technical assistance and advisory services (TAAS) and, to a lesser extent, investments. IFC provided about 380 TAAS operations to 37 out of 40 small states and supported 113 investment operations with commitments totaling US$773 million in more than half of the small states eligible for IFC investments (23 out of 36[a] or 64 percent) during fiscal 1990–2005 (see appendix F).

IFC provided substantial TAAS assistance to small states. IFC spent about $40 million in TAAS operations in small states, which was equivalent to 5 percent of total IFC investment commitments. This was significantly higher than the average of 0.5 percent for IFC's frontier countries. The largest amount of TAAS was done by the IFC's regional project development facilities to assist small and medium-size enterprise (SME) development.

The second largest TAAS operation was the Foreign Investment Advisory Services (FIAS, World Bank-IFC joint operation), with 112 operations during the review period, representing 22 percent of total FIAS operations worldwide during the same period. The biggest portion of FIAS operations (33 percent) was in investment policy, followed by diagnostics studies (20 percent). Finally, IFC's Advisory Services Department had 9 advisory operations in small states during the review period, mainly in privatization of public utilities and airlines.

IFC invested in small states with high country risk. The investments in small states represented 5 percent of IFC's worldwide investments by number of projects, and 2 percent by the amount committed during the review period, and had increased recently along with IFC's overall investment portfolio growth. About 63 percent (by number) of IFC's investments were in small states with high country risk scores at project approval, in line with IFC's frontier strategy, articulated in 1998. IFC's investment opportunities in these small states were generally constrained by difficult business climates, limited absorptive capacity, and lack of viable investment projects supported by experienced private sector sponsors.

IFC's investments in small states performed relatively well. Twenty-three of the investment projects in small states approved in fiscal 1990–99 (representing 45 percent of direct investments that reached early operating maturity and were eligible for evaluation sampling) were evaluated through Expanded Project Supervision Reports (XPSRs).

Compared with the rest of the IFC projects approved during the same period and evaluated with XPSRs, the small states projects had comparable development outcome success rates (about 60 percent), in terms of both amount committed and number of projects. However, the investment outcome success rate of small states projects (73 percent) was superior to that of the rest of the IFC projects (53 percent).

Higher investment outcomes reflect IFC's deal structuring to protect investment return, such as use of relatively more senior loans with security packages and more limited use of equity investments. Moreover, the projects in the small states achieved a higher success rate for combined high development and high investment outcomes occurring together (52 percent) compared with the rest of IFC (44 percent). The IFC's work-quality rates in small states were comparable to the rest of IFC's overall rate (about 60 percent satisfactory or better).

Many small states improved their business climates, and many with IFC investments improved their business climates in the past 15 years. In 1990, of 25 small states that currently have Institutional Investors Country Credit Risk ratings, only three had medium risk ratings, while the remaining 22 had either no ratings or were rated high risk. In 2005, 11 of these 25 small countries were medium or low risk, while 14 were rated high risk. Similarly, among the 18 small states with Wall Street Journal/ Heritage Foundation Index of Economic Freedom scores, 6 moved from high risk (WSJ/HF score > 3.0) to low risk between 1995 and 2005. Still, about two-thirds of small states are currently considered "frontier country" (high risk or low income) by IFC.

Project development and investment outcomes were better when country business climate improved. In general, IFC projects performed better when country business climates improved between project approval and evaluation. In small states, such impact is more dramatic compared with the rest of IFC. In small states, the project success rates were 85 percent for both development and investment outcomes when the country became less risky (compared with an average of 56 percent and 74 percent, respectively, for all small states). In the rest of IFC, development outcome success rates improved to 65 percent (from an average of 60 percent), and investment outcome success rates

Box 3.1: IFC Operations in Small States: Fiscal 1990–2005 (continued)

improved marginally to 55 percent (from an average of 53 percent), respectively, when business climate improved.

Challenges: Business climate improvement was the key driver of success in IFC projects in small states, and IFC has been active in providing TAAS support to these countries. Despite the improvements of some, two-thirds of small states are still in "frontier country" (high risk or low income) status today. Thus, there is still a need to improve business climates and increase private sector investments in these small states.

Source: IEG-IFC.

a. The Bahamas is not eligible for IFC investments because of its high-income-country status.

in sectoral coverage. With such an approach to donor coordination, the result is an overall country development outcome that is, at best, the sum of the outcomes of individual donor programs. What is needed is an approach that produces a development outcome greater than the sum of individual donor program outcomes, such as joint activities. Countries have to want better donor coordination, however. In the OECS, IEG found that coordination is hindered by the governments' preference to deal with donors separately on country programs.

It has been rare for donors to engage one another in jointly planned activities. A successful approach was found in the Samoan Infrastructure Project, which was cofinanced and co-supervised by the Australian Agency for International Development (AusAid). AusAid, which had previously funded institutional strengthening, sought more effective implementation—through related quality controls and oversight and minimal administrative requirements—by partnering with the Bank in a major project. Collaboration has continued on the Second Infrastructure Project.

A less successful approach was a scheme where the Bank cofinanced projects that were appraised and supervised by the ADB in the Pacific member states. The result was increased administrative costs for no significant added value. Although this approach failed and has been abandoned, it does not mean that coordination of this sort cannot work—only that it requires careful attention to the details of implementation.

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Brokering Regional Cooperation

The World Bank has tried regional approaches in several areas; these include cooperative arrangements in aviation and maritime transport, support for the development of common approaches to natural resource management and disaster response, and institutions for providing tertiary and specialized education. The Bank has also supported the adoption of a common approach to negotiating fishing royalties and rights. Bilateral donors, too, especially Australia and New Zealand, have begun to support regional initiatives through their assistance.

The one clear success among subregional projects was a Telecommunications Reform Project.

IEG evaluations have found that the Bank's efforts have generally had limited success. In the OECS, Bank-supported regional projects have attracted limited interest. None of the five proposed regional projects for the period fiscal 2002–05 was approved, although there is renewed interest in a catastrophic risk management and insurance program following the damage caused by Hurricane Ivan. Subregional projects—umbrella programs open to individual countries—have attracted more interest but have had mixed results. The one clear success among subregional projects was a Telecommunications Reform Project. The Bank had done extensive sector work in preparation, and the benefits of regional cooperation were sufficiently large that the project was strongly supported at the head-of-state level. The OECS experience shows the importance of—and difficulty of achieving—ownership and commitment for successful regional programs.

Distance, too, can affect the Bank's ability to foster regional coordination in remote states.

In the Pacific member states, the Bank made regional recommendations for a common approach to natural resource management and disaster response and for developing regional training institutions in specific technical areas. Yet limited success was achieved in developing the approach. In such areas as trade reform and disaster response, the Bank made useful contributions in fostering debate and consensus. Also in the Pacific member states, the Bank advocated a more regional approach to negotiating fishing royalties and rights. However, the IEG evaluation found only a few indications that cooperation among the states had improved, and it concluded that the Bank's regional approach had been pushed beyond the limits of effectiveness.

Nonetheless, the Bank has clear advantages that would be of use to small states that are open to regional approaches.

There are several impediments to the Bank's ability to advocate regional approaches that connect small states. For one, some small states are not amenable to such approaches. In the Pacific area, for example, there is too little regional cohesion to justify such approaches. Some other small states, such as Bhutan and Lesotho, are highly dependent on larger neighbors and lack significant trade and economic links with other small states. This severely limits the potential for including them in regional cooperation efforts.

Distance, too, can affect the Bank's ability to foster regional coordination in remote states. The two most distant points in the Pacific island "region," for example, are 6,000 miles apart. The islands of Kiribati alone cover an area the size of Europe, but have a population of only 96,000.

Finally, whatever the prospects for regional cooperation, the Bank is particularly ill suited in one respect to doing regional projects: it cannot make loans to regional entities. Loan or credit agreements must be concluded with each participating government.

Nonetheless, the Bank has clear advantages that would be of use to small states that are open to regional approaches. In most regional activities, the terms of distribution of costs and benefits usually become the major source of contention, as each participant tries to maximize net benefits for his state. Intermediation by an outsider can help to resolve such situations. The Bank has the credibility and capacity to do this. While the Bank may not have all the technical expertise and experience needed for such a task among its own staff, it has unparalleled access to worldwide resources and the institutional experience to manage those resources. It can also be valuable after negotiations are completed. While the Bank lacks the authority to enforce compliance with international agreements, its international stature can encourage concerned parties to fulfill their obligations.

Small states might be well served if the Bank took a more proactive approach to offering its services as a neutral party. Its services might be helpful to small states that have to deal with large or very large neighbors and with multinational corporations. In such situations, asymmetry in resources, negotiating skills, and bargaining power often work to the disadvantage of the small states. The Bank can assist in such situations to help ensure a fair outcome.

In addition, the Bank's presence and active involvement in such arrangements help investors to lower their risk perceptions about projects. For example, the Bank was instrumental in ensuring reasonable terms for all parties and a comfort level for private investors in negotiating the multibillion-dollar Lesotho Highlands Water Project between South Africa and Lesotho.

Helping States Manage the Costs of Official Development Assistance

The Bank can help small states manage the costs of ODA. It can help ensure that small states have the capacity to manage and use their aid, it can adjust its own practices to reduce costs, and it can help ensure harmonization of donor practices to reduce the administrative burden on countries.

Country Policies and Institutions

Improving country policies and institutions to use all ODA effectively is a critical requirement for small states. In Bhutan, IEG found that the IDI of Bank-financed projects was generally substantial, but other small states fared less well. In Lesotho, for example, the country's inefficient bureaucracy impeded development efforts. In the Pacific member states, IEG found that only in the Solomon Islands had the Bank done much to help improve the policies and institutions supportive of a healthy public and private investment climate.

Building capacity cannot rely on training alone,[1] especially in small states with a tradition of migration. If public sector salaries and career incentives are not competitive, trainees will leave government service for the private sector or jobs in other countries, as they did in a social sector project in Guinea Bissau. Public-private partnerships or contracting out of services can provide a means of expanding government services when capacity is weak. An agricultural project in Estonia was highly successful in developing a public-private partnership to provide agricultural advisory services. IEG concluded that this project might provide a model for other countries (in large as well as small states).

Improving country policies and institutions to use all ODA effectively is a critical requirement for small states.

World Bank Business Practices

The special characteristics of small states may require adjustments to the Bank's existing business processes and practices to reduce costs to the countries. For instance, the Bank's procurement and disbursement procedures present significant difficulties for small states. In an emergency recovery and disaster management project in St. Lucia, for

The special characteristics of small states may require adjustments to the Bank's existing business processes and practices to reduce costs to the countries.

example, IEG found that the Bank should have separated immediate post-emergence financing needs from longer-term infrastructure rehabilitation, which required more careful attention to design and training for borrower staff unfamiliar with Bank procurement procedures.

In Guinea-Bissau, the Transport and Urban Infrastructure Project suffered from procurement problems that were not adequately addressed during project supervision. Issues of misprocurement were identified by a technical audit toward the end of the project, highlighting the need for the Bank—especially in low-capacity countries or emergency situations—to focus on procurement practices and include a Bank procurement specialist in supervision missions during the early years of project implementation.[2]

Horizontal APLs have not reaped the economies of scale in capacity building, information sharing, and technical expertise that had been expected. As discussed above, subregional programs in the OECS still require the preparation and negotiation of up to five separate projects and necessitate complex supervision arrangements. The high administrative costs of these small projects more than offset any cost savings from preparation, and the results overall have not been encouraging.

Former Bank requirements for mandated ESW created a special burden in small states.

Former Bank requirements for mandated ESW created a special burden in small states. Core ESW accounted for over 70 percent of total Bank ESW in small states during fiscal 2000–04, compared with about 35 percent in larger developing countries. While it is difficult to assess the relative benefits of core versus other ESW, the core requirements clearly had a disproportionate impact on the limited Bank administrative budgets for small states, and hence on the limited time of senior government officials as well.

PRSPs have created "strategy fatigue" in some countries.

Even Poverty Reduction Strategy Papers (PRSPs) need to be tailored to the special circumstances of small states. Especially when combined with UN vision studies and other donor exercises, PRSPs have created "strategy fatigue" in some countries, a finding that is consistent with IEG's 2004 review of Poverty Reduction Strategy Initiatives. Showing flexibility in requirements can help reduce the burden.

The Bank has been able to achieve some economies of scale through regional ESW that addresses common problems of small states, as in the Bank's recent study of response to natural disasters in the Pacific Islands (Bettencourt and others 2006). Cross-country ESW on fiscal issues in the EU8 countries, which include Estonia, has also promoted synergies and reduced costs.

But regional ESW has some disadvantages. In the Pacific Islands, some governments noted that a number of regional economic studies were too broad to provide concrete policy advice. And even if ESW is relevant to an entire subregion, it may not lead to economies of scale in lending. ESW helped prepare the ground for the successful subregional telecommunications project in the Eastern Caribbean, but the complexity of coordinating a project across five countries and between two international organizations (the OECS Secretariat and the Eastern Caribbean Telecommunications Authority) complicated project implementation.

The Bank also needs to identify innovations for getting more value from its own limited administrative budgets for small states. In the Caribbean, the Latin America and the Caribbean Region has set an example by negotiating for colocation in field office facilities of other organizations, swapping or outsourcing selected project administration tasks, and undertaking shared reviews and missions with other donors.[3]

The Bank might also consider setting up regional hubs to serve a number of small states, as it has done in Sydney to serve the Pacific member countries. Options for developing such facilities jointly with other donors might also be explored. While the cost effectiveness of regional offices cannot be determined a priori, their role in promoting better relations with regional member countries, as well as with the interested donors, is a clear benefit.

Donor Harmonization

Even if the Bank is able to reduce country costs for its own programs, more will need to be done to reduce the overall load of donor administration. The use of common procedures and documents can save considerable work for implementing agencies in small states, as well as facilitate project implementation. This has already been started by the Organisation for Economic Co-operation and Development– Development Assistance Committee (OECD-DAC) Task Team on Harmonization and Alignment, which is seeking to establish donor agreement—as well as the agreement of recipient countries—on common procedures and approaches in the preparation and management of development activities.

The use of common procedures and documents can save considerable work for implementing agencies in small states, as well as facilitate project implementation.

The Bank might further assist in this process by helping to build stronger donor coordination in small states and engaging major donors in policy discussions concerning ODA to small states, perhaps as an adjunct to the annual Small States Forum.

Direct pooling of assistance could be especially useful. In response to a deteriorating fiscal and debt position in the Eastern Caribbean, a Bank-administered Multidonor Trust Fund has been established to disburse grant funds to the region.[4] This initiative will depend on overcoming reluctance on the part of the countries themselves to reduce links with individual donors, however.

Lessons

The World Bank has had—and will continue to have—a limited role in assisting most small states with their unique development challenges. Therefore, the scope and nature of the Bank's activities in those countries will need to be strategic and selective.

The findings of IEG evaluations offer several lessons that warrant consideration in this ongoing work:

- ***Strong donor coordination is essential to helping small states maximize the development benefits of their ODA.*** The Bhutan experience demonstrates that a small state that takes a strong hand in coordinating its assistance can achieve good results. Where a country is unable or unwilling to take on this role, the donors themselves can take steps to ensure better coordination, such as undertaking joint activities or making special cofinancing arrangements.

- ***The potential for regional cooperation among small states is limited to specific development concerns and can require a high degree of coordination that reduces its overall usefulness.*** The Bank's experience with addressing small states' development issues on a regional basis demonstrates that it has the capacity and the credibility to assist small states in negotiations where there are asymmetries in resources, skills, and bargaining power. It is less clear that the Bank can broker broad agreement between groups of small states without having to invest in a coordination effort that is disproportionate with the benefit to the region.

- ***Cross-country analytical work on issues of common concern permits synergies and economies of scale.*** More cross-country work should be promoted, but it needs to be well-focused on specific issues and tailored to country circumstances to be effective.

- ***The cost to small states of managing ODA can be reduced through harmonization of donor practices and some adjustments to World Bank practices.*** Economies in the management of ODA can be achieved by reducing the administrative burden on borrowers. This can be done through developing common donor approaches to project appraisal, implementation, and monitoring and evaluation. The Bank, for its part, could reduce both costs to the states and its own costs by finding ways to adjust reporting requirements and procurement practices to the circumstances of small states.

- ***The scope for reducing high costs of World Bank operations in small states is limited.*** Innovations such as horizontal APLs have failed to reap economies of scale. Attempts to reduce costs through multisector loans have adversely affected project outcomes. The Bank should continue to try to find ways to reduce operational costs, but it needs to accept that its operations in small states will continue to be relatively costly.

The Bank strategy for small states outlined for the Small States Forum has seven objectives:

- Reduce transactions costs for small states and improve donor coordination.
- Support regional initiatives.
- Lower the costs of natural disasters and improve risk management.
- Protect the physical environment.
- Support private sector development.
- Assist in exploiting opportunities that information technology and electronic commerce can bring to small isolated states
- Facilitate knowledge sharing.

Several of these objectives are consistent with the findings of this note and IEG's evaluations of programs and projects in small states, including reducing transactions costs and improving donor coordination, supporting regional objectives, protecting the physical environment, and facilitating knowledge sharing. The findings of this review generally support the Bank's objectives, but experience with efforts to support regional initiatives suggests the need to be realistic in how much can be achieved.

APPENDIXES

APPENDIX A: ODA TO SMALL STATES, 1999–2003 AVERAGE

Country	ODA net disbursements as a percentage of gross national income	ODA net disbursements per capita (US$)	Net disbursements of World Bank aid per capita (US$)	Net disbursements of World Bank aid as a percentage of total ODA
Antigua and Barbuda	1.4	127.7		
Bahamas	0.2	23.9[a]		
Barbados	0.7	66.5	6.1	9
Belize	4.2	129.9	9.5	7
Bhutan	14.9	86.0	4.5	5
Botswana	0.6	17.8		
Cape Verde	17.8	241.7	36.8	15
Comoros	10.5	43.7	2.6	6
Djibouti	12.1	105.9	21.3	20
Dominica	9.9	328.4	16.2	5
Equatorial Guinea	3.9	38.4		
Estonia	1.2	55.1	2.2	4
Fiji	1.8	38.9		
Gabon	–0.6	–21.9	0.6	
Gambia	13.7	37.7	9.6	25
Grenada	4.3	152.6	25.8	17
Guinea-Bissau	34.0	49.3	5.4	11
Guyana	11.7	100.8	7.7	8
Jamaica	0.9	24.3	19.7	81
Kiribati	20.3	195.8		
Lesotho	4.3	25.4	5.5	22
Maldives	4.4	93.3	11.5	12
Marshall Islands	50.7	1,201.4		
Mauritius	0.1	4.0	7.3	12[b]
Micronesia, Fed. Sts. of	49.8	954.0		
Namibia	4.3	78.9		
Palau	24.6	1,578.5		
Samoa	13.3	192.8	19.2	10
São Tomé and Príncipe	74.2	226.4	10.6	5
Seychelles	1.7	128.9		
Solomon Islands	18.8	117.8	4.6	4

(*Continues on the following page.*)

Country	ODA net disbursements as a percentage of gross national income	ODA net disbursements per capita (US$)	Net disbursements of World Bank aid per capita (US$)	Net disbursements of World Bank aid as a percentage of total ODA
St. Kitts and Nevis	4.2	276.5	46.8	17
St. Lucia	4.1	162.6	21.6	13
St. Vincent & the Grenadines	3.1	91.5	8.5	9
Suriname	3.8	70.8		
Swaziland	1.9	25.3		
Timor-Leste	136.8	422.8		
Tonga	14.4	218.9	8.7	4
Trinidad & Tobago	–0.2	–13.6	1.4	–10
Vanuatu	14.2	169.8		
Average: small states	14.8	201.1	12.5	6
Average: developing countries	1.1	12.3	2.3	19
Average: developing countries, excluding China and India	1.2	18.1	3.5	19

Source: OECD, DAC database, "Reference Section: Total Official Flows," World Bank's internal database as of March 14, 2006.

a. Bahamas 1999–2002.

b. In 2002, Mauritius had an unusually large World Bank net disbursement; 12 percent is an average for the years between 1999 and 2003.

APPENDIX B: COSTS OF WORLD BANK OPERATIONS IN SMALL STATES, FISCAL 2000–05

Country	Total costs ($ million)	Total commitments ($ million)	Average costs, $ per $1,000 of total commitment
Barbados	0.3	15	17
Belize	1.0	14	74
Bhutan	4.7	66	71
Botswana	0.4		
Cape Verde	4.8	82	59
Comoros	3.3	31	108
Djibouti	5.4	79	68
Dominica	1.1	6	191
Equatorial Guinea	0.5		
Estonia	1.7	25	69
Fiji	0.1		
Gabon	2.8		
Gambia	5.0	50	100
Grenada	1.0	38	27
Guinea-Bissau	3.9	65	61
Guyana	5.1	32	160
Jamaica	5.3	335	16
Kiribati	0.2		
Lesotho	9.6	80	119
Maldives	2.5	48	53
Mauritius	4.1	47	88
Namibia	1.8		
Palau	0.1		
Samoa	1.7	26	65
São Tomé and Príncipe	2.8	22	129
Seychelles	0.8		
Solomon Islands	1.2	4	308
St. Kitts and Nevis	1.1	13	87
St. Lucia	1.0	45	22
St. Vincent and Grenadines	1.4	22	62
Swaziland	2.0		
Timor-Leste[a]	9.3	132.2	70
Tonga	0.9	18	49

(*Continues on the following page.*)

Country	Total costs ($ million)	Total commitments ($ million)	Average costs, $ per $1,000 of total commitment
Trinidad and Tobago	1.5	20	74
Vanuatu	0.4	4	97
Average small states[b]	2.5	51	86
Average Bank-wide [c]	506.8	18,755	27

Source: World Bank World Bank's internal database as of March 14, 2006.

a. Timor-Leste includes post-conflict trust fund money, $123.2M in grants, $9M in Bank lending.

b. Countries with commitments only.

c. Bank-wide averages for fiscal 2000–05

APPENDIX C: IEG RATINGS FOR PROJECTS IN SMALL STATES, FISCAL 1995–2005

Country	Country classification*	Total net commit-ments evaluated ($M)	Total evaluated (no.)	Outcome % sat ($)	Outcome % sat (no.)	IDI impact % sub-stantial ($)	IDI impact % sub-stantial (no.)	Sustain-ability % likely ($)	Sustain-ability % likely (no.)
Bhutan	LIC	9.6	3	45.9	66.7	0.0	33.3	100.0	100.0
Comoros	LIC	77.9	11	54.6	60.0	25.0	20.0	10.1	11.1
Gambia, The	LIC	86.4	9	64.6	55.6	31.2	22.2	10.7	22.2
Guinea-Bissau	LIC	147.2	10	66.7	70.0	48.0	40.0	4.8	10.0
Lesotho	LIC	209.2	13	72.8	46.2	40.3	23.1	58.2	40.0
Sao Tome and Principe	LIC	51.4	7	17.6	28.6	5.1	14.3	37.0	42.9
Solomon Islands	LIC	24.1	2	0.0	0.0	0.0	0.0	0.0	0.0
Timor-Leste	LIC	0.0	7		71.4		28.6		60.0
Cape Verde	LMI	143.1	12	93.7	91.7	83.0	75.0	87.9	80.0
Djibouti	LMI	68.4	7	72.4	57.1	15.5	14.3	62.9	42.9
Fiji	LMI	35.3	3	100.0	100.0	0.0	0.0	21.4	33.3
Guyana	LMI	251.4	14	87.0	78.6	67.0	35.7	20.9	30.8
Jamaica	LMI	664.9	21	65.0	61.9	47.3	38.1	55.4	47.4
Maldives	LMI	38.5	4	100.0	100.0	75.5	75.0	75.5	75.0
Samoa	LMI	42.8	4	100.0	100.0	79.7	50.0	91.3	75.0
Swaziland	LMI	29.0	1	100.0	100.0	0.0	0.0	100.0	100.0
Tonga	LMI	2.3	1	0.0	0.0	0.0	0.0	0.0	0.0
Vanuatu	LMI	10.1	3	84.7	50.0	0.0	0.0	84.7	50.0
Barbados	UMI	25.2	3	35.1	66.7	35.1	66.7	35.1	66.7
Belize	UMI	49.6	5	76.5	60.0	23.1	20.0	46.7	60.0
Botswana	UMI	19.5	2	100.0	100.0	0.0	0.0	100.0	100.0
Dominica	UMI	17.9	5	85.6	80.0	35.8	40.0	85.6	80.0
Equatorial Guinea	UMI	16.7	4	15.7	25.0	0.0	0.0	15.7	25.0
Estonia	UMI	125.4	8	100.0	100.0	77.2	87.5	100.0	100.0
Gabon	UMI	100.2	6	62.6	66.7	10.2	33.3	48.1	66.7
Grenada	UMI	7.2	1	100.0	100.0	100.0	100.0	100.0	100.0
Mauritius	UMI	138.0	13	86.5	76.9	62.7	61.5	88.9	84.6
Seychelles	UMI	4.3	2	0.0	50.0	0.0	0.0	100.0	100.0
St. Kitts and Nevis	UMI	10.3	2	75.0	50.0	75.0	50.0	75.0	50.0
St. Lucia	UMI	28.4	5	53.3	60.0	61.0	60.0	47.9	50.0

(*Continues on the following page.*)

Country	Country classification*	Total net commit-ments evaluated ($M)	Total evaluated (no.)	Outcome % sat ($)	Outcome % sat (no.)	IDI impact % sub-stantial ($)	IDI impact % sub-stantial (no.)	Sustain-ability % likely ($)	Sustain-ability % likely (no.)
St. Vincent and the Grenadines	UMI	2.2	1	100.0	100.0	100.0	100.0	0.0	0.0
Trinidad and Tobago	UMI	123.0	6	57.8	50.0	0.0	0.0	64.8	66.7
Bahamas, The	HIC	17.2	2	41.9	50.0	0.0	0.0	0.0	0.0
Small States		2,576.9	197	71.9	66.7	44.0	36.4	52.2	51.6
Bank-Wide		219,178.3	2,955	78.5	74.0	47.4	44.4	72.3	64.4

Source: World Bank's internal database as of June 6, 2006.

Note: LIC - low-income country; LMI - lower-middle-income country; UMI - upper-middle-income country; HIC – high-income country; IDI - institutional development impact. Economies are divided according to 2004 GNI per capita, calculated using the World Bank Atlas method. The groups are: low-income, $825 or less; lower-middle-income, $3,256–$10,065; and high-income, $10,066 or more.

APPENDIX D: IEG RATINGS FOR PROJECTS BY INCOME CLASSIFICATION, FISCAL 1995–2005

Country classification	Total net commit evaluated ($M)	Total evaluated (no.)	Outcome % sat ($)	Outcome % sat (no.)	IDI % subst ($)	IDI % subst (no.)	Sust. % likely ($)	Sust. % likely (no.)
Low-income countries	74,787.40	1,249	75.2	66.7	38.1	37.2	66.1	52.4
Low-income small states	605.8	62	59.8	54.1	33.7	24.6	26.8	29.6
Lower-middle-income countries	88,948.90	1,150	83.5	80	54.3	49.6	75.9	71.9
Lower-middle-income small states	1,285.70	70	76.9	75.4	52.5	40.6	54.1	51.6
Middle-income countries	52,084.20	481	73.8	77.8	47.5	49.5	73.9	75.5
Middle-income small states	668.1	63	74.1	69.8	38.1	44.4	71.7	72.6

Source: World Bank's internal database as of June 7, 2006.

Note: Economies are divided according to 2004 GNI per capita, calculated using the World Bank Atlas method. The groups are: low-income, $825 or less; lower-middle-income, $826–$3,255; upper-middle-income, $3,256–$10,065; and high-income, $10,066 or more.

Key: Sust – sustainability; Sat – satisfactory; IDI – institutional development impact.

APPENDIX E: GDP GROWTH IN SMALL STATES, 1999–2004

Country	2004 population, total (thousands)	2004 GNI per capita, Atlas method (current US$)	Average GDP growth (annual %)
Antigua and Barbuda	80	10,000	3.4
Bahamas[a]	320	14,920	2.4
Barbados[a]	272	9,270	0.4
Belize	283	3,940	7.2
Bhutan	896	760	6.6
Botswana	1,727	4,340	5.4
Cape Verde	481	1,770	5.7
Comoros	614	530	2.2
Djibouti	716	1,030	2.3
Dominica	71	3,650	–0.9
Equatorial Guinea[a]	506	700	14.5
Estonia	1,345	7,010	5.4
Fiji	848	2,690	3.4
Gabon	1,374	3,940	0.5
Gambia	1,449	290	4.9
Grenada	106	3,760	2.5
Guinea-Bissau	1,533	160	2.2
Guyana	772	990	1.0
Jamaica	2,665	2,900	1.4
Kiribati	98	970	3.0
Lesotho	1,809	740	2.4
Maldives	300	2,510	6.5
Marshall Islands	60	2,370	1.3
Mauritius	1,234	4,640	4.6
Micronesia, Fed. Sts. of	127	1,990	1.3
Namibia	2,033	2,370	3.3
Palau	20	6,,870	0.7
Samoa	179	1,860	3.2
São Tomé and Príncipe	161	370	3.8
Seychelles	85	8,090	–0.6
Solomon Islands	471	550	–2.8
St. Kitts and Nevis	47	7,600	2.6

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Country	2004 population, total (thousands)	2004 GNI per capita, Atlas method (current US$)	Average GDP growth (annual %)
St. Lucia	164	4,310	0.9
St. Vincent and the Grenadines	108	3,650	2.3
Suriname	443	2,250	2.6
Swaziland	1,120	1,660	2.4
Timor-Leste	925	550	–2.7
Tonga	102	1,830	2.8
Trinidad and Tobago	1,323	8,580	6.2
Vanuatu	215	1,340	–0.4
Small states average	677.1	3,443.8	2.8
Small states median	457.0	2,370.0	2.5
Bank-wide median	5,787.0	1,275.0	3.7

Source: World Bank's internal database as of March 14, 2006.

a. GNI per capita: Bahamas 2002, Barbados 2003, and Equatorial Guinea 2001.

APPENDIX F: IFC OPERATIONS TO SMALL STATES, FISCAL 1990–2005

Country	IFC investment operations, net commitment, US$ million, (number of operations)	IFC technical assistance operations originators (includes FIAS, which is a World Bank-IFC joint operation)	Frontier country status for fiscal 2006 operations
Antigua and Barbuda		FIAS	Frontier
Bahamas		FIAS	Non-frontier
Barbados	7.08 (1)		Non-frontier
Belize	2.15 (3)	TATF	Non-frontier
Bhutan	10.00 (1)	FIAS, SEDF	Frontier
Botswana	12.56 (7)	FIAS, TATF, APDF, AMSCO	Non-frontier
Cape Verde	10.00 (5)	FIAS, TATF, APDF, AMSCO	Frontier
Comoros		APDF	Frontier
Djibouti		APDF	Frontier
Dominica	(1 investment in 1989)		Frontier
Equatorial Guinea		FIAS	Frontier
Estonia	137.80 (18)	FIAS, TATF	Non-frontier
Fiji	5.55 (2)	FIAS, TATF, PEDF	Frontier
Gabon	49.00 (3)	FIAS, TATF, APDF, AMSCO, PAS	Frontier
Gambia	4.03 (8)	FIAS, APDF	Frontier
Grenada	2.00 (1)	FIAS	Frontier
Guinea-Bissau	7.25 (4)	FIAS, TATF, AMSCO	Frontier
Guyana	2.91 (3)	FIAS, TATF	Non-frontier
Jamaica	175.08 (8)	FIAS, TATF, EOF	Non-frontier
Kiribati		FIAS, PEDF	Non-frontier
Lesotho	0.12 (1)	FIAS, APDF, PAS	Frontier
Maldives	3.38 (4)	FIAS, TATF, South Asia SME, CCF	Frontier
Marshall Islands		FIAS, PEDF	Frontier
Mauritius	30.35 (9)	TATF, APDF, AMSCO, PAS	Non-frontier
Micronesia, Fed. Sts. of		FIAS, TATF, PEDF	Frontier
Namibia	23.87 (8)	FIAS, TATF, AMSCO	Non-frontier
Palau		FIAS, PEDF	Frontier
Samoa	1.00 (3)	FIAS, TATF, PAS, PEDF	Non-frontier
São Tomé and Príncipe	Not IFC member	FIAS	NA
Seychelles	19.39 (5)	FIAS, TATF, APDF	Frontier
Solomon Islands		FIAS, TATF, PEDF	Frontier

(*Continues on the following page.*)

Country	IFC investment operations, net commitment, US$ million, (number of operations)	IFC technical assistance operations originators (includes FIAS, which is a World Bank – IFC joint operation)	Frontier country status for fiscal 2006 operations
St. Kitts and Nevis		FIAS	Non-frontier
St. Lucia	9.94 (2)	FIAS	Non-frontier
St. Vincent and the Grenadines	Not IFC member		NA
Suriname	Not IFC member	FIAS	NA
Swaziland	13.40 (7)	FIAS, TATF, APDF, AMSCO, SGBI	Non-frontier
Timor-Leste		FIAS, TATF	Frontier
Tonga		FIAS, PAS, PEDF	Non-frontier
Trinidad and Tobago	191.33 (10)	FIAS, TATF, PAS	Non-frontier
Vanuatu	5.40 (1)	FIAS, TATF, PEDF	Frontier
Total small states	773.34 (114)	Total TA operations: 370	

Note: AMSCO = African Management Services Company, APDF = Africa Project Development Facility, CCF = Corporate Citizenship Facility, EOF = Environment Opportunities Facility, FIAS = Foreign Investment Advisory Service, PAS = Advisory Services, PEDF = Pacific Enterprise Development Facility, SEDF = South Asia Enterprise Development Facility, SGBI = Strengthening Grassroots Business Initiative, TATF = Technical Assistance Trust Fund.

ENDNOTES

Chapter 1

1. There is no single definition of a small country. The World Bank generally uses a population threshold of 1.5 million people, but it also includes some larger member countries (for example, Botswana, Jamaica, Lesotho, and Namibia) because they share many of the characteristics of small states. This paper uses the World Bank's definition. The statistical appendix (appendix A) presents details on individual countries (excluding high-income, non-borrowing states).

2. Other members of the Task Force were the International Monetary Fund, World Trade Organization, the European Union, and the United Nations Conference on Trade and Development.

3. The note is not intended as review of the Bank's strategy for small states as a group, although some of the findings from evaluations of CASs and projects in small states are relevant to the Bank strategy set out for the Small States Forum, as noted in the final chapter on lessons.

4. IEG notes that the Bank's objectives in small states regarding natural disasters are consistent with the recent IEG evaluation, *Hazards of Nature, Risks to Development: An Evaluation of World Bank Assistance for Natural Disasters* (IEG 2006), which finds that the Bank should always incorporate risk mitigation strategies in its assistance in areas prone to natural disasters.

5. Aid allocation has always shown a small-state bias. This is particularly marked for very small states, because their perceived needs are great and economic opportunities are limited, their strategic importance can be high, and the budget costs are slight for much larger and richer neighbors or donors with historical ties (such as Commonwealth partners or ex–colonial powers). Bilaterals with historical ties are also advocates for favorable allocations of multilateral assistance to particular groups of small states.

6. OECD data show that IDA assistance constituted 14 percent of ODA for all least-developed countries in 2000, 19 percent in 2001, and 15 percent in 2002.

Chapter 2

1. Country size per se has not been a significant explanatory variable in cross-country regressions on determinants of growth. The relatively poor performance of small countries as a group probably reflects the remote location and poor resource endowment of so many of these countries. Not all small countries are thus constrained, however, and the performance of all countries will be affected by economic policies and the amount and effectiveness of resource transfers. In fact, an analysis of performance indicators prepared by the Bank shows that the policy and institutional framework is weaker in small states.

Chapter 3

1. Access to grants may be declining for some countries, however. Several major donors are enforcing country selectivity, which usually means that small, relatively high-income countries are dropped from their programs. Bhutan is now using its full IDA allocation.

2. The Bank average for satisfactory project outcomes (exit fiscal 1995–2005) is 74 percent (see appendix C), but for projects with commitments under $20 million, the satisfactory rate falls to 66 percent. The majority of projects in small states have commitments under $20 million; the average commitment size for evaluated small states projects (exit fiscal 1995–2005) was $13 million. The average outcome rating for small-states projects under $20 million is identical to the average for all projects with commitments under $20 million.

3. According to the Region, however, the sector approach designed by the Bank has now been taken over by other donors.

4. Only eight small-state APLs have been evaluated to date, but satisfactory outcome ratings have been high at 87.5 percent for these instruments, above the Bank average of 80.4 percent for (46) APLs.

5. According to the East Asia and Pacific Region, the Bank is now ensuring complementarity while remaining engaged in the social sectors. In the education sector in Tonga, the Bank's nonlending work had positive outcomes in policy dialogue and in developing a long-term sector strategy, while most project finance was provided through bilateral grant funding (see IEG 2005, p. 14).

6. Eleven of the 33 small states currently borrowing from the Bank have prepared Poverty Reduction Strategy Papers (PRSPs) as part of their IDA requirements (Bhutan, Cape Verde, Comoros, Djibouti, Dominica, Gambia, Guinea-Bissau, Guyana, Lesotho, São Tomé and Príncipe, and Timor-Leste); another two (Gabon and Equatorial Guinea) are currently preparing PRSPs.

7. In January 2005, the Bank appointed a senior country officer to the Bank's Liaison Office in Maseru, who has organized bimonthly donor meetings to improve donor coordination.

Chapter 4

1. The World Bank Institute notes that training impact in small states has been focused on learning gains at the individual level, with little attempt at building capacity at either the organizational or societal level, because there have been few country-specific offerings in these states.

2. This is consistent with the findings on procurement in the fiscal 2006 IEG evaluation, *Hazards of Nature, Risks to Development: An Evaluation of World Bank Assistance for Natural Disasters,* which notes that 40 project evaluations mentioned problems with the Bank's procurement procedures when borrowers are stressed and implementation capacity is insufficient, and that deviations from accepted procedures have caused significant delays in the reconstruction process.

3. The Bank has also established a temporary joint office with ADB in the Maldives for tsunami-related work.

4. A $10 million trust fund has recently been established for Grenada using European Union funds, and another is being considered for Dominica.

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