

**EXECUTIVE
BOARD
MEETING**

SM/22/77

Correction 1

May 16, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Independent Evaluation Office—IMF Engagement with Small Developing States**

Board Action: The attached corrections to SM/22/77 (4/1/22) have been provided by the IEO:

Factual Errors Not Affecting the Presentation of the IEO's Analysis or Views

Pages 3 and 11

Questions: Mr. Collyns, IEO (ext. 38383)
Mr. Rustomjee, IEO (ext. 37968)

total of 34 countries fall into this category (Table II.1).³ The IMF list of SDS differs from that of other international organizations. Most notably, the World Bank's Small States Forum (SSF) list adds eight countries with populations over 1.5 million but with similar characteristics to those of countries under the threshold and includes AEs and fuel exporters.

Table II.1. Small States as Classified by the IMF and the World Bank

		AFR	APD	EUR	MCD	WHD
WB SSF (50)	IMF SDS (34)	Cabo Verde Comoros* Eswatini Mauritius Sao Tome & Principe* Seychelles	Bhutan Fiji <i>Kiribati*</i> Maldives* <i>Marshall Islands*</i> <i>Micronesia*</i> Palau Samoa Solomon Islands* Timor-Leste* Tonga Tuvalu* Vanuatu <i>Nauru</i>	Montenegro	Djibouti*	<i>Antigua & Barbuda</i> Bahamas Barbados Belize <i>Dominica</i> <i>Grenada</i> Guyana <i>St Kitts & Nevis</i> <i>St Lucia</i> <i>St Vincent & the Grenadines</i> Suriname Trinidad & Tobago
		Botswana (>1.5m) Equatorial Guinea (fuel exp.) Gabon (>1.5m) Gambia* (>1.5m) Guinea Bissau* (>1.5m) Lesotho (>1.5m) Namibia (>1.5m)	Brunei (fuel exp.)	Cyprus (adv.) Estonia (adv.) Iceland (adv.) Malta (adv.) <i>San Marino (adv.)</i>	Bahrain (fuel exp.) Qatar (>1.5m)	Jamaica (>1.5m)

Sources: IMF and World Bank.

Note: Microstates are shown in italics. * denotes FCS. AFR=African Department, APD=Asia and Pacific Department, EUR=European Department, MCD=Middle East and Central Asia Department, WHD=Western Hemisphere Department.

7. There is significant heterogeneity among SDS. 27 are island states, 5 are coastal, and ~~32~~ are landlocked. While they are concentrated in the Caribbean (12) and in the Asia and Pacific region (14), there are 7 in Africa and ~~21~~ in Europe. Fifteen of them are "microstates," with populations below 200,000, 6 of which have populations under 100,000. The smallest SDS has a population of 10,000. Ten SDS are considered to be in a fragile or conflict-affected situation (FCS). In terms of income level, 11 are considered lower-middle, 16 are upper-middle, and 7 are high-income countries, according to World Bank criteria.⁴ Currently, there are no low-income SDS.

³ Andorra joined the Fund in October 2020 and is covered in this evaluation. It is classified as an advanced economy and therefore not included in the IMF SDS list.

⁴ In July 2021, the World Bank classified countries as follows: low-income countries (per capita income of \$1,045 or less), lower-middle-income countries (\$1,046–\$4,095), upper-middle-income countries (\$4,096–\$12,695) and high-income countries (\$12,696 or more).

F. Impact of the COVID-19 Pandemic on SDS

25. The incidence of COVID-19 in terms of cases and deaths in SDS was comparable to that in other middle-income countries (MICs)—lower than in AEs during the first year of the pandemic but accelerating during 2021 (Maret, 2022). Of the global cumulative COVID-19 cases and deaths, 0.2 percent were recorded in SDS through end-July 2021, most of them concentrated in a few countries. Contagion varied widely across SDS regions. Asia-Pacific SDS were much less affected than those in other regions, particularly in 2020, most likely because of their greater remoteness and early lockdown and containment measures. Higher aggregate infection rates since end-2020 reflected mainly the pandemic outbreaks in Maldives and Fiji while other Asia-Pacific SDS continued to avoid such outbreaks. The pandemic was more widespread in Caribbean SDS while there were also large outbreaks in Cabo Verde, Eswatini, Montenegro, and Seychelles. Overall, more than 96 percent of all SDS cases were reported by 10 of the 34 SDS at end-2020.

26. The economic impact of the pandemic on SDS was worse than on other country groups in 2020, the final year of the evaluation period, reflecting disruptions of trade, travel, tourism, capital flows, financing, and remittances. Compared to pre-shock baselines,¹⁰ SDS were the most affected group (Figure II.5). Their real GDP contracted by around 12 percent, significantly larger than for other EMDEs, their debt increased by 17 percent of GDP, their fiscal deficits went up by 5.3 percent of GDP, and their current account balance plummeted by 5.6 percent of GDP. The impact of the pandemic was greatest in the Caribbean SDS, with severe declines in GDP, in excess of 14 percent, in several countries, including Antigua and Barbuda, the Bahamas, St. Kitts and Nevis, and St. Lucia. Moreover, in some Pacific SDS, the effects of COVID-19 were compounded by other disasters, including in Samoa, which suffered from a severe measles outbreak in late 2019; and Fiji, Solomon Islands, and Vanuatu affected by Cyclone Harold in April 2020.

27. SDS economies began to recover in 2021, but the turnaround was less pronounced than in other regions, and prospects are for slower returns to pre-pandemic growth trends (see Figure II.2). While recognizing the high uncertainty regarding the longer-term economic impact of COVID-19 and the extent of scarring, and transformational changes, ~~the majority~~ a half of Caribbean SDS are expected to take at least ~~four~~ five years to recover to pre-pandemic income levels, while a half of all Asia and Pacific SDS will take three or more years to do so.¹¹

¹⁰ Baselines are proxied by staff projection from WEO January 2020 vintage.

¹¹ In terms of vaccination rates, which are especially important for SDS given the relative weight of the tourism sector, SDS had on average 40 percent of its population partially or fully vaccinated by October 2021, compared with 45 percent and 70 percent in EMs and AEs, respectively.