

## 2006 SMALL STATES FORUM: CHAIRMAN'S SUMMARY OF DISCUSSIONS

Singapore • September 18, 2006

### I. Opening

Opening the 2006 Small States Forum, World Bank Vice President of Operations Policy and Country Services James W. Adams introduced the Chair, the Hon. Willie Jimmy Tapangararua, Vanautu's Minister for Finance and Economic Management. Mr. Tapangararua began his opening remarks by drawing attention to the high standards set by previous Forum Chairs, notably including the 2005 Chair, the Hon. Denzil Douglas, Prime Minister of St. Kitts & Nevis, and by asking for members' support in adding to the legacy of the Forum. He thanked Mr. Adams for five years' of outstanding service on the Forum's behalf, and the Forum's partner institutions for their efforts on behalf of small states. Mr. Tapangararua then introduced Graeme Wheeler, World Bank Managing Director, Operations.

Mr. Wheeler, after noting that like the Chair, he too was from a small South Pacific island (New Zealand), briefly outlined the recent trajectory of World Bank support for small states.

- Comparing 1999-2001 and 2002-2005, he said, average annual Bank disbursements to small states have risen by just under 30 percent (and the share of disbursements on concessional IDA terms has grown significantly, from 35 percent in 1999-2001, for example, to 54 percent in 2002-04).
- Comparing fiscal years 2001 and 2005, he added, the number of World Bank diagnostic reports for small states has more than doubled, as has the delivery of technical assistance.
- Mr. Wheeler then noted that in the World Bank's Doing Business report coverage will expand from 19 small states in 2006 to 39 in 2007, and added "this expanded breadth is a function of a developed small state—Iceland—stepping forth with financial support."

Notwithstanding all this, Mr. Wheeler said in conclusion, "we in the World Bank are well aware that we can do better still." [Mr. Wheeler's presentation](#).

### II. Labor Mobility and Remittances

After thanking Mr. Wheeler for his presentation, the Chair introduced the Forum's first session, on labor mobility and remittances, by noting that only a week previously, while many of the assembled members were in Sri Lanka for the Commonwealth Finance Ministers meeting, a local paper reported that remittances to Sri Lanka were expected to rise to \$3 billion in 2007, up from \$2 billion in 2005—a full 50 percent jump in two years. The paper, Mr. Tapangararua said, cited a study by Sri Lanka's Central Bank, and spoke about the critical importance—both to the migrants and to Sri Lanka's economy—of seeing that the largest possible share of the monies transferred were not lost as transaction costs, and noted that both migrants and their home countries stood to benefit

the higher the proportion of those transfers that were undertaken through formal channels. With this background, the Chair called on the World Bank's Alan Winters to summarize world trends with respect to migration and remittances and to update the Forum on recent World Bank research in this field.

Mr. Winters began his remarks by noting that the brain drain disproportionately affected small states, and cited data to the effect that while some 10-11 percent of the population of small states lives outside their country of origin, 45 percent of those with a university degree do so—and that there is thus a much greater impact from migration on the domestic labor markets of small states than on their larger counterparts. Mr. Winters quickly added that the numbers themselves did not necessarily constitute a problem—i.e., the numbers were less important than the possible effects, for example on delivery of critical services. Mr. Winters added that almost immediately after immigrating—whether permanently or for the short term—migrants typically began sending remittances back home, and that these sums were “of quite significant size,” as were the transaction costs of the remittance transfers.

After thanking Mr. Winters, the Chair noted that the Pacific small states were well aware both of the issue and of a recent piece of analytic work undertaken by the Bank on the subject, *At Home and Away: Expanding Job Opportunities for Pacific Islanders through Labor Mobility*. The Chair added that the Forum was fortunate to have as its next presenter the author of that study, Manjula Luthria. Introducing Ms. Luthria, the Chair asked her for some practical suggestions to ensure that “our citizens’ hard work finds its way home to their families and that they can reap the benefits in ways that strengthen our economies.” Noting that the World Bank strategy for Pacific islands was two-pronged—to help attract investment to the islands and to help the islands diversify their economies—Ms. Luthria observed that labor itself was a product and one in which small states often had a comparative advantage. Given that research suggested that by 2015 Melanesia would be able domestically to generate formal sector jobs for only 10 percent of its working age population, barriers to the import of labor become critical, especially because remittances appear to be a typical feature of migrant behavior. While some decry so-called remittance dependent economies, she remarked, labor *is* an export and who, she asked, decries “export dependent economies.” Given that there are likely to be concerns about substantial permanent inflows of unskilled migrants to more developed economies in the region, the way forward, she said, was well-designed schemes for short-term migration of unskilled labor to fill identifiable gaps in more developed economies. [Ms. Luthria's presentation.](#)

Thanking Ms. Luthria for her presentation, Mr. Tapangararua pointed out that the next logical step was to consider from a private sector view how best to ensure that as high as possible percent of migrants’ remittances could actually reach home, rather than be captured in the transmission of funds. To that end, he introduced Mr. Ashoke Rana, CEO of Himalyan Bank, in Nepal. By way of introduction, the Chair noted that remittances constitute some 20 percent of Nepal’s GDP, “a higher share than for many countries that are better known for their migrant workers.” Mr. Rana pointed to three key issues whose resolution enabled Himalyan Bank to increase its remittances transfer from \$1 million to

\$25 million monthly. First, was a focus on client needs, which went beyond the best exchange rates and lowest transaction costs to include a wide network of Nepal locations to which the money could be sent and in which both the migrant and the recipient could have confidence. It was also necessary, he said, to work closely with the migrant communities to educate them about remittances transfers. In both cases something more than the traditional banking approach—in which the bank is just “there” and it is assumed that customers educated in the banking process will enter the premises, conduct their transaction, and depart—was needed. Second, it was found desirable to charge the commission at the front end, rather than, per tradition, at the receiving end. Thus when, say, \$1,000 was sent, the recipient received \$1,000. Finally, it was necessary to find some means to lower operating costs and transmission times, which in this case proved to be through Internet transactions. The result, Mr. Rana said, was that “Himalyan Bank now has around 90 locations in Nepal where we can pay within an hour, through an online systems, from anyone who remits money to anybody in Nepal.” [Mr. Rana’s presentation.](#)

Following these presentations, The Bahamas, Cyprus, and Kiribati inaugurated a discussion among Forum members that drew in observations from Mr. Winters, Mr. Rana, and Ms. Luthria. Perhaps the point that drew the most consensus was that migrants bring back with them not only funds that may be productively invested in home economies but also expectations—for efficiency, reliability, transparency, and so forth—that contribute equally as does their money to stimulating development in their homelands.

### **III. Private-Public Partnerships**

The Chair set the stage for the ensuing presentations centering on the role of the private sector by noting that, for Pacific small states at least, “private investment flows have not responded as expected even with concerted efforts to implement reforms”; he added that there was a need to “proactively tackle these issues rather than to continue patiently to sit still.” Mr. Tapangararua then introduced Michael Klein, Vice President for Financial and Private Sector Development of the World Bank and the International Finance Corporation, noting that “Mr. Klein served in the private sector as Chief Economist of the Royal Dutch/Shell Group, so we are in no danger of getting merely ivory tower, armchair advice.”

Using as a prism the World Bank’s annual Cost of Doing Business Report, which examines how government policies impact the framework conditions for domestic enterprises to set up businesses, create employment, and stimulate investment, Mr. Klein offered some broad observations comparing small and larger states. He noted that at the highest level of generalization small states, like their larger counterparts, range across the spectrum as regards the quality of their regulatory environment for business; thus Estonia ranks 17th in the world, while Timor-Leste ranks 174 out of 175 countries covered. However, when the individual indicators are disaggregated, some specific small state patterns emerge, with small states, for example, typically scoring poorly on matters to do with access to credit. This, in turn, probably reflects similarly poor scores on registration

of property, starting a business, and enforcement—all things that are predicates of easier access to credit. Small states also typically scored poorly on reform in the area of promoting investment. However, when the indicators were viewed individually, specific small states scored quite well across all indicators. Indeed, if a hypothetical, composite small state was created with each small state best practice exemplified, it would rank third in the world as a pro-business environment, just behind New Zealand and Singapore. The point, Mr. Klein said, was that when domestic businesses could not flourish, the informal sector dominated, and poor and marginalized people were disadvantaged by labor market rigidity. The conclusion drawn from the data, he said, was that “the ease of doing business, when controlling for differences in countries, including per capita income, is highly correlated with job creation and reduction of unemployment.” [Mr. Klein’s presentation](#).

After thanking Mr. Klein for his presentation, the Chair noted that “one of the great virtues of the Small States Forum over the years is the ease with which it brings together analysts and practitioners of development on the one hand and senior political figures accountable to their constituents for delivering growth and social services on the other. Each of these groups helps, I think, to keep the other from flying too far off track, by introducing a reality check.” In that light, the Chair introduced Clyde Mascoll, Minister of Finance from Barbados, and asked him to provide a small state ministerial perspective on public-private partnerships and on the role of the private sector.

Mr. Mascoll began by noting two key factors—the capacity of small states to earn foreign exchange, “because that is the only constraint to managing a small economy,” and the WTO push toward liberalization by the WTO which, by determining the level of small state sovereignty, determines the capacity of small state governments to manage their economies effectively. In this context, he said, public-private partnerships are a means for governments to continue to deliver essential social services at a given level, in part because such partnerships help deal with, or hide, debt. Using the examples of new highway and prison construction in Barbados, Mr. Mascoll noted that had the Government built these structures, significant new government debt would have been incurred, whereas by allowing the private sector to provide a public good the country avoided raising Barbados’ debt service requirements going forward. This, he said, is a meaningful alternative approach to infrastructural development. And, he added, it is especially important looking to the future, in the context of the integration of the Caribbean economies. If Barbados is likely to be a net importer of people, which would help foster a critical economic mass, an expansion of social services will follow, ultimately to the overall benefit of the economy. Mr. Mascoll then identified two challenging issues. One was the necessity of gaining and then maintaining public support for this approach; the other was forestalling international institutions—which have long advocated public-private partnerships—from coming in and penalizing small states on the back-end of these transactions.

These presentations sparked a lively exchange—particularly about assessing and distributing risks on the front end; the requisites for ensuring that such transactions are legitimately off the public debt books (including the politically charged issue of user

fees); and the constraints of reaching distant domestic populations with social services that cannot realistically be expected to return a profit. Active in the conversations, bringing their national experiences to bear, were Malta, Fiji, Barbados, Cyprus, St. Kitts & Nevis, Guyana, and Gabon.

#### **IV. Small States Review and Small States Network**

Following the lively participants discussion, Mr. Tapangararua drew participants' attention to the agenda's final item which, he said, was "in one sense is its most important one, because we are going to consider how best to proceed in the coming year, both with respect to the possible establishment of a Small States Network for Economic Development and its potential initial work program and with respect to possible topics for next year's Forum." Before addressing these matters, however, the Chair asked the Commonwealth Secretariat's new Deputy Secretary General, Ransford Smith, to present the Commonwealth Secretariat/World Bank-supported [Review of the original 2000 Small States agenda](#), which the Forum had requested. The Chair noted that while this "may be seen as finalizing old business, the Review is also forward looking (including by recommending something very akin to the Malta proposal for a small states network) and may thus guide the joint work of small states and their partners."

After thanking the Chair for his welcome, Mr. Smith began by noting that over the past year there had been extensive consultations with small states on the draft Review, and he noted the broad conclusions of these consultations, which included the following.

- Small states agreed that the Review's summary of post-2000 developments largely reflected prevailing conditions.
- Understandably there were differences of emphasis as to the causes of the adverse macroeconomic developments of recent years—some small states highlighted the post-September 11 effects on income volatility, others the rapid erosion of trade preferences and the rapid rise of oil prices, and others still the burden on the public sector of increased migration.
- Land-locked African small states expressed a sense that the literature on small states remains over-determined by island issues and fails properly to consider the issues unique to their condition.
- There was very broad support for the outward-oriented development strategies called for in the Review—but an equally strong sentiment for an orderly transition and for help to small states to participate effectively in the expansion of world trade.
- There was concurrence that the recommendations of the 2000 Small states Report remained valid, and on the important role played by remittances and the contribution of diasporas.

The Deputy Secretary General concluded by outlining the main recommendations of the Review—increasing competitiveness and improving investment climates; empowering and improving the quality, health, and safety of small states' human resources; enhancing regional cooperation; building environmental and other resilience mechanisms; and

improving the quality of international assistance—and calling for consideration of an action plan to implement the vision articulated in the Review.

After thanking the Deputy Secretary General for his presentation and the Commonwealth Secretariat for its continued support to small states, the Chair traced the recent history of Malta's role in developing and advocating for a [proposal](#) to establish a Small States Network for Economic Development, and he then called upon the Governor of the Central Bank of Malta, Mr. Michael Bonello, to speak to the subject. After using a DVD produced by Malta to describe the value to small states of a network that would bring their collective knowledge and energies together to promote their development and amplify their voice ([click here for the DVD presentation](#)), Mr. Bonello formally introduced a resolution calling for the establishment of the Network. The resolution was seconded by Mauritius and adopted unanimously. The Chair then recommended that the draft Statute of the Network be reviewed by a committee comprised of Barbados, Malta, Mauritius, St. Kitts & Nevis, Samoa, Vanuatu, the Commonwealth Secretariat, and the World Bank, with a view to their reporting back a penultimate draft for electronic submission to all SSF member states for endorsement on a no-objection basis. ([draft Statute.](#)) The Chair's suggestion was unanimously adopted.

The Chair then asked participants to reflect briefly on the outstanding contributions of two individuals, one of whose contributions to the Forum was drawing to a close and the other of whom would shortly see his involvement in the Forum take on a less immediate form. The first, the Chair said, was Mr. Biagio Bossone, the World Bank Executive Director representing Albania, Greece, Italy, Malta, Portugal, San Marino, and Timor-Leste, who had been instrumental in “fostering support for Malta's proposal for a Small States Network for Economic Development” and who would soon end his tenure as a World Bank Executive Director. The second was James Adams, World Bank Vice President of Operations Policy and Country Services, whose new job as World Bank Vice President for East Asia and the Pacific would mean that he would no longer have direct oversight of the Forum. The Chair continued by saying that “Mr. Adams is sufficiently familiar to all here assembled that I do not need to add further words.”

Enthusiastic applause followed the Chair's intervention, following which Mr. Bossone stood to thank participants and to note the critical roles played by the Government of Malta and by James Adams in advocating for the proposed Small States Network. Mr. Bossone added that ownership of the Network by small states would be essential to its well-being and impact, and that a vital role to be played by the Network was in amplifying the voice of small states in the international arena.

Mr. Adams then remarked on his five-year involvement with the Forum, pledging that as World Bank Vice President for East Asia and the Pacific he would continue to be actively involved in small states matters and with the Forum. He added that in his experience, the Forum's success was due in large measure to the work of its Chairs, and to the continued support of the Commonwealth Secretariat and of participating members and partners.

The Chair then closed the Forum by thanking all presenters and participants for a highly productive gathering and by pointing the way forward to the 2007 Small States Forum, to be held on the wings of the World bank-IMF Annual Meetings, scheduled for October 2007. As with the 2006 Forum, the 2007 event will be chaired by Vanuatu, on behalf of the Pacific small states. [Unedited transcript of the proceedings of the 2006 Small States Forum.](#)