

**Global Conference on the
Development Agenda
for Small States**

17-18 February 2000, London

**SUMMARY OF
PROCEEDINGS**

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**Global Conference on the Development Agenda
for Small States
1, Great George Street, London, 17-18 February 2000**

Summary of Proceedings

I. Introduction

This Conference was organised by the Commonwealth Secretariat/World Bank Joint Task Force on Small States. Its main purpose was to discuss vital issues of concern to small states, in order to facilitate the finalisation of the interim report of the Task Force prepared in October 1999. The meeting was attended by 196 participants, representing 42 governments and 26 multilateral, bilateral and regional organisations, together with representatives of NGOs and the private sector (see Annex I for Directory of Delegations, Organisations, Observers and Secretariat). The Conference was chaired by the Rt Hon Owen Arthur, Prime Minister of Barbados.

II. Day One, Thursday, 17 February

1. Opening Session

Dame Veronica Sutherland, Deputy Secretary-General (Economic and Social Affairs), Commonwealth Secretariat, and the Co-chair of the Secretariat/World Bank Joint Task Force on Small States, opened the meeting with some brief remarks (see Annex II). In her remarks, she indicated that the main purpose of the Conference was to undertake the widest possible consultations with a broad spectrum of stakeholders involved in small states' development, in order to facilitate the finalisation of the interim report of the Task Force prepared in October 1999. The meeting needed to focus on four vital issues: reducing vulnerability; mobilisation of support for capacity building; transition of small economies from a preferential trading system to a freer global trade regime; and globalisation. Dame Veronica concluded her remarks by thanking the governments of Australia, Britain, Canada and New Zealand for their financial support for the conference.

In his opening remarks, **Mr Masood Ahmed**, Vice-President, World Bank, and the Co-chair of the Task Force, stressed the importance of the consultation process for its work (see Annex III). The Task Force considered this process to be vital in ensuring that the views of stakeholders were adequately and accurately reflected in its report. Mr Masood added that the final report would emerge from the discussions of this conference. However, it could not cover all small states' issues exhaustively and provide definitive solutions to overcome them. The report would set out a contextual framework which would provide a sound basis for developing programmes appropriate to the particular circumstances of individual countries. In conclusion, Mr Ahmed said that the final report will be presented to the April 2000 meeting of the Development Committee of the World Bank and the IMF.

The Rt Hon Owen Arthur, Prime Minister of Barbados, in his opening statement, said that this was a historic conference (see Annex IV). Though the international community had taken cognisance of the particular vulnerabilities of small states, this was the first time

that they had shown the political will to devise specific measures to address those vulnerabilities. The Prime Minister observed that the conference was expected to provide a definitive analysis and a set of recommendations for addressing the problems associated with vulnerability. He remarked that small states were themselves taking steps to more fully integrate their economies into the global economy. But these were insufficient, since the changes brought about by globalisation were so profound. A new development partnership between the institutions of the international community and small states was needed to address these issues. In conclusion, the Prime Minister said that the deliberations of this conference would help the Task Force not only to finalise its report but to establish a continuing agenda for action and analysis by small states themselves and by international organisations.

2. **First Plenary Session: Reducing Vulnerability**

The Rt Hon Owen Arthur, Prime Minister of Barbados, chaired this session. In his introduction, the Prime Minister briefly outlined the focus of the three presentations that were to follow: i.e. factors affecting vulnerability by Chris Easter; commodity risk management by Nawal Kamel; and new approaches to disaster insurance by John Pollner.

In his presentation, **Dr Chris Easter**, Commonwealth Secretariat, focused on the concept of vulnerability and on the Commonwealth Secretariat's efforts to develop an index to measure vulnerability. He noted that small states were inherently more vulnerable and that they also had limited resources with which to meet the threats. The Commonwealth Secretariat had a strong commitment to small states as they constituted 32 of its 54 member countries, and received 60 per cent of the technical assistance it provided. The 1997 report, *A Future for Small States: Overcoming Vulnerability*, provided a comprehensive analysis of vulnerabilities faced by small states. Dr Easter defined vulnerability as "exposure to external economic forces and environmental hazards over which they had little, if any, control". He noted that this definition had two dimensions: that of the impact of threats and the ability to withstand them (resilience). Though vulnerability was an abstract concept, it was characterised by income growth volatility, which was 25 per cent higher for small than for large states.

Dr Easter outlined the criteria used in developing the Commonwealth Secretariat's vulnerability index (plausibility, simplicity, suitability for international comparisons, non-overlapping, and ease of comprehension). The index used data for 111 countries of which 34 were small states with a population of under 1.5 million. The components of the index were: economic exposure (trade openness and lack of diversification); environmental hazards and events; and resilience (which can be viewed as the critical mass of resources needed to meet the challenges, and was represented by GDP). The results of the index showed that small states were more vulnerable than larger states. Twenty-six of the 28 most vulnerable countries were small states, while the 28 least vulnerable states were all large states. The index could be used as an additional criterion in determining country status for graduation and eligibility for differential treatment, and to formulate policies to reduce vulnerability, especially in the areas of trade openness; diversification to spread the risks of exposure; commodity price risk management; and disaster preparedness and mitigation, including catastrophe insurance.

Ms Nawal Kamel, World Bank, made a presentation on the topic, *Commodity Risk Management in Developing Countries: a Proposed Market-based Approach and its*

Relevance for Small States. She noted that small states had solid experience of how fluctuations in commodity prices affected their development; the ability of governments to maintain a stable business environment and implement policies that addressed poverty; and small producers' ability to plan effectively. She said that commodity price fluctuations were not a new problem and had been much discussed even at the original Bretton-Woods conference, where the UK delegation argued strongly for the establishment of an international institution to stabilise commodity prices. In the 1960s and the 1970s, a number of programmes and schemes were developed to assist developing countries to cope with commodity price fluctuations but soon these became untenable and they were dismantled. The time had come to think again and propose measures on the basis of new market-based tools. Ms Kamel said that the World Bank had taken the lead in examining this issue with the help of an International Task Force, which included international and regional organisations, the Commonwealth Secretariat, the private sector and representatives of small-scale producers.

Ms Kamel said that the report of the Task Force had concluded that markets had generated the instruments needed to address the problem, but that these had not reached those who needed them most, such as small producers in vulnerable developing countries. This indicated the existence of a market-gap, which needed to be addressed by international mediation so that price-protection could be provided to small producers through a guaranteed floor price for producers and a ceiling for importers.

Ms Kamel outlined three dimensions that the international facilitation needed to address:

- technical assistance to ensure the flow of price information to small-scale producers in developing countries and to build institutions to provide retail price protection for them;
- the bringing together of providers of insurance with potential users in developing countries, which involved bridging the trust and information gap; and
- the production of price protection mechanisms where the private sector was unable or unwilling to do so and thereby extending the market.

Ms Kamel noted that a price insurance scheme for small-scale producers in developing countries could be made operational. It had already inspired some policy makers: for example, the new ACP/EU Agreement included a clause to provide price insurance schemes for ACP countries. However, more work was needed to advance the commodity price insurance proposal.

Mr John Pollner, World Bank, made a presentation on the topic, *Pooling Catastrophe Insurance Risks with Alternative Risk Financing Mechanisms to Mitigate the Economic Effects of Natural Disasters*. In his presentation, Mr Pollner outlined a financing mechanism which the World Bank was developing for the Caribbean on the basis of insurance to hedge against losses from natural disasters. He noted that extended insurance coverage was required in catastrophe-prone countries in order to ensure sustainable growth following natural disasters. This would give priority to non-insured sectors such as government property assets, infrastructure and small businesses. This involved examination of issues such as high premiums, unavailability or lapses in coverage, fiscal load in subsidizing reconstruction efforts, and weak insurance regulations. Domestic prices for insurance in the Caribbean were high because they were sensitive to international price

movements. For instance, the industry experienced a capacity-crunch in the early 1990s, which contributed to price increases. The increase in property values world-wide had also increased the scale of losses caused by weather-related disasters, thereby driving-up insurance premiums. The World Bank believed insurance was an effective policy tool and that it should be promoted, especially to cover public sector assets and the small-business sector. To achieve this, there was a need to provide more country-specific risk ratings, based on accurate estimates of exposure to risks.

After a brief exposition of the structure of catastrophe loss reinsurance, and current reinsurance rates at different disaster probability points, Mr Pollner outlined tools that could be used to expand the availability of insurance and reduce volatility through improved risk management such as:

- more effectively channelling catastrophe risks to the international market;
- pooling of risks by countries;
- the use of risk financing, credit instruments, and catastrophe bond schemes using intensity level triggers;
- investments to reduce the vulnerability of structures; and
- the creation of a robust domestic insurance industry by addressing regulatory and technical needs.

The Chairperson thanked the three speakers and opened the floor for discussion.

The Representative of the Caribbean Regional Negotiating Machinery remarked that the presentation of a market-based approach to commodity risk management had been lucid but it was not realistic. The scheme had overlooked the all-important differences between large and small producers, old versus new producers, and those whom he called the free-riders. He wondered how a scheme limited to small producers would deal with the price behaviour of large producers, who generally tried to capture a large market share in a declining market. In this context, a successful scheme would need unlimited resources if it faced such price behaviour. He was also sceptical about the commodities which had been selected for analysis, such as aluminium, cocoa and coffee. These had been subjected to several failed experiments with price stabilisation over the past decades.

The Representative of Guyana said that the Bank's presentation required several clarifications. First, there was need to provide examples of commodity risk management operations in practice, especially in industrial countries where different tools of intervention like subsidies and buffer stocks were employed to stabilise prices. The IMF's Compensatory and Contingency Financing Facility and the EU's Stabex had been virtually phased out. However, export earnings stabilisation schemes did not deal with price instability. On the other hand, they were very expensive for donors but did not provide adequate assistance for commodity exporters. Hedging operations sounded interesting but had to be demonstrated in practice. As regards the Bank's proposal, it seemed to raise the question of the capacity of developing countries to exercise surveillance over such complex insurance operations.

The Representative was also curious about the feasibility of the insurance scheme for managing catastrophe risks and the cost of such premiums. Disasters seemed to strike down the same part of a region with frightening regularity as in the case of the Caribbean: how plausible would it be for such countries to be attractive to insurers?

Ms Nawal Kamel, World Bank, clarified that the focus of their effort was on poverty reduction and not price stabilisation. The structure of production depended on the organisation of the local market and the commodity itself. Therefore, both small and big producers could be involved, even including governments. The International Task Force's thinking had been that whatever price protection was purchased, the benefits would trickle down to the small producers through local transmission mechanisms. The focus would be on commodities most relevant to developing countries. But it would be a case by case approach. The scheme did not seek to address trends and levels of prices or stabilisation of prices. However, the insurance scheme would reduce the uncertainty associated with price volatility. It would be a tool to buy predictability of price for one/two crop years ahead, which would help small producers to plan their production and diversification. Once a minimum price was guaranteed it would also be feasible to secure credit from local banks to purchase inputs for production.

The Representative of the OPEC Fund observed that the issues being discussed by the Conference were not new. In the late 1970s, the Fund had facilitated the establishment of two institutions – the Common Fund for Commodities and IFAD – in order to help regulate prices for primary producers. Unfortunately, many developed countries did not join these bodies and several members who had initially joined withdrew later, so that their resources were dissipated and major activities such as stabilisation of prices could not be undertaken. While he agreed with a market-based approach as proposed, he also wondered why everything was being pushed to the markets. He also tended to agree with a previous speaker who had remarked that realism was necessary in order to make any scheme work. Moreover, small states were not homogeneous and the statements made by a previous speaker about small producers might only be true in the case of some small states. He was also concerned about the cost of insurance, since even when there was a season of good crops the premium burden had to be borne by the countries.

The Representative of the Caribbean Disaster Emergency Response Agency observed that the question of resilience was very important in determining any insurance scheme, and that this issue did not seem to be addressed in any sustainable way by the scheme under discussion. On the policy side, there would be need to consider differential treatment, informed by enhancement of resilience, e.g. special financing for relocating critical facilities; and debt relief for the disaster affected economies. There was also an opportunity to consider how to link poverty alleviation with the human element of resilience.

The Representative of St Lucia commented that his country had experienced a combination of price and supply effects of negative terms of trade. The Stabex scheme had addressed both effects and hence his country, along with others, had worked hard to preserve that scheme. He wondered if the Bank's proposal adequately addressed the supply side problems.

The Representative of Samoa said that he had a particular interest in the catastrophe insurance scheme and looked forward to the World Bank's Caribbean initiative in this area. He wished to make a general observation that the focus on disasters should not be on events to be tolerated but should view them as an essential part of the sustainable development process. International inter-disciplinary co-ordination was needed to strengthen capacity for disaster prevention and anticipation, including sharing of information. The International Disaster Reduction Effort showed that in 1998, the estimated cost of disaster damage worldwide had been \$98 billion, of which only 2 per cent came from insurance funds. Any

insurance regime had to be devised as a response to a global climatic phenomenon. Small island states were especially vulnerable to external factors. In this context, he said that environmental vulnerability was a very important criterion for the Vulnerability Index. He believed that it would be important for the international community to acknowledge the existence of small states who needed to make their case explicitly.

The Representative of the South Pacific Forum wished to address a technical question posed by the Commodity Risk Management Scheme. There seemed to be a danger of substituting price risk for foreign exchange reserve risk unless a regulatory mechanism was established. The Long-Term Capital Management experience suggested that even well organised institutions had failed because rogue individuals within them had adopted high-risk strategies. How would small states rise to this challenge?

The Representative of Lesotho believed that the conference was timely and he hoped it would achieve its purpose of setting up long-term strategies to deal with vulnerability. His country provided a classic example of a small state facing severe vulnerability problems due to its location – completely surrounded by a powerful neighbour. By way of example of vulnerability due to the changing fortunes of the powerful neighbour, he cited the case of the fall in the price of gold in 1999 which led to a major retrenchment of its workers from South African mines. The national unemployment rate of 34.2 per cent worsened with the addition of 5000 unemployed migrant workers to the work force. Remittances on which the economy depended also dwindled. Its economic scenario was grim with the added impact of a serious drought. He thought that the 1.5 million population threshold used in the Task Force report was arbitrary as it would disqualify his country and several other vulnerable countries from special and differential treatment.

The Representative of Cape Verde shared similar views about the Vulnerability Index. He believed that the Index ought to take into account economic realities, and ecological, geographic and demographic vulnerabilities. There were several countries within sub-Saharan Africa and the Sahel region which did not meet the criteria of “smallness” but which were extremely vulnerable and merited special treatment. It would be important to look at all components of vulnerability and ensure that vulnerable states received the wherewithal to make the transition to sustainable development. The reduction of poverty was essential for the economic security of small states. The impact of globalisation in exacerbating problems such as drug trafficking also had to be looked at in the context of the Vulnerability Index.

The Representative of Mauritius commented on the issues from the policy point of view. He reminded the delegates that the central objective of the Conference was to develop some consensual proposals to overcome small states’ key concerns. Most importantly, there was need to agree on a proposal which would see the establishment of a specific category of small states with unique problems and constraints – not in competition with groups such as the least developed countries – but so as to devise measures which were complementary and specific to the vulnerability of small states. He referred to Agenda 21 of Rio and the recent 22nd Special Session of the UN General Assembly, which had endorsed the new Commission for Sustainable Development and recognised that small island developing states (SIDs) merited special treatment on account of their dispersion and isolation. He suggested that the present Conference needed to build on these initiatives and ensure that SIDs received special treatment within the WTO, IMF and the World Bank. The UN would be reviewing the special case for the least developed countries later in the year and he hoped that this

conference could approach it in order to obtain special and differential treatment for SIDs as well.

Professor Compton Bourne, University of West Indies, observed that the commodity risk management proposal had ignored an important part of income risk: i.e. failures at the production end arising from adverse climatic factors. Moreover, too much emphasis had been placed on the use of capital markets instruments – even in industrial countries, as the paper on catastrophic risks pointed out, governments had found it necessary to utilise non-market instruments to address the problem of risk. It would be necessary to examine the practicality of market-based arrangements. On the measurement of vulnerability, he tended to agree with the representative of Lesotho that the population measure was arbitrary and would exclude several vulnerable states. Smallness in economic size was what was significant. The speaker defined this to include the inherent sub-optimality of small states: this meant difficulties in achieving economies of scale; inadequate competitiveness; limited resource base; product specialisation; limited labour force; shallowness of capital markets; and high transport costs. The Interim Report of the Task Force had touched on these characteristics but had suggested that these were shared across states, which they were not. Much was made of insularity in the Report, but landlocked countries also had specific vulnerable characteristics, which it would be important to include in any criteria defining vulnerability. He suggested the need to refine the Vulnerability Index and address the issue of the economic resilience of vulnerable countries.

The Representative of Grenada made the following observations: countries dependent on service exports showed similar characteristics to commodity producers but the commodity risk management scheme had little relevance for them; it would be important to recognise that long-term diversification was the real solution to problems of commodity production; and that natural disasters destroyed the economies of small states completely and, therefore, market-based solutions were not realistic.

The Representative of Papua New Guinea questioned the value of yet another Conference. In his view, the new Lomé agreement was exhaustive; in that context, how much more could be advanced by the present conference? The various elements of the Barbados Programme covered differences in circumstances and kinds of disasters faced by SIDs. The new ACP/EU Agreement included additional provisions for integrating any missing elements into the Barbados Programme. This Conference provided an opportunity to identifying those missing elements.

The Representative of Maldives said that the Commonwealth Vulnerability Index needed further refinements if it was to be used as an instrument by other agencies dealing with small states. The UNCDP did not adopt the index because of its limited nature. In his view, there was a high correlation between the LDCs and SIDs.

In his intervention, the **Representative of Kiribati** explained in detail the particular vulnerability of his country.

3. **Second Plenary Session: Capacity building, Delivering Effective Development Assistance at Lower Transition Costs.**

Mr Masood Ahmed, Vice-President, World Bank, and Co-chair of the Task Force, chaired this session. He invited Ms Wendy Jarvie, World Bank, to present the experience of the Bank on aid co-ordination.

In her presentation, **Ms Jarvie** said that the findings from a study carried out by the Operations Evaluation Department of the World Bank had confirmed that aid co-ordination policies had proved ineffective. For example, there had been little or no improvement in the coherence and selectivity of donor activities, donor/Bank policies had hindered harmonisation efforts at country level, co-ordination had not assisted significantly in improving in-country capacity, and only occasionally aid-recipients had taken the lead in managing aid.

Ms Jarvie observed that at the same time, the climate around aid co-ordination was proving to be more challenging with the declining volumes in aid, an increased number of players, including an increased number of NGOs, and more projects. She described the increasing number of projects being implemented in a number of developing countries together with the increasingly stringent and complex procedures, as ‘the aid bombardment syndrome’, which overwhelmed the capacity of governments to manage project development.

She noted that, for small states, the problem was exacerbated by their higher aid dependency. Barriers to effective aid co-ordination included multiple visiting missions, the sheer number of donors, lack of country capacity, and the demands of different reporting requirements.

The differences in perception between donors and recipient countries regarding objectives of aid co-ordination further fuelled tensions. Governments considered their involvement as crucial; the Bank and donors did not. Differences persisted with regard to the levels of involvement by donors and governments. And while governments had continued needs to mobilise more resources, donors were increasingly stressing issues like good governance and involvement of civil society.

Ms Jarvie pointed out that the time was ripe for change: developing countries wanted to manage aid, and to play a leadership role in designing new policies and directions. She pointed out that there was a window of opportunity for building creative partnerships between donors and countries. For example, the UNDP and the World Bank have formed a “Joint Partnership Group” to progress over the next year a joint policy on harmonisation, with inputs from developing country partners in order to identify best practices.

As regards the way forward, Ms Jarvie pointed to the need for donors, including the Bank, to promote and support strategies for capacity building and to respond to the needs of countries that were keen to manage and lead programmes. There was also a need to harmonise reporting procedures and to involve civil society. Developing countries, on the other hand, should strengthen their commitment to financial accountability and to building institutional capacity.

In conclusion, Ms Jarvie said that sector-wide approaches, with participation of donors and transparent information-sharing, offered strong possibilities for aid co-ordination.

In his introduction, **Dr Dwight Venner**, Governor of the Eastern Caribbean Central Bank (ECCB), said that on account of time pressures he had not included a slide presentation. He noted that the background to his presentation was linked to a World Bank study on improving development practices in the Caribbean that was carried out in collaboration with Bank's Development Programme at Harvard University. Dr Venner noted that, with many small states themselves being members of the World Bank, the study offered a practical approach to aid co-ordination.

This study covered the five major aid donors operating in his region. The methodology it utilised included an analysis of the project portfolios under implementation by the five major aid agencies operating in the Caribbean. One such area analysed was education, where donors remained active, with considerable overlap. Dr Venner noted that sectors such as health and the judicial system were not included in the analysis. He added that there appeared to be a broad correlation between the resource allocation and the overall donor priorities. However, it was not clear from the study whether there was a match between resource allocation by donors and the perceived needs and priorities of aid recipients.

Dr Venner drew the meeting's attention to the existing realities in the OECS countries. He said that the absorptive capacity of the OECS to accommodate all bilateral and multilateral agencies operating in the region was limited. The demands of frequent and unco-ordinated visits often put the resources of these countries under severe pressure. He stressed the need for donors and recipients to look at strategies for addressing these issues.

Dr Venner noted that the response of the OECS, as an organisation, was to develop a Regional Economic Development Plan as part of a strategy to improve and address the need for aid co-ordination in the light of ever-decreasing levels of aid and human resources. He added that the OECS was capable of providing such services to member governments in view of its treaty-based origin.

Dr Venner stressed that the issue of aid co-ordination was vital to the OECS and added that standardisation of reporting requirements among agencies was an important aspect of the co-ordinating process. He drew the meeting's attention to the many recommendations coming out of the study, and stressed that there was need for follow-up work on those recommendations. While it was felt that the study provided a practical approach to understanding the issues of aid management and development assistance, Dr Venner noted that the need for strategies for effective use of donor support was an issue which required much greater attention.

The Chairperson thanked the two presenters and opened the floor for discussion.

The Representative of Antigua and Barbuda pointed out that the issue of co-ordinating aid was fundamental in view of inadequate capacity in many small states. In his view, the idea of "Pools of Experts" developed earlier in the Caribbean needed resuscitating. The capacity to design projects was also lacking. He raised a question as to whether small states should consider developing regional capacity or national capacity to overcome these problems. Donors could help build this capacity by providing experts at regional level and training at national level.

The Representative of CARICOM said that while all donors agreed with the need for aid coordination, none wanted to be co-ordinated by another agency. In his view, the lack of leadership of this co-ordination role was a crucial problem. This problem could be resolved by assigning the leadership role to the recipient country.

The Representative of Guyana said that the effectiveness of aid should be measured not by its quantum, but by its relevance to the needs of the people and by how much the assistance contributed to the development of a particular country or region. In this respect, investment in human capital was crucial. Aid conditions, such as the provision of experts from the aid-originating country should be removed, and instead donors should be encouraged to employ local experts; this would reduce transaction costs. Technical co-operation among developing countries had proved to be an excellent means of reducing costs.

The Representative of the United Kingdom pointed out that the cost of failure of ODA was greater in small states. He observed that there should be political will to improve aid co-ordination from the point of view of both parties. The representative indicated that Ms Clare Short, the Secretary of State for International Development, was determined to ensure that aid contributed to development, wherever it was provided. Ironically, in trying to strengthen local ownership of development projects/programmes, donors must increase field presence, at least initially, in order to ensure their smooth operation.

The Representative of Cape Verde made the following comments:

- there was need to define precisely the projects, and to integrate them in one given framework, which would typically be the government budget;
- funding should be negotiated for a specific project; co-funding of multiple projects created chaos if not integrated and co-ordinated;
- leadership in co-ordination should be provided by the recipient country;
- it was necessary to harmonise the procedures used by the different donors;
- usually projects lacked a total budget for completion;
- financial assistance should be transparent and who was responsible for what should be spelled out clearly;
- there was need to address the problem of lack of an organisation to direct external assistance; and
- there was need to develop an internal system to liaise with the donors.

The Representative of the Caribbean Regional Negotiating Machinery cautioned about the need for developing machinery for aid co-ordination. Governments needed to take into account the changing nature of aid, which was an important element. AusAID report illustrated how aid was changing: emphasis was shifting from project financing to assistance to government budgets, institution building and policy making. These were more “intrusive” in nature, and explained donors’ increased interest in governance issues. The representative pointed out how bringing solidarity on governance issues was seen as an important element of aid co-ordination by donors. Yet this had a different connotation to developing countries, who valued aid co-ordination mainly as a means of enhancing aid effectiveness.

The Representative of the South Pacific Forum Secretariat indicated that his organisation organised a meeting in 1998 in Fiji to share insights and lessons on aid co-ordination. The lessons learnt were set out in terms of a set of principles – such as

partnership, ownership, transparency, responsibility and accountability. The conclusions of this meeting were relevant to the deliberations of this Conference. These were:

- close involvement of partner governments in project monitoring and review;
- decisions on activities to be supported should be made on the basis of developmental effectiveness;
- country-based programming should be based on genuine partnership and country and/or regional strategies;
- activities should be directly linked to the achievement of high-priority recipient government objectives;
- there was a need for balance in donor programmes, particularly the need to take account of public interest;
- recipient countries and donors needed to catalyse public support for reforms, in order to give more flexibility in addressing structural issues;
- foster strong partnership between the public and the private sector to achieve sustained growth cycle;
- the cost of aid needed to be evaluated, whether it was the opportunity cost of foregone activities or the recurrent costs of decisions made; and
- there should be more recognition of the capacity constraints in the recipient countries.

Regional organisations could play an important role in reducing the transaction costs associated with flows of development assistance.

The Representative of Canada indicated that aid co-ordination was a critical issue. He pointed out that there was a large gap between theory and practice. The issue was not only one of political will, but of public education as well. Since development aid was a risky business, public education in donor countries was needed to underscore that development was a long-term business. He noted the high transaction costs arising for recipient countries from dealing with multiple donors. In his view, sectoral approaches would ease co-ordination and streamlining. The problem of donor co-ordination could also be tackled through the growing use of the Internet. Turning to the issue of capacity building, the representative said that it was a critical one and there should be a balance between regional and national approaches.

The Representative of Samoa expressed the view that small states would need to rely on regional approaches for aid co-ordination. He thought that modern technology was essential for sharing information.

The Representative of the UNDP recalled the numerous consultations held by specialized UN agencies on the issue of aid co-ordination in order to ensure full integration of UN assistance in recipient countries. The UNDP had also been strengthening its collaboration with other multilateral and intergovernmental organizations to avoid duplication and build synergies. In particular, it had been active in supporting capacity building in the field of governance.

The Chairperson thanked the discussants and adjourned the session for lunch at 13.00 hours.

4. **Third Plenary Session: Sharing Capacity, Regional Co-operation/Integration Experience**

Dame Veronica Sutherland, Deputy Secretary-General, Commonwealth Secretariat, and Co-chair, Task Force on Small States, chaired this session. She invited Mr Byron Blake, Assistant Secretary-General, CARICOM, to make a presentation on the experience of the Caribbean Community in this area.

In his intervention, **Mr Blake** welcomed the emphasis given by the Commonwealth/World Bank Joint Task Force on Small States to capacity building. In his view it was a vital element in the strategies to alleviate the vulnerabilities of small states. In his paper, Mr Blake attempted to focus the discussion on three critical factors for the Caribbean region: experience of co-operation and integration to date; measures facilitating integration/co-operation in the region; and the experience in terms of international support for such co-operation.

Mr Blake stressed that recent global developments had reinforced the relevance of a number of factors for integration in the Caribbean. These factors included efficiency, governance, strengthening of structures and capacity, reduced administrative costs, mitigation of external shocks/threats, and increased critical mass in key areas.

Tracing the historical development of regional co-operation in the Caribbean, Mr Blake said that under the Treaty of Chaguaramas, a Free Trade Area was established in 1973. The Caribbean Community (CARICOM), with 5 million people, resulted from this Treaty. However, the process of implementation had presented some difficult challenges and the FTA would only be completed later this year.

CARICOM had instituted the necessary institutional structures and arrangements to manage the regional integration processes. A range of co-operation actions and network arrangements were in place. These included various Councils of Ministers, e.g. Heads of Government, Finance, Trade and Economic Development, Foreign and Community Relations, and Human and Social Development. The advice provided by these Councils had wide-ranging economic implications for the region.

Attempts had been made to widen the Caribbean integration process: e.g. admission of Suriname and Haiti to CARICOM; creation of the Association of Caribbean States; asymmetrical trade arrangements between CARICOM and the Dominican Republic, Colombia and Venezuela; and participation in the negotiations of the US initiative on the Free Trade Area of the Americas. In addition, the Caribbean had promoted co-operation at the political level – for example, co-ordination of foreign policies and the management of the Caribbean Sea.

Other areas of co-operation were tertiary education; research and analysis, technical standards, capital markets, legal systems, HIV/AIDS and Drugs. Some noteworthy successes of the Caribbean experience included the University of the West Indies, the Caribbean Examinations Council, the Pan Caribbean Disaster Preparedness and Prevention Project and the Basic Health Management Development Project. These had the support of international donors.

Furthermore, the private sector and NGOs had also moved toward co-operation. Notable regional initiatives included the Caribbean Banana Exporters Association, the Sugar Association of the Caribbean and the Caribbean Hotel Association. Also, some firms had undertaken research activities jointly.

Even at the regional level, there was no critical mass in certain skills and this was an impediment to the growth of some regional initiatives by the private sector.

Mr Blake observed that international organisations could greatly facilitate regional co-operation. He welcomed moves favouring regional initiatives rather than national ones. International assistance set out by donors had contributed to the successes of various regional arrangements in the Caribbean. These included:

- the Eastern Caribbean Central Bank (ECCB) and the Caribbean Development Bank (CDB);
- Part IV of the GATT trade arrangements, which permitted the operation of the Eastern Caribbean Common Market and the Caribbean Common Market;
- Preferential trade under the Lomé Convention;
- Support from UNDP, CIDA, USAID and EU for strengthening several regional organisations, including the Secretariat of the Caribbean Community, the UWI and the OECS Secretariat; and
- the Pan-Caribbean Disaster Preparedness and Prevention Project.

USAID, EU, UNDP, EIB and CIDA had supported private sector level co-operation: good examples were the Caribbean Association of Industry and Commerce, the Caribbean Export Development Project, the Caribbean Investment Bank and the Eastern Caribbean Organisation of Development Foundations. While welcoming their support, Mr Blake emphasised the need for consistency of such assistance to allow for predictability to ensure the long-term development of regional programmes.

In terms of strengthening the regional integration process in the Caribbean, Mr Blake made the following proposals:

- the network of institutions should be strengthened and greater strategic use made of them;
- regional institutions should be viewed as complementary, and not parallel, to national institutions;
- these institutions should be endowed with greater authority to discharge their mandates and responsibilities; and
- there should be sharing of sovereignty with appropriate checks and balances.

The international community also had a role to play in strengthening regional integration. Specific proposals in this area included:

- recognition of regional co-operation as a legitimate part of the development of small economies and not merely as a means of reducing administration costs;
- continued international recognition of special treatment for small states in order to assist them through appropriate regional mechanisms; and

- office facilities to be provided for small states on a regular basis to allow them to be represented at international fora such as the WTO.

In his presentation, **Mr Noel Levi**, Secretary-General, South Pacific Forum Secretariat, outlined the Pacific experience with regional co-operation and integration. At the outset, he said, despite seemingly great differences, the experience of the Pacific Forum countries on regional co-operation had been positive. The South Pacific Forum Secretariat played a key role, not only in maintaining the political stability of the region, but also in articulating the region's major concerns at the international level. It had a facilitatory, consultative and development role.

The most successful regional organisations, apart from the SPF, were the Forum Fisheries Agency (FFA), which assisted countries with sustainable development of their fisheries resources; the South Pacific Applied Geoscience Commission (SOPAC); the University of the South Pacific; the Tourism Council of the South Pacific; the Pacific Islands Development Programme (PIDP); and the South Pacific Regional Environment Programme (SPREP). The Pacific success was based on several factors, including pooling human resources and attracting and retaining highly qualified personnel; sharing of knowledge and technology, and of experiences; cost-effective administration as well as providing a stronger united voice on the world stage; and negotiations conducted on the basis of regional priorities. The key outcomes of regional integration and co-operation in the region had been 'informed' decision-making, less duplication, greater efficiency and greater benefits.

There was a need to establish a regional mechanism to co-ordinate regional activities. For this purpose, the Council of Regional Organisations of the Pacific (CROP) was established recently. It was involved in setting regional development priorities and programmes through working groups in key sectors: e.g. marine and land resources, and information. It also ensured that regional organisations did not duplicate initiatives and that they shared resources more effectively.

The Pacific experience showed that the benefits of regional integration included:

- economies of scale leading to greater efficiency;
- pooling of human and financial resources;
- increased effectiveness of joint regional programmes;
- a more effective approach to external factors and constraints;
- complementary actions by regional organisations which enabled the broadening of domestic and bilateral interventions; and
- greater regional stability.

Mr Levi outlined the recent developments concerning the creation of a free trade area in this region. This arrangement, Pacific Islands Free Trade Agreement (PARTA), was a major undertaking in regional economic co-operation between Forum Island countries. PARTA will be implemented in stages: up to 2009 for developing FICs, and 2011 for the Smaller Island States and LDCs. In his view, it provided a strong foundation for responding to issues concerning globalisation and universal trade liberalisation. It was expected to facilitate the development of a reciprocal trade agreement or a regional economic partnership between Pacific countries and the EU. PARTA also provided a framework for a cohesive political strategy. Mr Levi was confident that this would positively influence economic and trade agreements of the region.

Turning to development assistance, he said that this had played a significant role in promoting regional co-operation. The best way to ensure sustainability of regional development efforts was to promote a genuine partnership between donors and recipients and to ensure that countries retained a strong sense of ownership. A key regional co-ordinating mechanism was needed to promote regional concerns with interested extra-regional states.

The Chairperson thanked the two speakers and opened the floor for discussion.

The Representative of Guyana endorsed the observations and conclusions of Mr Byron Blake on CARICOM experiences of regional co-operation and integration. He felt that while there had been progress in integration at the government and policy level, greater emphasis should be placed on the inclusion of the private sector and NGOs in the integration process. He stressed the importance of placing important issues affecting regional integration in the public domain so that civil society would be better informed about the motivations of government actions and these would support decisions. He also highlighted the importance of the international community in building capacity in the private sector and of NGOs, so that they could make important and useful contributions to the process of regional integration.

The Representative of Antigua and Barbuda highlighted the vulnerability of small economies in his region, which were heavily dependent on one or two export products. He stressed that it was important for these countries to diversify their economies and said that some, including Antigua, had diversified into off-shore financial services. However, the new OECD rules and regulations regarding these services threatened their growth in small island states. He suggested that the debate on this issue needed to be broadened, from a bilateral to a multilateral setting.

The Representative of Samoa said that there was a wide and rich catalogue of initiatives in regional co-operation in the South Pacific region. The setting up of a nuclear non-proliferation regime (the first ever) was one of the great successes of integration in the region. However, there were still a number of areas where the region had been slower to seize the initiative. These included environmental issues, the use and conservation of marine resources, development of renewable sources of energy and the development of information technology. They required immediate attention at the regional level. Furthermore, the problems of urbanisation and youth unemployment also required urgent attention.

Professor Compton Bourne, the Pro Vice-Chancellor and Campus Principal of the University of the West Indies, stressed the importance of capacity building to foster the knowledge industry. He pointed out that knowledge-intensive niche industries were increasingly competitive in the new global environment. To take advantage of these niches, it was critical to provide education and training to enhance human resources in the region. He suggested that in addition to regional co-operation, co-operation across regions was of greater importance for capacity building in the field of knowledge. Although there were programmes for north-south co-operation and sharing of knowledge, there were very few effective and successful programmes on south-south co-operation in this area.

The Representative of the European Union expressed his organisation's support for integration schemes and pointed out that the post-Lomé new Economic Partnership Agreements (EPAs) favoured regional approaches. He also stressed that the new EPAs went beyond the narrow focus on trade and looked for a more holistic approach involving

development, structural adjustment and social integration. The EU was already trying to build this holistic vision into its programmes, but donors needed a more coherent and integrated development approach vis-à-vis small states.

The Representative of Grenada concurred with Professor Bourne's views on the importance of capacity building in the knowledge industry for increasing the international competitiveness of the region. He said that although appropriate domestic policies were a necessary pre-requisite for increasing competitiveness, they were not sufficient. The development of institutional capacity to enforce policy reforms was of paramount importance. The speaker highlighted the need for regional programmes aimed at developing such capacity.

The Representative of the UNDP gave an assurance of his organisation's support for capacity building in small states and enumerated a number of programmes and projects that UNDP had undertaken in order to achieve this objective.

The Representative of the Cayman Islands registered his country's pleasure in being invited to a meeting of the Task Force for the first time. He underlined the fact that small states had the fifth largest financial sector in the world. Having anticipated globalisation in the 1960s, some small states had set up off-shore financial centres to service international financial markets more efficiently by cutting through a myriad tax and banking regulations. Currently the OECD countries were discussing the issue of tax regulation with countries which offered off-shore financial services. He stated that the matter of tax regulations was an isolated issue in the whole debate on the financial service sector and globalisation. There were a number of other related issues that also merited consideration and debate – competitiveness, subsidies, etc. – but which were not captured in the OECD discussions. His country wanted the inclusion of these related issues on the OECD agenda.

A Representative of the Advisory Board to the Task Force submitted that the discussions of this Conference revolved around developing legal and political, and macro frameworks for growth and development. These interventions, though necessary, lacked a focus on how to create enabling conditions for rapid and sustained growth of production. In this context, it was imperative to examine the micro foundations of production, such as factor markets, demand conditions, the quality of the micro environment and competition.

The Representative of Barbados raised the issue of the relative influence of regionalism versus multilateralism on small states. He said that regional and multilateral commitments could sometimes be at odds with each other. The Commonwealth analysis had understated the importance of regionalism and its potential. The representative argued that regional integration should be regarded as a stepping stone for global integration. He also argued that the international community needed to support capacity building to strengthen regional co-operation and integration in small states.

The Representative of Mauritius outlined the experience of Mauritius with regional integration. Mauritius was a member of SADC, IOCR and the Common Market of Eastern and Southern African Countries (COMESA). Whilst regional integration was seen as a stepping stone to global integration, the experience of his country was that integration was not a panacea for all problems. The three regional groups involving Mauritius included countries at varying levels of development. This type of uneven development created problems in advancing the process of integration. The representative argued that it was

important for small states to be accorded SDT in the international system in order to enable them to compete internationally.

An observer at the Conference commented that a coherent regional framework was a pre-requisite for the success of integration programmes in countries with different laws, customs and institutions. He suggested that the international institutions should help regional groups in order to develop coherent frameworks. He also stated that building a critical mass by regional co-operation and integration alone might not be the best way forward, and proposed that the conference considered this issue in a more flexible way. Perhaps there was a case for considering co-operation from outside the region to promote institutional development and capacity building.

The Representative of France stated that her country understood the concerns of countries which provided off-shore financial services and the impact of new OECD rules and regulations on their economies. The French concern was that these countries did not have the required institutional structures, policy frameworks and capacity to combat money laundering. The OECD regulations were aimed at combating money laundering.

The Chairperson thanked the discussants and announced that after the tea-break, the Conference would be re-convened by regional groups: Africa, the Caribbean and the Pacific. The main objective of these sessions was to bring in regional dimensions to the deliberations of the Conference. The Conference was adjourned for 15 minutes for the tea-break at 16.00 hours.

5. **Regional Break-Out Sessions:**

(a) **Africa Region**

Mr Godfrey Gaozeb, World Bank, chaired the meeting and the Rt Hon Rajkeswur Purryag, Deputy Prime Minister, Mauritius, was the rapporteur.

The Chairperson explained the objectives of the session and emphasised the importance of developing some concise conclusions to be presented to the ensuing plenary session. He pointed out the diversity of the Commonwealth and said that it was not uncommon for one region to be better represented in its fora. He suggested that this session provided an opportunity for African delegates to provide comments on the basis of the background documents presented to the conference.

The Representative of Seychelles said that a number of small states had been graduated from the World Bank. This issue was of particular concern to his country, since it could not borrow from the Bank, though it faced massive balance of payments problems. He also raised the issue of the push for “open skies” and the effect that it had on tourism and the environment. He added that tourism was the most important source of foreign exchange earnings for Seychelles. His country had gone for selective tourism to preserve the environment and would have difficulties in embracing an “open skies” policy.

The Representative of Lesotho stated that HIV/AIDS was one of the major problems affecting his country and others in the continent. Due to limited resources these countries were not able to cope with these problems, especially soil erosion due to the mountainous topography of his country. They needed external assistance to address these problems. The

representative thought that such assistance would have the additional benefit of contributing to the generation of employment. He believed that despite the fact that Lesotho was a poor mountainous country, it had a great potential for developing a viable tourist industry, given appropriate development assistance. He called for a clear statement on the definition of small states in the Task Force Report.

The Representative of Cape Verde referred to the per capita GNP criterion used in measuring development. He highlighted problems faced by his country and others in the Sahel. He pointed out that his country could not develop without additional concessional funding. Other problems faced by countries in the region included high indebtedness and the transition from a one-party state to a multi-party democracy. He stated that ecological problems contributed to food insecurity and social problems in the Sahel states. He acknowledged the need for countries to implement economic reforms but pointed out that this should be supported by adequate funds. He stated that education was another problematic area where growing young populations needed educational facilities. These countries needed additional resources to address these problems effectively.

The Representative of Swaziland supported the views expressed by the delegate of Lesotho. He stated that vulnerability concerns had been raised with the World Bank and WTO. There was an urgent need for them to address this problem and help these countries.

The Representative of Gabon thought that it would be unfortunate if the 1.5 million criterion used for classifying small states was overemphasised because it would exclude many other countries which shared similar problems. In his view, all developing countries were vulnerable!

The Representative of Malta emphasised the need for capacity building in small states. He noted that many such states had no universities and it would be useful to pool resources for higher education. There was too much emphasis on volatility of incomes in the work of the Task Force. The emphasis should be on environmental vulnerability.

The group stressed the importance of the following issues for African small states:

- Indebtedness was a critical problem that needed to be addressed comprehensively.
- Tourism provided opportunities but there were concerns about its impact on the environment.
- Defining size using population and per capita income had shortcomings.
- Vulnerability arising from environmental concerns should be covered by the Index.
- Capacity building, including pooling of resources for higher education, was critical for the future development of African small states.
- High priority should be given to addressing HIV/AIDS to enable small states to retain a viable human resource capacity.

(b) Caribbean Region

This session was chaired by **Mr Neville Nicholls**, President of the Caribbean Development Bank, and the rapporteur was Mr Byron Blake, Assistant Secretary-General, CARICOM.

The Chairperson indicated that discussions should concentrate on ways of reducing vulnerability, insurance to cover catastrophic risks, building and sharing capacity at the regional level and transportation. The Group should make some concrete proposals for the consideration of the plenary session. He said that the paper GCDAS(00)1 prepared by the World Bank on commodity risk management had focused on theoretical aspects, and the group should bring out the practical aspects of how small producers would be affected.

The Representative of Antigua and Barbuda said that the Task Force should also address the issue of the movement of ships bearing nuclear waste through the Caribbean Sea. He indicated that it was not clear who was paying for the insurance of such ships, the nature of the insurance coverage and who benefited from the cover. More information should be gathered on this issue.

The Representative of Cayman Islands, commenting on the UN obligations concerning insurance of ships carrying toxic waste, suggested that this matter should be referred to that body.

The Representative of Guyana was concerned with catastrophe insurance. He stated that the timetable for implementing the proposals made in the document GCDAS(00)2 should have emphasised their operational feasibility with some consideration of catastrophe insurance. In terms of commodity risk management, he suggested that a study should be made of just one commodity in one country over a six-month period, rather than 4-6 studies in 3 months. He felt that a single case-study should be conducted as a confidence-building measure.

The Representative of the Caribbean Regional Negotiating Machinery said that the World Bank paper on commodity risk management did not address portfolio management decisions of financial institutions. He said that the interface with creditworthiness was very important and that even when lending fundamentals were met, smallness had an impact on decisions made by these institutions. The speaker pointed out that the paper on commodity risk management did not address the issue of who accepted the credit risk. In his view, coverage should be on price risk and not quantity risk.

The Representative of Guyana sought clarification on whether the proposal in the document GCDAS(00)2 (p. 50 item (f)) would be the ideal way of addressing the problems of small farmers and he quoted: "in exchange for the Government's directing of multilateral institution proceeds to help fund the pool, the premiums collected for the pool would be assessed as a minor charge/levy which would be paid into a separate trust fund for future disaster financing of low income households and crop damage to small farmers who were uninsured".

In response, **Mr John Pollner**, World Bank, indicated that this option would only take place once such a fund had achieved significant surplus status since the "insurance" for

low income sectors would need to be initially subsidised until such communities could begin affording insurance. Other mechanisms would also be explored to cover this sector.

The Representative of CARICOM pointed out that there was a need to link the paper on insurance mechanisms to regional integration to ensure that everything was seen as a package. The inadequate capacity of the local insurance industry was one element of the problem; mitigation and preparedness was another. He pointed out that there was need to define what was meant by capacity to deal with catastrophes, and then to identify what kind of capacity was required.

The Representative of IDB indicated that the Caribbean region needed more technical skills in vulnerability assessment and mapping. This would help in formulating appropriate preparedness plans and interventions. Though there had been embryonic initiatives to build the needed skills, the representative wished to see a core programme to address human resources problems in these areas.

The Representative of the Caribbean Regional Negotiating Machinery said that identifying and building regional private-sector entities was an important area which could enhance competitiveness. Outside the tourism and financial services sectors, service industries were not well organised in the Caribbean. Legislative instruments might not be adequate to resolve this problem, and the guiding hand of the state might be needed to capture opportunities in outsourcing and in helping industries to develop strategic alliances. The representative also noted that political vulnerability existed and, therefore, there was a need for a wider definition of vulnerability.

The Representative of the Eastern Caribbean Central Bank (ECCB) agreed with the point on political vulnerability raised by the previous speaker. Good recent examples were the use of 'political advisory' notes issued by some governments discouraging their nationals from travelling to some tourist destinations and the use of offshore financial centres.

The Representative of the OECS emphasised the need to achieve enterprise development and business networks in the region. He said that regional arrangements needed to be viewed in the context of globalisation.

The Representative of Antigua and Barbuda pointed out that the region should establish its own tourist offices in tourist markets to promote the potential of the region.

The Representative of the ECCB noted that much of the money which flowed into the Caribbean hotel industry leaked out to the benefit of international tour operators. In view of this, there was a need to promote Caribbean-owned tour operators. The private sector should be mobilised for this purpose, but transport and immigration arrangements were key issues that needed to be addressed in this connection. The region should have an air transport policy, to facilitate freer movement of tourists within the region, and remove all the impediments that limited business development. He also pointed out that the region should be more active in multilateral financial negotiations as they were in multilateral trade negotiations.

The Prime Minister of Barbados indicated that there was need to develop a framework in order to capture various elements of capacity building to overcome vulnerability. In his view, capacity building at regional level should include:

- increased institutional capacity to enhance potential for international bargaining; and
- additional capacity in the area of the marine environment.

He pointed out that attention should be given to the identification of what needed to be done in order to sharpen the use of regional capacity. To address the problem of regional positioning, regional secretariats needed to be strengthened. The Prime Minister indicated that the region would like to see a copy of the report of the Task Force before it was presented to the World Bank's Board of Directors.

The meeting concluded with the rapporteur summarising the discussion of the Group.

On capacity building, the needs were:

- to counter disasters;
- to neutralize international threats;
- to ensure protection and management of Caribbean marine resources;
- for the management of the integration process;
- to facilitate private sector alliances and networks;
- to set up regional capital markets; and
- for operating in a technology driven environment.

On disaster insurance and commodity risk management, the main issues were:

- whether insurance covered the shipment of toxic material across the Caribbean sea;
- catastrophe insurance, to be a part of a package of measures; and
- on commodity risk, the need to identify the important areas for the Caribbean and develop more practical arrangements.

On transportation, the priority issue to be addressed was competitiveness. More work was needed in this area.

(c) The Pacific Region

This meeting was chaired by **Mr Noel Levi**, Secretary-General, South Pacific Forum Secretariat and Ambassador Neroni Slade was the Rapporteur. The main points of the discussion were as follows:

On disaster insurance:

The World Bank's Caribbean initiative was of interest to the region: there should be study of the possibility of replicating this scheme in the Pacific. In the meantime, with reference to the type of scheme envisaged for the Caribbean, queries raised included:

- whether there would be provision for covering property interests of village communities, especially traditional land owners;

- the coverage for agricultural produce, and implications for an economy largely dependent on agriculture;
- implications for very small isolated economies highly dependent on shipping;
- the extent to which the private sector would be realistically engaged in high risk events (or at what cost i.e. premiums), often considered as “acts of god”, such as volcanic eruption; and
- the need to consider the catastrophe insurance proposal in terms of the continuance of risk management, including support for disaster preparedness and management.

On capacity building, the Group highlighted the following issues:

- the strengthening links between knowledge institutions and sharing of information at all levels, including traditional groupings;
- the promotion of regional cooperation/integration, which allowed for strong interaction and sharing of experiences – allowing for learning from each other;
- the need to recognise that regional approaches were more optimal in tackling problems of duplication;
- the need to promote modern technology in capacity building – perhaps use of SIDS/Net; and
- the need to strengthen sound environmental management, to promote trade/commodity development and for reducing vulnerability in the Pacific region.

On commodities, issues of interest to the Pacific included:

- the need for flexibility on the development of approaches to commodity risk management and the fact that solutions by the International Task Force on Commodities might not be replicable in all countries
- the need for International Commodity Task Force to study other commodities such as coffee, which was important for PNG;
- concern about risks and possible abuse of commodity markets through speculative activity, with implications for both volume and income risks;
- the possibility that, at least for those Pacific countries covered by the ACP, Lomé arrangements such as SYSMIN & STABEX, could be utilised to the extent of their applicability;
- the crucial importance of minimising income risks; and
- the fact that markets were unlikely to be favourable (or “go as deep”) as government or multilateral schemes.

6. **Fourth Plenary Session: Reports of the Three Regional Groups**

This session was chaired by **Dame Veronica Sutherland**, Deputy Secretary-General, Commonwealth Secretariat. She invited the three Rapporteurs to present their reports of the regional break-out sessions, starting with Africa to be followed by the Caribbean and the Pacific.

(a) **Africa**

The Rt Hon Rajkeswur Purryag, Deputy Prime Minister of Mauritius and the Rapporteur of the session, presented the report of the Africa regional break-out session to the plenary. He said that during the course of the discussion, the following main points emerged:

- The problem of debt affected a number of African states and the group proposed that debt relief under HIPC should also be extended to these vulnerable small states.
- Tourism was considered important to the development of a number of vulnerable states. It was agreed that further development of this industry was vital to transform these economies, including landlocked ones. However, the environmental issues, especially soil erosion, should be taken into account in developing tourism.
- Small states were particularly prone to soil erosion and environmental degradation and the group proposed that more emphasis should be given to the development of environmental indicators in the construction of the Vulnerability Index which, it was argued, at present emphasised economic aspects.

Capacity building was vital and in this respect it was proposed that consideration be given to the pooling of resources particularly in the educational sector, especially higher education. The problem of food security was particularly acute in African small states and, therefore, the group proposed that this issue should be addressed by the Task Force.

Some representatives were concerned about defining small states purely on the basis of population. There was a need to clarify this issue in the Report of the Task Force, especially in view of possible graduation of countries from the Commonwealth category of small states. The Group had proposed that there was a need for international organisations to recognise small states as a special category. In this respect, it was indicated that GNP per capita should not be taken as the only criterion to access resources of international financial institutions. There was a need to consider other criteria such as vulnerability indicators.

(b) **Caribbean**

Mr Bryon Blake, Assistant Secretary-General, CARICOM, presented the report of the Caribbean regional group to the plenary session. In his presentation, Mr Blake said that this group focussed on three areas:

- capacity building and strengthening;
- insurance: catastrophe and commodity risk management; and
- transportation.

The Caribbean group felt that capacity building and strengthening was a critical priority in both the public and private sectors.

At the public sector level, additional capacity was needed:

- to counter the impacts of natural phenomena which could lead to disasters;
- to undertake vulnerability assessment and measures to ensure disaster preparedness, response and planning;
- to neutralise external shocks/threats;
- to support international negotiations;
- for the protection and management of the Caribbean sea and the marine economy;
- to support the management of the integration process; and
- to provide common services and strengthen functional co-operation.

These interventions should be built on the successful experience to date in areas such as tertiary level education and training, research and health services.

At the private sector level capacity was required:

- to facilitate/stimulate the building of regional enterprises and the creation of regional and international alliances;
- to provide/develop human resources for operating in a technology driven international environment;
- for building capital markets; and
- for advocacy and negotiations.

Turning to the discussion on insurance, Mr Blake said that the Caribbean region welcomed the World Bank proposals on catastrophe insurance. But he reiterated that this should be one element of a package of measures needed to overcome the problem. The other elements should be identified in the Task Force report. On insurance against risks posed by the transport of nuclear materials and waste, there was a need to consult with relevant UN agencies.

Mr Blake said that the Caribbean group had expressed its concern about commodity price/supply volatility. In this context, it welcomed the Bank's report on commodity risk management. However, it needed to address, inter alia, the following:

- the need to deepen the analysis and develop more practical alternatives;
- the nature of operation/operators and of products in small states, including services; and
- the need to assess the adequacy of crop insurance.

Turning to transportation, Mr Blake stressed that both Maritime and Air were major concerns of the Caribbean. Providers of these services were faced with complex problems including relatively high costs. Some of these problems had tended to impede the integration process in this sector. There was a need to analyse this issue more comprehensively before proposing solutions.

(c) Pacific

Ambassador Neroni Slade, Permanent Representative of Samoa to the United Nations, New York, presented the report of the Pacific regional break-out session. He said that discussions in this group covered three main areas:

- disaster insurance;
- commodity risk management; and
- capacity building.

Disaster Insurance

While the Caribbean initiative would be of relevance to the Pacific, it was wiser for the Pacific to wait and see its outcome. However, they had several concerns:

- Would such insurance offer cover for agricultural commodities on which Pacific economies were largely dependent?
- Would such a scheme provide cover for villagers' property as well as state property?
- Would such insurance cover "Acts of God" (e.g. volcanic eruption, etc)?

The Task Force Report should emphasise the differences in the impact of natural disaster occurring in a large state (where insurance companies can spread risks across a larger space) and one affecting a small state. Natural disasters should be viewed as a natural process that characterised vulnerability. The issue was to build capacity to mitigate the impact of natural processes and thereby lower the need for insurance, or at least lower insurance premiums.

Commodity Risk Management (CRM)

Concern was expressed about income risk, and not just price risk as indicated in the report on commodity risk management. A serious limitation of the proposed market-based CRM instrument was that it ignored the impact of fluctuations in supply, which often resulted from natural disasters. It was difficult to see how market-based instruments would substitute for interventions that up until now had largely been in the realm of intergovernmental arrangements.

The introduction of such instruments would lead rural communities to believe that third parties effectively endorsed all their risks. This could induce them to abandon their indigenous risk management techniques, e.g. crop diversification. The group emphasised the role of diversification in mitigating impacts of exogenous shocks. In addition to diversification, countries must get out of commodity dependency altogether and build capacity for downstream processing. The idea and relevance of test cases or pilot schemes was questioned. The specificity of each small state may defy replication of a "Prototype" approach. A wider range of commodities could be looked into (e.g. coffee). The group was concerned about the risk involved in market-based CRM schemes, especially possible speculative behaviour of some market participants. It was recognised that market solutions existed for some commodities (e.g. the gold futures market), and that there would need to be a blend of market and non-market measures.

Capacity-Building

Regional “Knowledge Institutions” had proved to be useful tools for capacity-building. Links between them should be strengthened.

Regional co-operation and integration provided opportunities to learn from each other and it enabled the resolution of recurrent problems such as duplication of approaches.

Modern technology had a vital role to play in capacity-building, particularly in the Pacific, where it would enable countries to communicate more cheaply.

The importance of capacity-building for undertaking sound environmental practices was stressed as a means of reducing vulnerability in the Pacific.

The Chairperson thanked the three presenters and adjourned the meeting at 18:15 hours.

III. Day Two, Friday, 18 February

7. Fifth Plenary Session: Transition to the New Trade Regime

Sir Shridath Ramphal chaired this session. In his introduction, Sir Shridath said that the main objectives of the session were to examine the issues of transition, the loss of trade preferences and the new trade regime, and fiscal implications of trade liberation. He added that the session included three presentations to facilitate discussion and then invited Dr Roman Grynberg, the first presenter, to make his intervention.

Dr Grynberg, Multilateral Trader Advisor, South Pacific Forum Secretariat, in his introduction, illustrated the experiences of the countries in the South Pacific in accession negotiations with the World Trade Organisation (WTO) with the example of Vanuatu. The accession process had been problematic for the three Pacific countries, Samoa, Tonga and Vanuatu, which were currently engaged in accession negotiations with the WTO. Vanuatu, for example, had spent five years in negotiations with the WTO but continued to come up against conditions imposed by the United States, which were damaging to its interests. While Vanuatu had agreed to considerable tariff reductions or elimination, it could not agree to the opening of certain sectors such as telecommunications, which was a requirement imposed by the US at these negotiations. The accession process for small states was, therefore, inherently flawed and gave rise to extremely long delays, not to mention high financial costs.

He then turned to a brief enumeration of the challenges faced by Pacific small states in other areas of the WTO. A key issue was how special and differential treatment in the WTO could be negotiated, to exempt small states from the impact of the liberalisation process. Another issue was that several states in the Pacific had benefited from the Lomé Convention and other preferential trade agreements, most notably with Australia and New Zealand. Governments were concerned that as these agreements were being phased out, the incentive to locate investments in the small island states of the Pacific would also disappear.

A further area of concern was fisheries subsidies: these had mainly benefited the Atlantic fleets but they were now moving into the Pacific. This had adverse impact on environmental sustainability in the Pacific. For instance, the US fishing fleets in the Pacific were heavily subsidised by the US AID which reimbursed about 80 per cent of costs. This encroachment on Pacific fish stocks undermined the Pacific States' capacity to generate income: for example, 40 per cent of Kiribati's and Tuvalu's income arose from fisheries access agreements.

Turning to institutional issues, Dr Grynberg said that now there was greater recognition among small states of the need to work together in their dealings with the WTO. A meeting will be convened in London, in May, between the Secretariats of the Indian Ocean Commission, the South Pacific Forum and CARICOM to establish a small states alliance, which would reinforce their collective interests within the WTO. A priority issue to be pursued by this alliance was the need to establish a small states programme in the WTO.

In his presentation, **Mr Sam Laird**, Senior Counsellor, WTO, stated that the purpose of his intervention was to brief the meeting about WTO actions on small states issues. He welcomed the conclusion on this subject in the interim report of the Task Force.

First of all, he wanted to dispel the idea that there was global free trade. This was not so and there were still many sectors of high tariffs, and in some countries, there was tariff escalation, especially on some developing countries exports. Research pointed to the need for further liberalisation in agriculture, in manufactures and in services. Developing countries would benefit significantly from further trade liberalisation. The bias against developing country exports was not confined to industrialised countries but was to be seen in tariffs imposed by developing countries with high levels of income (GDP).

These anomalies had resulted from peculiar modalities of WTO operations. The organisation worked largely through negotiations on the liberalisation side, including rule making and dispute settlement. All these required consensus and agreements were not usually reached on the basis of one member one vote: on the contrary, it was more a matter of one member one veto. Through the veto, any member can block any part of the negotiations process and it was not clear how these modalities would be reformed in the context of enlargement of the WTO.

Explaining the attitude of the WTO towards small states, Mr Laird said that in the period preceding the Seattle meeting, there was a great deal of sympathy about the vulnerability of small states and indeed this was reflected in the final draft considered at Seattle. The issue was still on the agenda of the WTO *Committee on Trade and Development*. A meeting of this Committee was scheduled for 10 March, and it would discuss the small states work programme. A seminar was scheduled for June to further consider small states issues. Finally, Mike Moore, Director-General of the WTO, would be visiting the Commonwealth Secretariat in the beginning of March and he was expected to discuss possible collaboration with the Secretariat. There were, therefore, several avenues through which the case for small states could be pressed.

Turning to CARICOM comments on the interim report, Mr Laird appreciated its specific proposals on special recognition for small states. One concern he had on that comment was a plea for exemption of services from WTO commitments. Services were often inputs into manufactures and traditional exports: thus if a country allowed services to diverge from world prices then its competitiveness would be eroded in other areas as well. On the CARICOM proposal of “best endeavours”, it was better to seek legally binding commitments rather than platitudes.

The CARICOM paper also highlighted balance of payments problems and the right to use safeguards for those reasons. Mr Laird said that this was consistent with WTO rules but it was well known that the real source of balance of payments problems was the domestic deficit, and taking QRs or import restrictions did not solve the problem but just delayed the solution. The right to longer timetables for implementation was a very legitimate claim under certain circumstances but this should not be simply a tactic for delaying implementation of WTO agreements. Mr Laird reiterated that foreign investors would choose where to invest on the basis of which state had implemented rules, rather than which one was still considering implementation.

In conclusion, Mr Laird said that he appreciated CARICOM comments on the WTO issues faced by small states but urged the meeting to respond to these challenges with practical solutions.

In his presentation, **Mr Liam Ebrill**, Assistant Director, IMF, said that he was glad of the opportunity provided to the Fund to present the findings of its research on revenue implications of trade liberalisation, in general, and the implications for small economies.

Mr Ebrill explained the current research programme of the Fund on fiscal matters. Two of these were relevant to this Conference: first, the paper on revenue implications of trade liberalisation; and the second study, yet to be completed, was on Value Added Tax. Though both studies were applicable to all developing countries, there were some lessons to be drawn by small economies. He intended to start with a briefing on the overall issues and then proceed to address specific recommendations for small states.

There was a general belief that trade liberalisation resulted in the loss of customs revenue. However, the Fund research indicated that, in many countries, this was not the case for two reasons: first, many tariffs has been set at prohibitive levels, which were above revenue maximising levels. In such instances, trade liberalisation had contributed to increased revenue. Secondly, tariffication of quotas as a part of trade liberalisation process had also led to revenue increases. Over the longer term, the association between trade liberalisation and more rapid economic growth will further bolster revenues for a given level of tariff.

In any event, genuine trade liberalisation would eventually result in reduced trade tax revenues and, hence, would raise difficult fiscal issues, unless appropriate steps were taken to strengthen the domestic tax system. The IMF was working on identifying a set of best practices and had found that VAT was an appropriate tax instrument. This tax allowed a state to have a relatively high threshold and therefore little revenue was lost by exempting small traders. This facilitated the administration of tax. Another tax which was encouraged by the Fund was the adoption of personal income tax with a few brackets and a moderate top marginal rate. Some form of presumptive taxes could also be utilised. The IMF also advocated tax and customs administration reform, and this should include modernisation of systems and procedures. Simplification of tax and tariff systems was a pre-requisite for administrative reform.

Mr Ebrill recognised that while VAT was seen as a good tax, there was concern in very small states about their capacity to implement such a tax. They had found that in a more open economy, it could be easier to tax imports than consumption as a whole due to significant domestic tax administration problems. It was therefore relevant to consider the structure of the economy, the role of domestic production and the kind of administrative capability available when considering whether to introduce a VAT or some alternative regime. In some cases a retail sales tax, supplemented by excise taxes on a narrow range of goods were more suitable. Alternatively, if the country relied on tourism, a hotel room tax might be part of the answer.

In conclusion, Mr Ebrill said that both import tariffs and VAT might be similar but they sent out different signals. Since trade taxes discriminated against imports, VAT might be a better long-term policy option.

The Chairperson thanked the three speakers and invited comments from the floor.

The Representative of Grenada commented on the observation made by one of the presenters that a technocratic case had to be made for small states. In his view, this had been made over the past twenty years. Notwithstanding, policies by international financial

institutions were influenced by theoretical paradigms. However, he was pleased to note that the World Bank's new Comprehensive Development Framework was developing in an eclectic fashion. Industrial countries appreciated the logic for transnational trade regimes, yet failed to agree a package at Seattle for the LDCs because they were only interested in pursuing narrow commercial interests. Regarding special provisions for SMEs by the WTO, he believed that the needs of the very small suppliers had to be taken into account. The rationale for according special treatment for SMEs had been accepted – they suffered from higher rates of income volatility and the new trade rules should aim to mitigate and not exacerbate such volatility. He emphasised that small states were seeking special and differential treatment only in terms of critical transition problems, and more specifically on the timetable for implementing WTO trade liberalisation and related provisions.

The Representative of CARICOM said that the work programme of the WTO needed to incorporate the problems of SIDs and small states. Special and differential treatment or defensive measures were necessitated by the politics of developed countries. He wondered where the level playing field had been pitched. In the OECD's project on harmful tax competition, countries with low levels of taxation were being asked to raise taxes to the level prevailing in developed countries. In the case of trade related taxes, which were higher in developing countries, the emphasis was on lowering them to levels prevailing in developed countries. Therefore, developing countries were constantly bearing the cost of adjusting to what the developed countries had declared to be the level playing field.

He also said that the WTO needed a fundamental review of the current process of accession as it affected small states and the associated costs for these countries.

The Prime Minister of Barbados briefly described his experience in substituting a fiscal regime, which had 11 different taxes to broad-based consumption taxes. No doubt, there had been political difficulties to overcome with risks of losing major sources of revenue. However, as small states moved to more service-based economies, they would need to adopt broader-based consumption taxes. The system of VAT also allowed a paper trail, which facilitated income tax administration. Therefore, based on his country's experience, he was prepared to endorse the IMF proposal on VAT. On the issue of special and differential treatment for small vulnerable states *vis-à-vis* what was extended for LDCs living in abject poverty, his view was that it was not an equal situation and therefore would be inappropriate. Small and vulnerable states that were not LDCs were not calling for equal treatment. Many such states had achieved a high rating on the human development index, which made claims for equality ludicrous. However, their particular vulnerability should be recognised as justifying special consideration to deal with crucial areas of transformation of their economies as the global process of trade liberalisation continued.

The Representative of Vanuatu observed that with the collapse of the Seattle trade talks, there was need to move away from the focus on trade, and pay greater attention to economic and social measures, especially local market conditions and issues such as land reform. Trade, in any event, raised wider issues. He also suggested that agreement on special and differential treatment for small and vulnerable states in trade, investment and finance could be used to secure preferential access to markets. In his view, this would facilitate a greater flow of foreign investment to these countries.

A Representative of the Advisory Board to the Task Force said that the aim of the IMF study seemed to be to provide a picture to policy makers on revenue implications of

trade liberalisation, as the revenue earned on customs duties constituted a large proportion of tax collection in small states. It had proposed that countries should move away from trade taxes and adopt a consumption tax such as VAT. In his view, the proposal did not deal with the basic problem facing small and vulnerable states: i.e. the lack of viable alternative sources. This fundamental issue would hinder efforts by these countries to liberalise trade.

The Representative of the South Pacific Forum Secretariat observed that the process of securing accession to WTO was being used by some member countries to extract maximum concessions from applicants: e.g. the case of Vanuatu. The Trade Policy Review in the WTO, while useful as a transparent exercise, had another more problematic side for small and vulnerable states – it had a normative message that there existed an ideal “best practice” model of trade policy against which WTO members were judged. He commented that Seattle had prompted the formation of a SIDS alliance and he felt that the effort to re-establish the global alliance of small island states was now all the more vital. There was also a critical need to have a physical presence in Geneva where small states were poorly represented.

The Representative of the OECD remarked that she had appreciated the diversity of views expressed the previous day on the issue of harmful tax competition. She acknowledged that the relationship between the OECD and some of the offshore financial centres had started badly. However, she believed that there remained the chance for a satisfactory outcome of its project. Caribbean countries had been seeking a multilateral forum for discussions with the OECD and the form of such a forum would need to be worked out. She agreed that there was need for better understanding on both sides. The OECD was not trying to impose a uniform tax regime on non-member countries but to ensure that there was an effective exchange of information. She acknowledged the need to study the economic impact of the proposed measures and was proposing to meet in early May with aid agencies under the auspices of the DAC.

The Representative of Antigua and Barbuda welcomed the OECD statement and said that it was never too late to make up for past mistakes. He welcomed the opportunity for a sensible, consultative policy dialogue, which would look for solutions to problems between countries that were not considered as unequal. He moved for the multilateralisation of the dialogue on tax regulations for offshore financial services. Responding to the submission of the representative of France on the previous day, he wished to dissociate the issue of tax from money laundering, which appeared to be a far more chronic problem in the OECD than in small states. He submitted that there was more money laundering undertaken in each OECD capital than in the entire Caribbean region. Speaking on the issue of expanding and diversifying the tax base away from a dependence on import tariffs and customs taxes, he said that Antigua did not have the requisite capacity to administer VAT type taxes as there was a limited pool of trained personnel. He asked the IMF to include in its programmes, components to develop institutional capacity for administration of complex taxes in small states. On the issue of special and differential treatment for small states, he agreed with the Prime Minister of Barbados that Caribbean countries could not claim equal treatment with LDCs on account of much better standards of living. The Caribbean countries required special and differential treatment of a different nature, as they were primarily service and not goods based economies. Three things on which Antigua was keen to seek special treatment were:

- The link between natural disasters and ability to repay debt;

- Access to concessionary finance for post-disaster rebuilding from IFIs, regardless of the income of the country; and
- Technical assistance for coping with natural disasters.

The Representative of the European Union emphasised the connection between development, trade, structural adjustment and liberalisation and prescribed a holistic development approach that linked all these issues. The EU/ACP Economic Partnership Agreement was a new approach, which would combine liberalisation at the regional and global levels to make ACP countries more competitive and better integrated into the global market. He highlighted the need for all donors to undertake a similar holistic approach in assisting small states.

The Representative of Malta shared the experience of his country in implementing a radical overhaul of its financial and revenue systems. He said that until recently Malta was an economy which did not believe in credit or banking transactions. His government had been successful in instilling a sense of trust in the people to overcome this mistrust of credit with the result that it was now an economy where the ratio of cash to credit was 1:9 compared to 1:1 previously. Similarly, customs and excise duty used to be the primary revenue generators (together they contributed to 45 per cent of revenues), followed by social security payments (40 per cent). However, due to the Uruguay Round, Malta had to dismantle its tariff regime and shift to a VAT. Despite initial opposition, the government was able to institute this reform within two months when it was voted into power for a second time – altogether it took five years to implement the VAT fully. VAT had become a good source of revenue and effective in circumventing loss of tariff on smuggled goods. His government had also reduced income tax rates to almost half of initial rates with the result that income tax collection doubled within two years. However, tax forms were kept as simple as possible and reduced to four pages to simplify procedures. A withholding tax was levied on all bank deposits, which made redundant the need for inclusion of information on shares and interest on income in tax forms.

The Representative of the UNDP gave an assurance of his organisation's support for economic diversification, enhanced competitiveness and institution building within small states and enumerated a number of programmes and projects that the UNDP had undertaken. The UNDP and the South Centre also supported preparation of policy briefs and analyses of items on the WTO agenda to enhance effective participation of LDCs in this area.

The Representative of Trinidad and Tobago underscored the importance of the integration of small vulnerable states (SVS) into the world economy. She felt however that such integration would be facilitated by assuring them a greater degree of secure market access. She submitted that market access would be a far more effective instrument in development and global integration than attracting investment from the IFC and the World Bank. Market access would lead to the necessary external investment. She stated that the SVSs were highly specialised economies and the process of diversification would have high transition costs. To facilitate the transition, she asked for protection in the form of waivers from WTO. She also stressed the importance of finding a mutually acceptable definition of small states for purposes of WTO negotiations. The WTO's small states definition was based on the percentage of world trade and this did not capture vulnerability. Finally, she made a case for export subsidies where these were used to encourage small domestic firms, which faced high entry and marketing costs in trying to penetrate overseas markets.

The Representative of the IMF considered the intervention of the Prime Minister of Barbados to be very important and stated that the IMF supported his views. He said that Barbados' success with VAT had encouraged the Fund to try it elsewhere and the experience of Malta was also a very enlightening one. Responding to the concern expressed by the Representative of Antigua, he clarified that the IMF did offer limited technical assistance for capacity building in tax administration.

The Representative of Canada reinforced the argument of the Prime Minister of Barbados that there should be a move away from lumping together SVSs with LDCs and that there was a need to be specific about the special measures being sought for them. He also made a comment about working with IFI's to encourage private investment in these states. He said that the private sector did not necessarily see greater risk factors in investing in SVSs and a continued flow of ODA may encourage it to invest in small states. He was also encouraged to learn from the IMF representative's presentation that the Fund recognised the link between tax policy and tax administration. He stressed the need for capacity building to facilitate tax administration with shifts in tax policy. He also recognised the importance of the strong political dimension of shifting attitudes in society towards tax reform and asked for these to be accommodated in programmes for SVSs in the interest of country ownership of the development agenda.

The Chairperson thanked the discussants and adjourned the meeting at 10:45 hours for the tea break.

8. **Sixth Plenary Session: Globalisation and Small States**

This session was chaired by **HRH Prince Lavaka 'Ulukalala Ata**, Prime Minister of Tonga. The Chairperson opened the session with a brief statement (see Annex V). In his view, the issue of vulnerability of small states had been well addressed in the interim report of the Task Force and the background papers. The Prime Minister shared the views raised in the CARICOM review of the interim report. He acknowledged that though small states shared similar characteristics, there was considerable diversity among these countries. For instance, there was no social and political homogeneity between small island states in the Pacific and those in the Caribbean. Even the definition of small states by a single population threshold was not appropriate given the diversity of countries falling within such a group. In the Pacific small islands, the biggest constraint for development was their limited capacity to compete internationally. The Prime Minister concluded his statement by calling for international recognition of small states as a special category in the context of their vulnerability. He then asked Sir Alister McIntyre to make his presentation on issues concerning globalisation.

In his presentation, **Sir Alister MacIntyre** noted that while the concept of a global economy implied free movement of goods, labour and services, only a partial model operated at present which excluded the free movement of labour. This, he said, was especially problematic when developing a strong service sector as was the case with many small states. Strong forces of xenophobia and racism prevented countries from competing in particular labour markets. Those countries that advocated core labour standards must show a commitment to improve the movement of labour. On trade in goods and services, Sir Alister said that small states would await post-Seattle development before considering whether they could progress on the debate on special and differential treatment in the WTO. For small states and least developed countries in general, Sir Alister advocated an 'early harvest'

approach to trade negotiations, paying special attention to the development of non-traditional exports. He said the link between global and regional trade integration should be recognised, especially as the latter was often seen as a learning process for the former.

There was a mistaken view that small states were not affected by financial instability. Sir Alister felt that the impact of such instability was fed through to these economies in the form of lower commodity prices and tourism revenues. There was a tendency for multilateral institutions to consider only situations of financial instability where they believed there would be systemic effects. While this was not the case in small states, their concerns still warranted consideration.

On aid, Sir Alister hoped that all donor countries were still committed to a growth in Official Development Assistance (ODA). He said that the idea of graduating small states on the basis of GDP per capita criterion alone was an unsound approach. In closing, Sir Alister noted that small states and least developed countries had suffered a setback in the race to a knowledge economy as history had left them with a skewed achievement in educational attainment. In looking at the future, small states needed more ODA and more technical assistance, in order to transform their countries into knowledge-based economies.

The Chairperson thanked Sir Alister for his outline of small states' issues related to globalisation, and asked Mr Kimberly to make his presentation on exploiting information technologies for electronic commerce and better public sector management.

Mr Paul Kimberly spoke on his own behalf, and that of Robert Schware, as the co-authors of the conference document: GCDAS(00)11. He hoped he could set the agenda for small states' discussions on information issues, and outlined four points:

1. Technology was now so cheap that it was possible, at any level (regional, country, industry, firm, individual), to leap-frog the costs of investment in R&D that industrial countries had made.
2. Up to now the costs and availability of telecommunications had been a barrier to take-up of the technologies, but technology was making telecommunications themselves cheaper.
3. In Charles Darwin's words: "it is not the strongest species that survive, nor the most intelligent, but the ones most responsive to change". This was particularly important in electronic commerce.
4. The new technologies presented unprecedented opportunities.

Mr Kimberly briefly defined what was meant by information technologies (IT) and electronic commerce (EC): hardware, software and human resources. So far, the technologies had been used to improve administrative systems, but e-commerce had changed all of that. The technologies now allowed for traded goods to be declared electronically which speeded up the whole trading process. The Internet could be used for government-to-government transactions, including payments, and could improve information flows without the need to establish expensive networks. Its applications would impact on: the global supply chain, supply/demand chain efficiencies, port efficiencies, trade efficiencies, tourism, agriculture, e-government, horticulture, textiles and apparel, new industries (including e-businesses), trading partners, local skills, employment, the tax base and participation.

In terms of IT development, the first step was to identify what talent was available to a country, including its expatriate communities. The World Bank had a programme which could help small states to assess their preparedness for electronic commerce. He also advocated the use of buddy systems or special relationships between technology partners and small states to help incubate initiatives. Countries needed to establish connections, for which many options were now available. He suggested that they look at virtual free-trade zones, virtual government systems and regional hubbing.

In summary, Mr Kimberly suggested several policies for adoption by countries. These were:

1. establish their preparedness for e-commerce;
2. develop a reform agenda which was adapted to the local environment;
3. consider 'buddy systems' and incubators;
4. consider virtual trade zones for IT and e-commerce;
5. target expatriate for trade opportunities and repatriated skills; and
6. encourage 'tiger teams' to implement key pilots and make this part of international aid assistance.

Mr Kimberly stressed that the technologies were not too expensive, and countries needed to adapt and make the best use of available opportunities.

The Chairperson thanked the speaker and opened the floor for discussion.

The Representative of Dominica invited the international community to acknowledge the specificity of small states' problems and to adopt a more flexible approach in assisting this group of countries to integrate their economies into the global economy. While globalisation brings along new opportunities (such as organic farming and eco-tourism for Dominica), it also created challenges. In his view, therefore, there should be an adequate transition period. For instance, the liberalisation of the banana trade, without an adequate transition period, dislocated the economy and threatened social cohesion in his country.

The Representative of St Lucia questioned the net benefits from new sectors being developed to replace the traditional agricultural activities in the Caribbean. A large share of the proceeds from tourism actually leaked out of the economy through the package deals and the high import content of the sector but, in contrast, "banana money" goes mainly to the producers. Investing in modern information technology (IT) could be a better alternative, but poor small states should be provided with special assistance to acquire the technology and to develop the needed skills. The developed countries must renew their pledge to commit 0.7 per cent of their GNP to ODA.

Commenting on Sir Alister McIntyre's reference to the effects of the Asian Financial Crisis on small states, the **Representative of Antigua and Barbuda** drew attention to Asian investments that had been postponed or cancelled as a result of the crisis. For instance, Antigua's new Five-Year Plan was largely based on a substantial tourism development project funded by Malaysian investors. In the wake of the crisis, this investment had been postponed. Turning to new information technology, the representative said that it certainly offered opportunities to small states, especially those that had an educated and computer-literate labour force. But given that the level of investment on equipment required in the telecommunications field was practically the same for both small and large states, there

should be other means to attract investors. In this context, full liberalisation would not be appropriate: a given company would have little incentive to incur the high cost of infrastructure development and then see the benefits reaped by a competitor. The situation of France Telecom in Vanuatu cited earlier clearly demonstrated this problem.

The Representative of the European Investment Bank pointed out that the EU had devised an Investment Facility to assist ACP countries in exploiting new opportunities offered by globalisation. This facility, to be set up by the EU in the context of the post-Lomé arrangements, would provide loans and risk capital to ACP public and private sectors. It would operate on the basis of a revolving fund. While continuing to work through local ACP intermediaries to reach clients, the EIB, which will manage this facility, would seek to work through regional institutions as well.

The Representative of the Cayman Islands also spoke of the need to regulate e-commerce so as to resolve issues such as taxation and the criminal use of the technology. He expressed satisfaction that the OECD had now moved from a position of confrontation to one of dialogue on the issue of taxation in terms of off-shore financial centres.

The Representative of Cape Verde underlined the importance of IT for the competitiveness of small states. Acquisition of such technologies raised the issue of conditions of financing. The criterion used by ODA agencies (e.g. GDP per capita) discriminated against small states. Whilst small states had no choice but to integrate their economies into the globalisation process, its adverse effects had a disproportionate impact on them. Thus, small states often suffered from balance of payment disequilibria due to exogenous factors. To counteract such effects, they should devise means of attracting FDI and be granted greater market access by developed countries.

The Chairperson thanked the discussants and adjourned the meeting for lunch at 12.30 hours.

After lunch, the Conference broke into four thematic groups on the basis of its agenda: (1) tackling volatility, vulnerability and natural disasters; (2) strengthening capacity; (3) transition to the evolving global trade regime; and (4) globalisation. These break-out sessions met separately from 13:15 to 15:00 hours.

(a) **Break-Out Session: Tackling Volatility, Vulnerability and Natural Disasters**

The Hon Rajkeswur Purryag, Deputy Prime Minister, Mauritius, chaired this session and Mr Jeremy Collymore, Regional Co-ordinator of the Caribbean Disaster Emergency Response Agency, was the rapporteur. He welcomed the participants and pointed out the need for the group to concentrate on issues not clearly addressed in the interim report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States. He emphasised the need for the group to put forward concrete proposals for the consideration of the Task Force. He then invited Dr Russell Howard, South Pacific Applied Geoscience Commission (SOPAC), to make his presentation on vulnerability.

Dr Russell Howarth said that the interim report did not fully cover environmental vulnerability. It emphasised economic aspects. Dr Howarth observed that if the issue was the reduction of vulnerability, there was need to put in the disaster component. He referred to the Barbados Declaration and Plan of Action which dealt with environmental vulnerability and

said that to address the issue comprehensively, one should look at three aspects of vulnerability:

- Economic;
- Social; and
- Environmental fragility.

While acknowledging that the economic parameters of vulnerability were critical, Dr Howard thought that environmental aspects of vulnerability needed to take an equally prominent position in the report. The impact of disasters and the number of such events themselves were increasing. He stressed the need for quantifying environmental vulnerability. He felt it was necessary to point out the inadequacies of the report, particularly in this area. He suggested that serious consideration needed to be given to developing catastrophe insurance.

The Representative of Antigua and Barbuda suggested that in addition to the three areas mentioned, two other important areas needed to be covered in the Task Force report, namely, the security dimension; and the political aspect of vulnerability. He stated that there was work to be done on the environmental aspect and noted that this issue was addressed at the Durban meeting of the MGSS. He said that the Commonwealth Secretariat's work on the Index should be seen as work in progress. He also raised the issue of shipments of nuclear waste through the Caribbean and Pacific seas that was of deep concern to countries of these regions. He asked whether insurance covered such risks. The Caribbean countries felt that these shipments should not take place at all and this concern should also be articulated in the report.

The Representative of Barbados added that the Task Force report should address other aspects such as market vulnerability and security problems concerning drugs. He felt that the report addressed all markets in the same way. There was no recognition of differences between large and small markets and market imperfections. He pointed out that when there was a shock, the impact was less in a large market than in a small market. He gave the example of the shocks caused by the oil price increases in the 1970s and noted that most advanced countries were back in surplus in their balance of payments within two years, while many LDCs were facing difficulties even after many years. On the proposal to develop insurance to cover volatility in export earnings, and for covering disasters, he was unclear on how such a system would operate and suggested that these mechanisms should be elaborated clearly. He suggested the need for knowledge networks for vulnerability reduction and capacity building.

Mr John Pollner, World Bank, in responding to the questions raised on insurance said that his paper on disaster insurance was not meant to cover the entire range of risk management strategies to deal with disaster events which included a number of key pillars. He said that the focus of his report focussed on one pillar: i.e. insurance. There were other arrangements involving governments, and multilateral and bilateral agencies to address the other pillars such as preparedness, mitigation, regulatory reform, construction and zoning standards.

The Representative of Grenada pointed to the persistent nature of natural disasters in the eastern Caribbean. He noted that the region lacked the capacity to prepare for disasters and to take mitigation measures.

The Representative of the Caribbean Development Bank stressed the need to get small states issues properly reflected in the Task Force report. He referred to inconsistencies in the report and pointed out that volatility was treated as vulnerability. He felt there was a difference between these two concepts (e.g. paragraph 9 and 10), and added that the report did not address adequately the implications of export openness on volatility. He felt that the report had not included policies on diversification, natural disasters and commodity insurance in its "The Way Forward" Section. These needed to be addressed in the final report of the Task Force.

The Representative of Malta reiterated his criticism of the Commonwealth Vulnerability Index. He expressed his concern that the interim report referred only to the Commonwealth Vulnerability Index and not work done by other institutions. This had the danger of weakening the small states' vulnerability argument. Referring to UN reports on environmental vulnerability, he suggested that it was necessary to mention these and that the conclusions of the Task Force report were based on a number of studies.

The Representative of Lesotho recognised the importance of the conference for small states. He supported the view that the work on the vulnerability index should be just the beginning of a process. He repeated his concern about Lesotho, Papua New Guinea and Jamaica being left out of the list of small states included in the Task Force report. He urged that this ought to be reconsidered.

The Representative of New Zealand also spoke on the measurement of vulnerability and stressed that this needed more work. She pointed out that vulnerability as presently defined was narrow and needed to be expanded. The root causes of vulnerability needed to be defined. She indicated that the UN Committee on Development Policy was working on new criteria for graduating countries from the LDC category and proposed that the conclusions of the Conference should be transmitted to the Committee.

Ms Kamel, World Bank, in responding to questions raised on commodity risk management, said that the proposed insurance scheme to deal with price volatility was one among several measures. Other instruments to be used would include:

- capacity building and institutional development;
- international intermediation to bring participation of small producers; and
- insurance to protect smallholders from unpredictable prices.

(b) **Break-Out Session: Strengthening Capacity**

This session was chaired by **HE Mr Bertrand Rassool**, High Commissioner of Seychelles in the United Kingdom and Mr Neville Beharie, Inter-American Development Bank (IDB), was the Rapporteur. The Chairperson introduced Ms Margaret Callan of AusAID and asked her to make a presentation on capacity building from the donor's perspective.

Ms Callan informed the group that AusAID was the world's largest donor to small states. Its assistance accounted for 23 per cent of all DAC flows to small states, and more than one third of its aid programme was directed towards small states. She said that AusAID wished to share its considerable experience of effective development assistance for capacity

building in small states. Ms Callan agreed with the Task Force report's identification of the implications of smallness, and noted that in the South Pacific, dispersion made the problems even harder. The characteristics of small state administrations were:

- small staffing addressing multiple portfolios;
- limited financial resources;
- lack of training; and
- general shortage of management and problem-solving skills, and a low adaptability to change.

Ms Callan noted that Pacific island countries (PICs) had embraced a programme of public sector reform. She identified lessons from Australia's experience with PICs in the past five years, when capacity building initiatives had been particularly intense:

1. It was important to adjust the pace, sequence and complexity of change to small states' capacity and political realities. Ms Callan emphasised that institutional change was a long-term process which required long-term commitment. Small states' ministries needed to be given time to see changes and achievements.
2. There was a need to concentrate early efforts in areas where there was commitment to change. Support should first be given to whichever agency was playing the leadership role. This was often the finance ministry, but not always. Early support was essential, as was maintaining that support. The creation of new institutions to drive change should be avoided as it tended to build resentment. Ms Callan advocated the use of some immediate technical assistance on items such as budget control and revenue measures, followed by work to design a programme of long-term assistance. In this way, projects would be better informed.
3. There was also a need to maintain flexibility and avoid rigidities in donor support. AusAID contracted out its assistance work and found that in the past these had not been sufficiently flexible. AusAID had moved towards 'reasonable milestones' as a sufficient basis for payment.
4. Ms Callan noted that there was a growing market of people with the technical, political and analytical skills to do the work.

The Chairperson thanked Ms Callan for her presentation and opened the floor for discussion.

The Representative of CARICOM supported the use of a multi-sectoral pool of advisers, at either regional or national level, which was funded by donors. He called for flexibility of expenditure so that different types of human resources could be used in capacity building programmes. He noted the importance of timing and sequencing of policy changes as well as institutional changes.

The Chairperson said that the question of adjusting the pace and sequencing of change to the needs, and political changes including need for good governance and capacity in small states, had not been sufficiently addressed in the interim report of the Task Force and

other documents. His country was treated as equal to others in this regard, though it had just emerged from a one-party system.

The Representative of Tonga noted that the interim report did not adequately address the problems of weak institutional capacities and aid co-ordination. He stressed the importance of knowledge networking among countries. Capacity building and technical assistance needed to be country-driven and based on national priorities. Since participation in the global economy was indispensable, capacity building should include IT and e-commerce. The capacity of regional institutions serving small states should also be strengthened.

A number of delegates, including those from the World Bank, Mozambique, and Jamaica, spoke about the need to improve salaries, and to create balanced incentives structures in order to ensure that capacity building programmes were sustainable. Incentives needed to be rooted in the conditions prevailing in the country. One delegate noted that donors saw improved salaries as a matter for countries to determine themselves. Another noted the effect of the brain-drain, low salaries, poor administration and corruption on capacity building. A third discussed the problems of establishing parallel systems for locals and expatriates.

On the loss of human resources through expatriation, a number of delegates noted that effects were both positive (providing remittances and a network of experts) and negative (brain-drain). This was a complex issue and its impact varied from region to region. The brain-drain could become an asset through the use of links to the Diaspora, and programmes to repatriate expertise by harnessing their skills, for example, as they approached retirement. Countries needed to look at the whole balance sheet in considering responses to this and related issues.

On skills development, one delegate called for the review of training opportunities since OECD countries had raised fees, and scholarships were now less readily available. Another delegate noted the shortage of skills in management and manufacturing, and advocated the strengthening of regional training institutions and home-grown training programmes. One delegate saw policy formulation, analysis and implementation as vital priorities. **The Chairperson** suggested that the Commonwealth Secretariat should examine capacity strengthening for small states within its framework for human resources development programmes, the process of globalisation, and population dynamics, including gender issues.

A World Bank Representative inquired whether the donors should invest more on formal training rather than provide experts for on-line positions as suggested by the AusAID presenter. Another delegate proposed that, in the first instance, there should be an analysis of small states' needs in order to identify their capacity weaknesses.

The Representative of Jamaica informed delegates that Jamaica had created a 'skills bank' of overseas Jamaicans and recent retirees. One of the priorities was to strengthen institutions and in order to address this problem, donor agencies should work with small states to identify nationals with requisite skills. He pointed out the lack of incentives to retain appropriate staff; on the other hand, transfer of skilled personnel to incompatible posts on account of political changes should be discouraged. In terms of human resource development, regional, as well as country, differences were noted. For instance, in the Caribbean, the education pyramid of 100 per cent at primary and 50 per cent at secondary, was laudable but

the share at the tertiary level of 7 per cent was inadequate. In contrast, in the South Pacific, basic education was still a major problem needing urgent attention.

The Chairperson elaborated his country experience in the development of national programmes, which adopted a sectoral approach with its successful Environmental Management Development Programme, and a 20-year Human Resource Development Programme. This approach lessened aid conditionality and enabled greater co-ordination of donor funding.

The Group concluded that:

1. Small states had limited capacity to address globalisation issues. Coupled with this was the speed at which these changes were taking place. These states had to resolve the complex problems of transition, whilst taking advantage of opportunities generated by this phenomenon.
2. Political commitment to change and capacity building was important. In many cases, sustaining commitment over time was a vital issue. It was recommended that such commitments should be carried over from one administration to another.
3. Types of skills required for small states were:
 - Policy formulation, programme/project implementation;
 - Building capacity for change;
 - Productive capacities;
 - Strengthening institutions;
 - Human resource development; and
 - Improving systems and procedures.
4. Sectoral approach to assistance and to capacity-building must have a convergence of objectives by national governments and donors alike to ensure realisation of economies of scale.
5. There was a need for effective and improved capacity to deliver programmes.
6. There was a role in IT and mechanisms to improve such capacity building initiatives and assistance.
7. The importance of governance was pervasive – the rule of law, transparency – was reiterated.
8. There was a need to develop a directory of specific capacity deficiencies varying from country to country, levels, and regions, as well as a directory of expatriate, national and regional experts from small states. Mechanisms to tap external and regional ‘pools of experts’ were needed.
9. This may be achieved through building an in-house capacity by strengthening regional institutions and identifying economies of scale in capacity and training programmes.
10. Salary and incentive structures of public services need to be rationalised.
11. The need to work at horizontal cooperation between regions, sub-regions and small states on TCDC basis was reaffirmed. The exchange of experiences, transfer of replicable good practices, and knowledge of skills through TCDC mechanisms were highlighted.
12. There was a need to adopt a wider approach and strategic programmes and mechanisms for strengthening capacity, which included a whole set of partners: the public and private sectors, and civil society.

13. There should be clear areas identified for co-operation with partner organisations and to change their attitudes toward special problems of small states.

(c) **Break-Out Session: Transition to the Evolving Global Trade Regime**

This session was chaired by the **Hon George Odlum**, Minister of Foreign Affairs and International Trade, St Lucia, and Dr Arnold McIntyre was the Rapporteur. The discussions in this session focussed on two main issues: (1) special and differential treatment (SDT) for small vulnerable states (SVSs); and (2) the definition of small states.

In his introduction, **the Chairman** noted that there was a case to be made for special and differential treatment (SDT) of small states, especially during the transition period when they were expected to be integrated into the global economy. The basic question was whether SVSs should demand the same concessions as those given to LDCs, or whether to ask for separate concessions which would be specific to the requirements of small states. One view was that it would be more efficient to simply ask for the same concessions as LDCs rather than negotiate special concessions for small states. However, the majority seemed to support the second option, on the grounds that the needs of small states did not always coincide with those of the LDCs. SDT for small states should be a subset of special trade arrangements, argued on the basis of their vulnerability.

The Representative of the South Pacific Forum stressed that it was not adequate to seek SDT solely within the WTO. Such treatment should also cover Bretton Woods institutions. At present there were great inconsistencies between trade negotiations and structural adjustment programmes for SVSs. These inconsistencies needed to be addressed and removed. He proposed the establishment of a work programme at the WTO on SDT for vulnerable small states. He emphasised that such a programme should be dynamic with its terms of reference to review and suggest reforms over time as the global trade regime evolved.

The WTO Representative enquired what kind of special recognition small states wanted – whether it was a specific package of concessions that would be applied across-the-board to SVSs or whether they wanted a package that would be flexible enough to be tailored to the specific needs of each country. His own suggestion was that SVSs would be better off without a category-specific package.

The Representative of St Lucia questioned the notion of packages as addressed in the Seattle talks, noting that there was need for clarification. He added that developing countries were being requested to transform their economies in response to the global transition process. He stressed that this presented difficulties for countries trying to grapple with competing demands with very limited capacity.

The Representative of the OECS noted that countries needed to adopt various strategies to mitigate harmful side effects of transition. He added that an examination of the fiscal policies of small states was required, in order to protect the welfare of people from external shocks. He cited the example of Barbados where the move from direct to indirect taxation had improved the fiscal situation. However, this might not necessarily be replicated elsewhere in the Caribbean. External support was essential for addressing such problems. He also stressed the fact that SDT was not legally binding on developed members

of the WTO, while developing members had to make a number of commitments on accession. The representative reiterated the particular constraints on small states, and called for capacity building support in order to address the onerous procedures imposed by aid agencies.

The Representative of Jamaica noted the high cost of adjustment faced by so many small states, including Jamaica, in the process of restructuring their economies. He called on the international community to recognise this problem and provide support to smooth the process.

Another delegate stressed that SVSs had been in transition for a long time since preferential trading arrangements were being phased out gradually. Now SVSs were being asked to complete, in a matter of months, a transition which would normally take at least a decade. He asked for a more realistic transition period with adequate support from the international community to complete this process satisfactorily.

The Representative of Grenada referred to the proposed EU/ACP regional arrangements and noted that although the provisions offered flexibility for new initiatives, the necessary support did not precede the expected changes. The WTO had a responsibility to support capacity building on trade matters in SVSs. He noted the support that had been rendered to Russia as a good example of such assistance, and stressed that such support should be provided across the board.

The lack of a level playing field in the new trading arrangements was underscored by the **Representative of Mauritius**. He proposed that a WTO working party be formed to examine different actions that could be taken in favour of SVSs. He argued that preferential treatment accorded to SVSs, although marginal, often allowed them to make up for the high cost of transport and to remain competitive. The erosion of preferences was a relatively more serious problem for SVSs, and therefore they needed more support from the international community.

A Representative of the Commonwealth Secretariat drew attention to the fact that, while participants were asking for special treatment for SVSs within the WTO, in the new Lomé Convention, this feature was coming to an end in February 2000. SVSs would not benefit from any special consideration when negotiating the new trading arrangements with the EU. Moreover, they had lost the special treatment they formerly enjoyed, at par with LDCs, in accessing funds to compensate for shortfalls in commodity export earnings. In the latter case, no transition period had been granted, as STABEX will cease to operate with immediate effect.

The EU Representative argued that much had yet to be defined in the coming negotiations on new trading arrangements and informed the audience that the EU would be using the Commonwealth Vulnerability Index in defining countries for allocating funds under the new Convention. He reassured the audience as to the EU's sensitivity to the special case of SVSs. He thought that there was a need for the establishment of stable frameworks and systems in order to take advantage of opportunities offered by globalisation.

On the issue of definition of SVSs, many participants felt that undue importance had been attached to the population criterion in the work of the Task Force. In defining small states, factors that characterise these countries should be identified. These should not be

simply physical characteristics that cannot be acted upon and changed, but should include variables which were amenable to policy changes.

The WTO Representative remarked that the issue was not about defining another group of countries, but ensuring that resources were made available. However, several representatives from the Caribbean endorsed the idea of a definition that focused on common factors, including income volatility and vulnerability. It was noted that the issue would be one of identifying real constraints and to underscore the particular mechanisms that can be triggered to address the problems.

The Representative of St Lucia further stressed that the international community should recognise that small states needed particular support, e.g. market access, to overcome these constraints. He argued that while the issue of definition needed to be addressed, SVSs should not lose sight of the larger debate on SDT. The issue of packages, clarifying what was required, especially in terms of market access, was also an important concern. It was noted that the Caribbean had made a huge investment in exploring access to markets, and the links with multilateral agencies must be intensified in this regard.

On the issue of difficulty of accessing aid, the **Representative of Dominica** referred to the onerous procedures of aid agencies which frustrated small states' capacities to meet their development goals. He called for a re-examination of the procedures required by major donors like the EU.

Mr Compton Bourne, UWI, called for complementary action like e-commerce to support regional marketing initiatives, stressing the need to continue to highlight the plight of small states with increased pressure on the international community

Government procurement was also viewed by some as a problematic issue, as small domestic firms cannot compete with MNCs. The need to encourage small enterprises and to nurture the service industry in SVSs was underlined. It was suggested that large resource transfers would be required for this purpose. In the context of anti-dumping cases, the burden of proof should not be placed on small economies.

(d) **Break-Out Session: New Opportunities and Challenges from Globalisation**

This session was chaired by **Sir Shridath Ramphal** and the Rapporteur was the Hon. Clement J Rohee, Minister of Foreign Affairs, Guyana. Sri Shridath invited Mr Anthony Hughes, Solomon Islands, to make a presentation on globalisation.

In his intervention, **Mr Hughes** highlighted several arguments on globalisation and its impact on small states. These included:

- The need to understand the nature of challenges posed by globalisation, and to design an effective strategy to address the risks and the opportunities resulting from the phenomenon.
- It was an inexorable process that affected everybody but not in the same way. Individual circumstances varied enormously and a unique mix of responses would apply. Therefore, there was need to know clearly and identify one's own objectives and prioritise them.

- Once these objectives had been identified, appropriate policies were needed to achieve them. Two dimensions of globalisation needed recognition: governance and information technology. Governments of small states should assist the whole community to understand the process of globalisation.
- It was not possible to find ready-made strategies for all countries hence the importance of each country identifying its own objectives.

Turning to the question of whether aid or the donor community could help in the process of globalisation, Mr Hughes indicated that it was important and necessary to recognise that the donor community was also involved in the globalisation process and that it had its own agendas. In his view, governments were not the driving force of globalisation. Therefore, new responses were necessary to address the challenges and to take advantage of the opportunities.

The Representative of Guyana indicated that he was commenting as a politician on globalisation. Governments did not have time to make an effort to understand the manifesto of globalisation. Even where they understood this process, they had limited capacity to address the problems. At the national level, governments still had to address the problems associated with the poor and the rich, in addition to the practical problems of globalisation. He indicated that there was need to deal with the question of capacity and resources in considering the challenges of globalisation. Globalisation was a complicated phenomenon and it could not be addressed by only looking at challenges and opportunities. In his view, the problem could be resolved by according special and differential treatment to small states in the international system.

A Representative of the World Bank indicated that the focus of the discussion on trade liberalisation had been limited to flows of goods and capital but it had not addressed the issues concerning labour flows. In his view, this was an area that needed attention, especially in small states.

A member of the Advisory Board indicated that globalisation was linked to competitiveness: i.e. appropriate macroeconomic policies, efficient services and so on. He indicated that the Task Force report should address these issues adequately.

Another member of the Advisory Board indicated that the idea of movement of people was a critical issue, and a subject of discussion at the WTO. Concerning challenges and opportunities of globalisation, he agreed that there was need for countries to design strategies appropriate for their own circumstances. On technical assistance, he noted that most of such aid being provided was meant to assist countries meet their obligations and commitments under the WTO. He was of the view that such assistance should include other areas as well. He was also of the view that the Commonwealth Secretariat facility in Geneva should be strengthened.

The Representative of Trinidad and Tobago indicated that small states should be part of the group that was debating issues concerning the design of the new international financial architecture. Her country had been liberalising its economy and this had helped in attracting greater flows of Foreign Direct Investment. But, in terms of the region, FDI flows were grossly inadequate.

The Chairperson stressed the importance of the lack of a framework for addressing problems related to financial crises in small states. The G7 had taken the lead role in these deliberation. In his view, small states and other developing countries should also be involved in these discussions.

The Representative of Cape Verde indicated that there should be a worldwide set of rules governing capital flows. Small states needed to find areas of convergence if they were to attract financial resources to their countries.

The Representative of Gabon wanted to know what the legal implications of globalisation were and when it was expected to start. He inquired about the discussions of the G7 on this issue.

In response, **the Chairperson** said that globalisation was a reality. The problem was that it had occurred so quickly. Small states could not alter globalisation but they had to respond to it. He gave a brief account of G7 discussions concerning globalisation.

The Representative of Gabon said that globalisation had contributed to increased GDP in some small states and, therefore, there was no need to be alarmed.

The Representative of Caribbean Development Bank (CDB) indicated that globalisation would require the removal of barriers in trade for goods and services. To respond to globalisation, countries needed to change domestic production, acquire new skills and demonstrate greater flexibility. He indicated that the adjustment process was constrained by lack of labour mobility although labour was a crucial factor of production. The interim report of the Task Force was silent on the role of International Financial Institutions (IFIs) and, specifically, the International Financial Corporation (IFC), in the development of the private sector.

Sir Alister McIntyre indicated that Gabon was a special case in that it was rich in resource endowment and therefore was not representative of all developing small states. For instance, one billion people in the world lived on US\$1 per day. In some way, globalisation attempted to set up rules and it was a technological phenomenon. In this context, small states faced new challenges: for example, in tourism where the role of travel agents was vanishing on account of new technologies.

The Representative of Trinidad and Tobago said that her country was in a fortunate situation due to its sound macroeconomic fundamentals and this had encouraged foreign investment flows. However, foreign investment flows were confined to certain sectors such as tourism. In such instances, benefits transmitted to the local economy were not significant. The representative indicated that the interim report of the Task Force was silent on the negative side of foreign direct investment, especially in tourism, and what should be done to address these problems.

The Representative of Guyana reiterated that small states needed special and differential treatment in order to build dynamic productive processes. Otherwise, they would be unable to meet the challenges of globalisation.

In order to address the challenges and opportunities arising from globalisation, the **Group recommended** the following:

- There was need for each country to understand the challenges and identify the opportunities and then work together as a group on common issues.
- In considering the provision of technical assistance, it was important to understand the donors' objectives, since globalisation also affected them.
- To deal with globalisation the question of capacity building had to be addressed both at regional and national level and it should be understood that liberalisation also included movement of labour.
- The negative implications of foreign direct investment in the area of tourism had to be addressed in the report, including ways of overcoming this problem.
- Small states should be involved in designing new international financial architecture.

Final Plenary Session: (a) Reports of the Four Thematic Break-Out Groups

This session was chaired by **the Rt Hon Owen Arthur**, Prime Minister of Barbados. He first invited the Rapporteur of the break-out session on tackling volatility, vulnerability and natural disasters to present its report.

Mr Jeremy Collymore said that the group had approached the session by looking at the papers presented by the task force and experts and taking cognisance of the interventions made from the floor. While recognising that the work on the vulnerability index was very much work in progress, they had made the following suggestions:

1. The vulnerability index needed more environment-related components. It should include considerations of market vulnerability and the capacity of countries to absorb risk in financial markets. The group recommended the establishment of knowledge networks to promote the sharing of experiences in vulnerability assessment and reduction.
2. The link between the insurance scheme and recovery needs anticipated for resilience was not clear. The responses of the uninsured to insurance purchase and the implications for the Fund's operations needed to be examined; the proposal needed to be evaluated against other market-altering options to influence insurance purchase and the potential effectiveness and efficiency of the proposal determined.
3. The critical gaps in the vulnerability index and the country profiling for actuarial purposes pointed to the need for capacity development in hazard assessment technology and reduction practices.
4. There were inconsistencies in the use of "volatility" and "vulnerability" in the interim report of the Task Force. Sometimes they had been presented as the same and at other times as different.
5. The Report needed to address the trade-off between high risk and high return associated with such factors as economic openness.
6. It was felt that the Report needed to give greater consideration to various options: for example, the role of diversification in vulnerability reduction and management should be clarified.

7. There was no evidence in the report of efforts to accommodate the inputs of experts, besides those of the Task Force, on the vulnerability index.
8. The Commonwealth Vulnerability Index should not be used exclusively in references to vulnerability indicators.
9. There was a need to reconsider some of the variables used in defining size, in particular, population size.
10. It would be desirable for the thinking of the meeting and the Task Force on issues of vulnerability indexing and graduation to be shared with the forthcoming CDP/ECOSOC meeting.

In conclusion, the group had recognised that the Task Force's work was at an embryonic stage and called for an urgent reconsideration of some of its approaches and methodologies.

The Chairperson invited the rapporteur of the break-out session on strengthening capacity to present his report.

Mr Neville Beharie, Inter-American Development Bank, said that the group had focused on the capacity-building requirements and priorities for small states. They had acknowledged that the problems were wide-ranging and diverse and that globalisation had made the problem of limited capacity even more critical. In particular, the nature of the capacity needed had changed and the speed at which this needed to be acquired had accelerated. The main challenge therefore was how to manage change through capacity building. Without major advance in strengthening the ability to deal with these changes, it would be difficult for countries to deal with the challenges of globalisation and take advantage of the opportunities offered.

He summarised the issues raised in the session, as follows:

1. The capacity-building initiative needed to be adjusted in terms of pace, sequence and degree of complexity to the context of the country and the region in order for such changes to be sustainable.
2. Given the slow nature of changes in reconstructing capacity, strong political commitment to capacity building was essential and needed to be carried over from one administration to the next.
3. Effective capacity-building required a change of attitude by donors. Programmes needed to be flexibly designed and implemented in an adaptable manner over time.
4. Small states needed a mechanism for access to a pool of technical advisers. This was to be juxtaposed against the need to simultaneously build capacity within the countries themselves.

5. The issue of incentive structures was very important, especially salary structures within the civil service.
6. In view of the brain drain from many small states there was a need to set up a mechanism to develop an inventory of skills outside the country so that people could be encouraged to lend their skills to their original countries.
7. Given the large number of donors, there was a need to identify ways of improving the effectiveness and efficiency of delivery of assistance. This required action both in the donor community and in the countries themselves. Information technology might be drawn to help in that process.
8. Regional training institutions needed to be strengthened in order to identify training programmes that could help to build capacity and to identify the needs that exist at different levels - country, regional and international. The identification of the hierarchy of needs would enable the development of strategic responses to capacity deficiencies.
9. Important areas for capacity-building included capacity to formulate policy and build programmes, capacity to build institutions and capacity to adapt to change. With regard to institutions, there were two dimensions: strengthening the human resource base; and improving the systems and procedures employed in implementing development programmes.
10. In many instances, capacity-building would be enhanced by a sectoral approach, but only if the donors also adopted a similar approach.
11. Great importance was attached to governance and having clear rules in order to encourage systematic treatment of capacity-building, the rule of law and the implementation of programmes according to rules and regulations rather than by whim and fancy.
12. The importance of horizontal co-operation was also stressed – i.e. knowledge and skills would be transmitted through technical co-operation among developing countries themselves.
13. Finally, it was stressed that capacity-building applied not just to the public sector. Mechanisms needed to be found to bring the private sector, labour and civil society into the process of building strong development institutions.

The Chairperson invited the rapporteur of the break-out session on transition to the evolving global trade regime to present its report.

Mr Arnold McIntyre reported that a consensus emerged at the meeting on the need to provide special and differential treatment for small states. But there was also a consensus that this should not be similar to the treatment given to least developed countries in the WTO. The meeting called for a sub-set of measures in favour of small states focusing on issues relating to vulnerability. It was up to the small states to clearly define the specific provisions they would require. A work programme on small economies in the WTO would assist them in achieving the SDT objective and would imbue the process with dynamism.

Another point of consensus was that the special and differential treatment envisaged was not confined to transition in terms of trade rules. Small states were grappling with transformation involving development of new industries and improving the efficiency of existing economic activities. Simultaneously, small states had resource deficiencies that constrained transformation. There would be winners and losers in the process of transformation and the magnitude of the losses could undermine the process of transformation. In this regard, safety nets would be important. Hence there was a need to examine fiscal capacity in the period of transition. But fiscal capacity was itself related to the dimensions of the new international trading environment. Fiscal returns had been affected by high rates of income volatility. To adjust to these fiscal difficulties, many small states had had to reduce capital expenditure, which was inimical to growth. This suggested that transitional arrangements for small states to adjust to the new global trade regime could not only be through trade rules. It required institutional coherence between work in the WTO and the programmes of the Bank and Fund to ensure that not only do we provide appropriate transitional arrangements through trade rules but that adjustment programmes and assistance to small states addressed the critical issue of capacity-building to facilitate transition.

The group noted that some of the constraints facing small states were structural. Therefore, some of the special and differential treatment measures for small states should be given on a permanent basis.

The effectiveness of development assistance to small states in the transition period could be seriously undermined as a result of lengthy bureaucratic delays in the delivery of development assistance. It was therefore necessary for the donor community to make a conscious effort to redesign procedures for fast disbursement. The recent commitment by the EU to improve the speed of disbursement under the successor agreement to the Lomé IV Convention was a welcome development.

Finally, it was agreed that small states must not allow the issue of the definition of small and vulnerable states to be the focus of debate. Intuitively, all countries knew the range of countries covered by the term. What was now being sought was to develop statistically robust measures for developing operational programmes. The 1.5 million cut-off could not be seen as being cast in stone. The focus must be on the plan of action to assist small states in the transition process. The session therefore tried to focus on the practical policy agenda that could be the basis for implementation.

The Chairperson invited the rapporteur of the break-out session on new opportunities and challenges from globalisation to present his report.

The Hon Clement J Rohee, Minister of Foreign Affairs, Guyana, said that the group had begun by discussing the need for understanding the challenges of globalisation and for people to know about the objectives of the process. It had also focused on the need to look at the question of governance and the provision of information to assist people to understand the implications of globalisation.

The question was asked whether donors could assist small states in meeting the challenges of globalisation since they had their own agenda. Each country needed to know what the challenges and opportunities were and to find common ground among themselves.

The view was expressed that globalisation was driven by the market place, which threw up its own dynamics and contradictions. There was a need to build capacity to deal with the challenges as well as the opportunities of globalisation. Globalisation must be linked to competitiveness.

The view was also expressed that there was a need to return to the fundamental question of capacity-building, institutional strengthening, human resource development of and for small states in the context of special and differential treatment. The question of free movement of labour needed to be taken into consideration when discussing free movement of goods and services. There was also a need to go beyond the demand for technical assistance for capacity-building. Information sharing at the technical and negotiating level to overcome the paucity of human resources was one of the experiences referred to. The need for small states to have a physical presence in Geneva was emphasised.

The issue of globalisation and the new financial architecture was also raised and the view was expressed that small states must be involved in the negotiation of codes of conduct with a view to influencing the content of these instruments. There was also a need to place the question of global governance and global labour markets on the table. The question was raised of how the global economy was managed and the response was that this should not be left solely to the G8. Small states must seek to influence discussions on the new financial architecture and the donor community needs to find areas of convergence. Donors need to change their attitude to the funding of small states.

The view was expressed that globalisation had wide-ranging implications and that changes would be required in public and private sectors in order to build productive capacities. The question was posed as to what role the multilateral institutions should play to help upgrade private and public sectors. The interim report of the Task Force was silent on the role of the IFIs and the IFC in capacity-building in the private sector.

The group discussed the danger of jobless growth that was inherent in the process of globalisation and noted that the interim report was silent on the downside of tourism. Foreign direct investment was not a panacea for development – in fact, in some cases, it had resulted in jobless growth.

The group's specific recommendations were:

1. Each country needed to understand the challenges and identify the opportunities of globalisation and to work together as a group on a common ground.
2. With regard to technical assistance, it was important to understand the objectives of the donor.
3. To deal with globalisation, it was necessary to address the question of capacity-building and the fact that liberalisation included movement of labour.
4. The negative implications of tourism must be addressed in the report.

5. Small states must be involved in designing the new financial architecture.

a. Chairperson's Conclusions

The Rt Hon Owen Arthur, Prime Minister of Barbados, said that as the Chairman of the Conference, he welcomed the contributions of participants to the discussion. He had no doubt that these would be useful for the Task Force in finalising its report. In his Conclusions, as the Chairperson of the Conference, he could not promise to cover every detail and nuance that had been raised, but he believed that in the following remarks he had captured a broad consensus from their deliberations.

Action and an Ongoing Work Programme

The October Interim Report of the Joint World Bank/Commonwealth Secretariat Task Force on Small States set out a contextual framework in which to consider the development problems peculiar to small and vulnerable states. That framework was strongly endorsed by Commonwealth Heads of Government (CHOGM) and the Commonwealth Ministerial Group on Small States (MGSS) when these groups met in Durban, South Africa, in November 1999. CHOGM and MGSS recognised that part of the interim report reflected work in progress and requested that additional study and consultation take place before a final report of the Task Force was submitted to the April 2000 meeting of the Development Committee.

The further work carried out since preparation of the Interim Report, further consultations and discussion at the London Conference, had identified a set of key policy issues that called for a continuation of some current action, the introduction of proposed new initiatives and the dynamic development of an ongoing agenda of future work.

1. Tackling volatility, vulnerability and natural disasters

- The work of the Commonwealth in analysing the vulnerability of small states¹ was welcomed, as was the derivation of a vulnerability index for developing countries². The latter analysis, just concluded, demonstrated that most small states were more vulnerable than their larger developing country counterparts, and proposed that this vulnerability should be taken into account in programmes of assistance provided by the multilateral development, finance and trade institutions. The work being carried elsewhere on similar indices was also recognised.
- The vulnerability and special characteristics of small states, and weak capacity in the private sector, contributed to perceived riskiness and difficulty in attracting private investment flows. A relatively high level of continuing official assistance was therefore appropriate for small states, as was the continued application of flexible graduation procedures at the multilateral institutions.

¹ Commonwealth Advisory Group (1997), *A Future for Small States: Overcoming Vulnerability*, Commonwealth Secretariat, London.

² Atkins, J P, Mazzi, S and Easter C D (2000), *A Commonwealth Vulnerability Index for Developing Countries: the Position of Small States*, Economic Paper No. 40, Commonwealth Secretariat, London.

- Given the strong risks and consequences of natural disasters in many small states, the Conference welcomed the work by the World Bank on new approaches to disaster mitigation and insurance in the Caribbean. It also welcomed the Bank's intention to co-operate with states in the region to develop and support risk pooling arrangements, to complement improved disaster mitigation and prevention measures (for example, in the context of the Prevention Consortium) which could greatly reduce the costs of disasters when they occurred. And the Conference encouraged the Bank to build on the same approaches in other regions.
- Many small states remained dependent on commodity production, and the Conference encouraged the Bank in its further work on commodity price risk management to pay attention to issues and commodities of relevance to small states. It recognised, however, that many small states were exposed to different risks, for example fluctuations in volumes and tourism earnings, and that these needed a combination of different approaches.
- Many small states had vulnerable physical environments as well as vulnerable economies. As development took place, it would be crucial to ensure that it was sustainable by protecting the environment at the same time. Many mistakes had already been made in this area, for example in insensitive tourism development and over-exploitation of non-renewable resources. The Conference welcomed the willingness of the international agencies, including the World Bank, to support small states in this regard, both with advice and finance.

2. Strengthening Capacity

All those providing support for small states needed to continue to help them address their problems of limited capacity, both in the private and public sectors. In this context, the Conference highlighted the following specific issues.

- There was a continuing task of accumulation of knowledge about policies and approaches that worked and did not work for small states, and of sharing this knowledge and experience among states both within and across regions. The Conference welcomed the establishment by the Commonwealth Secretariat of a dedicated small states web site and the proposal that the World Bank establish a capacity for accumulating and sharing such knowledge, both that generated within the Bank and outside – using mechanisms such as the creation of a Bank – wide small states thematic group, developing a small states web site, and arranging meetings where representatives of small states could share experiences and discuss new developments.
- An important approach in tackling limited capacity in small states was to develop regional approaches wherever feasible. The multilateral institutions and other donors should reinforce existing programmes by enhancing their lending and non-lending services to encourage and support such co-operation, particularly by assisting regional organisations dealing predominantly with small states.

- A particular aspect of limited public sector capacity was the lack of adequate resources to participate fully in international trade negotiations. The Commonwealth, through its permanent trade advisers in Geneva and Fiji, already provided assistance of this type to its member countries. It would continue to do so and had expressed a willingness to take a lead in expanding such facilities. The Conference welcomed the offers by the World Bank and others to provide additional support in this respect, and the recent creation of an “Advisory Centre on WTO Law”. It hoped the WTO would find other ways to help, for example, by allowing groups of small states to be represented collectively at discussions where they wished.
- Another aspect of limited public sector capacity, where the multilateral institutions could help, was dealing with utilities’ regulation and competition policy; issues of considerable importance with the prevalence of monopoly or oligopoly suppliers in small states.
- Activities and requirements of multiple donors place heavy and unnecessary burdens on limited administrative capacity in many small states, as was well illustrated by a recent study by the World Bank Operations Evaluation Department. This needs to be addressed by a new approach, the building on principles of partnership and country leadership that underlined the Comprehensive Development Framework approach. The Conference strongly urged donors to join together country by country, in country-led partnerships, to align their objectives, rationalise their support and simplify their procedures in order to reduce these burdens. Again, helping build country capacity and the forging of closer working relationships with regional organisations would help in this regard.

3. Issues of Transition to the Developing Global Trade Regime

- Small states must adapt, indeed transform, their economies to secure the benefits of globalisation and the increasingly open global trading environment; trade policy for small states, as for other developing countries, needed to be seen as part of sound overall economic development strategy. But the work of the Task Force had shown that many small states would face special difficulties in making this transition and would need time to adjust to changes in the external trade regime, and sequence changes in their economies. For those vulnerable small states that were not LDCs, the Conference recognised that it would be inappropriate to generally accord them the present Special and Differential Treatment for LDCs. However, their particular vulnerability should be recognised as justifying special consideration to deal with crucial areas of transformation of their economies, including length of transition period, and other matters such as the global process of trade liberalisation, and the removal of special protective regimes, continued. The WTO also needed to make a fundamental review of the current process of accession as it affected small states and the associated costs for these countries.
- The Conference recognised that trade liberalisation could have major fiscal consequences for small states and were encouraged that the IMF had taken a pragmatic approach to the advice it gave to small states that risk losing a major

source of fiscal revenue as tariffs fall, recognising that for some open, small economies low, flat-rate tariffs may be a component of an efficient source tax system. However, as small states moved to more service based economies, they would need to adopt broader-based consumption taxes. They also needed technical assistance from the IMF and others in tax administration.

4. New Opportunities and Challenges from Globalisation

- Some small states would need external support and advice as they seek to reposition their economies. They needed enabling environments and the right kind of public policy support - for example, in training and education, and creating regulatory frameworks - to encourage new activities, many of which would be in the service sectors.
- The Conference recognised the right of countries to compete in international financial markets, through the provision of both onshore and offshore financial services. These activities were currently the subject of scrutiny by the OECD's Forum on Harmful Tax Competition and the Financial Stability Forum. This was causing concern for a number of small states because of a lack of adequate consultation on the matters being addressed. The Conference welcomed the OECD's indication of willingness to engage constructively with small states on tax competition issues and encouraged the development of an effective multilateral discussion. It also noted the substantial importance of financial services to the economies of small states and, at the same time, acknowledged the need for improvements in operating practices and regulatory standards in relation to financial transactions in order to safeguard the international banking and financial system, and to prevent financial and tax crime. The meeting recognised the importance of all these issues being considered in international fora where small states themselves have a voice, so that their interests could be taken into account. It would therefore be appropriate for multilateral institutions to study these issues and look for solutions that pay proper regard to the interests of small states, as well as to the need to foster stability in the global financial system.
- Finally, work on the opportunities that information technology and electronic commerce would bring to small isolated states suggested that these technologies would be a major source of help in their development. But success required the correct public sector infrastructure, crucially a regulatory framework that would deliver high quality/low cost telecommunications services. It was important to note that this provided a challenge in which many small states must have external support from the Multilateral Development Banks and others.

As multilateral institutions and donors co-operated in helping to take this work programme forward they would need to continue to be guided by the views and experiences of small states themselves, as the Task Force had been in the preparation of this report. The completion of the Task Force's work should not be seen as the end of a process, but as a stepping stone to continued attention to small states' issues by the international development community.

The Conference welcomed the proposals by the World Bank and Commonwealth Secretariat to continue to co-operate on this work program in partnership with each other, with small states themselves and with other relevant international institutions. More generally, it welcomed the work that had been done so far, including this conference, as the beginning of a new partnership between small states and the multilateral institutions. It looked forward to further discussion of these issue at the Meeting of the Development Committee in April and at the Meeting of Commonwealth Finance Ministers in September.

b. Transmission of the Final Report

In terms of completing the work of the final report of the Task Force and its transmission to the Development Committee and Commonwealth fora, the Chairperson indicated a tight schedule, which is given to Annex VI.

The Chairperson adjourned the meeting at 17:30 hours.

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ANNEX II

Global Conference on the Development Agenda for Small States

London, 17-18 February 2000

Opening Statement by Dame Veronica Sutherland, Deputy Secretary-General, Economic and Social Affairs

Your Excellencies, Distinguished Guests, Ladies and Gentlemen

I am delighted to welcome you all to this Conference on the development agenda for small states. The Conference is a part of the work of the Commonwealth Secretariat/World Bank Joint Task Force on Small States. Most of you are aware of the origins of this Task Force, its objectives and its work. But among us today there are those who are participating for the first time in an event organised by the Task Force. For their benefit I would like to say a few words about its origins.

The idea of setting up a Task Force on Small States was first mooted during the discussions on small states concerns by Commonwealth Heads of Government at their Edinburgh meeting in 1997. At the behest of Commonwealth leaders, the Secretary-General arranged a Ministerial Mission on Small States, chaired by the Prime Minister of Barbados, who is also chairing this Conference, to visit the major multilateral organisations dealing with development. After a meeting in July 1998 between the Mission and the President of the World Bank, a joint Task Force of the World Bank and the Commonwealth Secretariat on Small States was established.

It was asked to examine the case for addressing the unique problems of small states including their vulnerability to marginalisation, natural disasters, external economic shocks, and other matters of special interest to them, and to recommend possible remedies to overcome these problems.

The work of the Task Force was facilitated by a series of expert reports. These included analyses of diplomacy, economic transition, a vulnerability index, country studies on Cyprus and Mauritius, international trade challenges, and the role of insurance in natural disasters.

An important part of the work of the Task Force has been the extensive consultations undertaken. Over the last twelve months, there have been 25 meetings involving Ministers, Senior Officials, representatives of multilateral, bilateral and regional organisations, the private sector, NGOs, and academics. These meetings covered a wide geographical area: Washington, London, Brussels, Geneva, the Caribbean, and the Pacific. The expert reports and these consultations have been extremely helpful in the preparation of the interim report of the Task Force.

The Durban meetings of the Commonwealth Ministerial Group on Small States (MGSS) and Commonwealth Heads of Government, in November, warmly welcomed the interim report. Ministers requested the Task Force to finalise it on the basis of four issues identified in the report as requiring further work. These are: reducing vulnerability; mobilisation of support for capacity building; transition of small economies from a preferential trading system to a freer global trade regime; and opportunities globalisation can bring and risks and challenges it entails.

Ministers also asked the Task Force to undertake widest possible consultations with a broad spectrum of stakeholders involved in small states development on these issues to facilitate the finalisation of the interim report. It is in keeping with that request that this Conference was organised. The large gathering today indicates not only the interest of small states but also that of others interested in their development.

A third point made by Commonwealth Ministers at Durban concerns the completion of the Task Force report. They reiterated that it should be presented to the meeting of the Development Committee, which is to take place in April, and later this year to the Malta meeting of Commonwealth Finance Ministers.

Apart from the discussion of the four themes I mentioned earlier, I think that it will be extremely helpful for the Task Force if the Conference could develop a broad consensus on international as well as domestic policies needed to support the development of small states and set out an agenda which is practical and achievable in the short to medium term. And let me emphasise that the completion of the final report of the Task Force does not signal the end of our work. Rather, it is the beginning of the implementation of work programmes by the multilateral organisations, which are committed to the dynamic development of or continuing agenda for small states.

Before concluding, let me say a word of thanks to the governments of Australia, Britain, Canada, and New Zealand for their generosity. Their financial support was not only vital in organising this Conference but also indicates their commitment to the development of small states.

Global Conference on the Development Agenda for Small States

London, 17-18 February 2000

Opening Remarks by Masood Ahmed, Co-Chair of the Joint Task Force, Vice-President, Poverty Reduction and Economic Management, The World Bank

Welcome,

Following up on what Dame Veronica just expressed, I also want to thank the governments of Australia, Britain, Canada, and New Zealand for their generosity which has made possible the participation of delegates from small states. And on behalf of the World Bank, I especially want to thank the Commonwealth Secretariat for taking on the administrative arrangements of this conference. I also want to take this opportunity to convey our appreciation, including those of the World Bank President, Jim Wolfensohn who has been following the progress of this work closely, for your active participation in the consultations that have brought the process to this point. We have benefited from discussions with many of you and have also received a number of written contributions.

This conference is the culmination of many months of work by the Joint Commonwealth Secretariat/World Bank Task Force. We have undertaken this work in partnership with representatives of the small states and other key international organizations. This is a highly diverse group of countries from Africa, the Pacific Region, and the Caribbean – as well as other countries in Asia and Europe, with different development needs. As you know, the process itself has taken longer than we originally hoped and has been an intensive, and sometimes difficult, learning experience. But all of us felt that this investment of time was necessary to reflect the importance of the subjects covered and ensure that the views of stakeholders were adequately and accurately conveyed in the report.

And for those same reasons we consider this conference to be an especially important step in the process – an opportunity for representatives of small states from around the world to come together at the same time with the key international agencies to discuss the work of the Task force and to agree on the way forward. We will be taking on four priority substantive topics: (i) tackling volatility, vulnerability and natural disasters; (ii) strengthening capacity; (iii) transition to the evolving global trade regime; and (iv) new opportunities and challenges from globalisation.

The final report cannot cover all issues relevant to small states exhaustively and provide definitive answers to their problems. Rather, we see it as an important contextual framework, within which programs can be developed country-by-country – because while small states share many characteristics, they are also a diverse group and it is important that policies be tailored to their specific circumstances. The Task Force has come to recognize that small countries will be more successful in their adaptation to the new trading environment and poverty reduction efforts if the external environment is favourable. All development partners, both in the small states and externally, will have to play their part.

Finally, the most important point to note is that the final report is not an end of the process. It is clear that there will have to be a continuing work program on small state issues, for the international community to follow up in consultation with small states. The Task Force is grateful your inputs so far, and we are looking forward to having your reactions to the presentations and papers that have been prepared for this conference. The programs that the World Bank, for one, has ongoing to assist its member small states can be made more effective – and we look to this conference and the substantive and regional discussions to provide us new ideas and recommendations about how we could do it and to define this continuing work program.

ANNEX IV

Global Conference on the Development Agenda for Small States

London, 17-18 February 2000

Opening Statement by The Rt. Hon. Owen Arthur, M.P. Prime Minister of Barbados

In the interval when this Global Conference on the Development Agenda for Small States was being planned, an event occurred which, for me, has added a greater poignancy and a sharper and deeper purpose to the endeavour on which all of us associated with this conference are embarked.

My country - all 166 square miles of it - has since 1998 been graduated from access to World Bank financing.

We now have to make our way in the world on the strength of our capacity to raise funds for our development on the international capital market.

The ratings therefore assigned to our debt by rating agencies are not an abstract issue; it is for us a matter of life and death.

It is in such a context that I share with you the substance of the ratings report issued on December 17, 1999, on Barbados by Standard and Poor's.

Standard and Poor's assigned an A- longer term and A-2 short term foreign currency sovereign credit ratings to Barbados, and delivered itself of the following rationale for support in its rating:

"Barbados' ratings reflect its tradition of prudent economic management which has contributed to seven consecutive years of economic growth and resulted in a per capita GDP approaching US \$10,000. It reflects its modest and declining debt burden and low debt service. Its total debt service is likely to remain at around 19% of exports, well below that of rated peers. It also reflects its stable political system which has created a consensus on major economic issues.

The country's ratings are, however, constrained by its vulnerability to external shock."

In the final analysis, Barbados' credit rating turned not on the strength of its economic performance nor the quality of its policies for the management of its economic affairs. It turned on a special circumstance - its vulnerability as a small economy, and the perception that, in such a capacity, it has to be treated differently from its peers, even though its performance and the quality of its policies are no different from theirs.

Smallness, vulnerability and volatility are for us therefore not abstract matters serving merely, as some would have it, as the basis on which we press irrational claims on the international community for special and differential treatment.

There are essential and measurable characteristics of our way of life which reputable institutions take into account in measuring the degree of risk to be assigned to relationships with us.

I therefore begin my short address to this Conference by observing that, irrespective as to whether the international community wishes formally to acknowledge the existence of a species of small, vulnerable society, such a species of society exists, wishes to carry on its development successfully and in conditions of dignity, has made, and wishes to continue to make, a meaningful contribution to the development of the human condition, and wants now not to be further marginalised in the new Global Society but to take a productive and rightful place in the mainstream of that Global Society.

In the best and larger sense, these are the motives which bring us today to London which has been, in the modern history of mankind, the place where decisions of historic and far-reaching implications have come routinely to be made.

This global conference on the development agenda for small states holds the promise to be of similar historic dimensions. For though the international community has previously taken cognisance of the peculiar vulnerabilities of small states, this is the first time that it has shown the political will to devise specific measures to deal with those vulnerabilities.

To its credit, the Commonwealth has long championed the cause of small states. This is not surprising when you consider that two thirds of its membership are small states. The Secretariat has led the way in eliciting studies on all aspects of small states including the creation of a vulnerability index.

I was therefore privileged and honoured to lead the Ministerial Mission mandated by the Commonwealth Heads of Government to carry forward this important initiative on small states. We met with the President of the World Bank in July 1998 and got his wholehearted support. Thereafter the Commonwealth/World Bank Joint Task Force on Small States was set up and engaged in an exhaustive and exhausting process of consultation.

I must confess that I am most heartened by the enthusiastic response of the Commonwealth Secretariat's partners in this enterprise that has brought us here today. The World Bank has been a tower of strength in helping to pilot this project through. The WTO, the European Union, UNCTAD and IMF have all made very important contributions.

We have also benefited from the input of regional organisations, non-governmental organisations and the government of states small and large.

As a result of all this preparatory work, this conference has before it the Interim Report of the Joint Task Force of the Commonwealth Secretariat/World Bank on *Small States: Meeting Challenges in the Global Economy*. In addition the conference will receive papers on other issues having a direct bearing on the subject of the report, which will decide whether we will succeed in creating a new, relevant dispensation for small states in the global society.

I therefore urge you in the strongest manner possible to let us conclude our business at this conference and come up with a definitive analysis and set of recommendations for addressing the problems associated with the classic vulnerability of small states.

Happily, we have much to guide us. The literature on the vulnerability of small states has grown impressively since the early 1980s. By now it is well known that the vulnerability is occasioned by a combination of factors that include: remoteness and insularity, susceptibility to natural disasters, weak institutional capacity, limited diversity in production and exports, highly open economies heavily reliant on foreign trade and investment, and income volatility.

Their narrowly constrained economic bases mean that small states must constantly travel along a razor's edge of development, where the options for success are few, but the possibility for grave failures many. Whether they succeed or fail depends on how they respond to a wide variety of external shocks beyond their control.

Small states also know an existence of wildly fluctuating terms of trade and macro-economic instability arising from market and environmental volatility. Indeed, for them, the recent financial and economic disturbances that threatened to overwhelm the emerging giants are merely part of their familiar circumstances.

The Joint Task Force, in compiling the interim report, received detailed submissions from a variety of experts on the practical consequences of vulnerability on the economies of small states. These are matters that will undoubtedly be discussed further at this conference. You will hear, for example, that small economies have severe constraints that make the adjustment process more difficult, and of necessity, slower than the adjustment process in larger, more developed economies.

But I must point out that all this is not new. These matters have been known for a long time. Indeed this is a lived experience for many of us. Small societies have had to bear up under the vicissitudes of international trade and financial developments largely on their own. In the process, they have evolved cultural and societal instincts for survival that may best be described as recurring resilience in the face of recurring adversity.

What is new, and what has occasioned with some urgency this gathering of distinguished persons here today, is the realisation that the vulnerability of small states, in the face of this recent phenomenon of globalisation, may lead inexorably to catastrophe unless there is a determined international co-operative effort to the contrary.

The timeliness and importance of this initiative on small states therefore cannot be emphasised enough. We are now at a crossroads where the successful integration of small states into the global economy is absolutely necessary if most of them are not to become failed societies and historical footnotes.

The leadership of small states have recognised this awful truth and have been making determined efforts to chart new courses for their imperilled societies. They have been engaged in devising coherent strategies for integrating their economies with the larger trading blocs and with the new global trading system. They have been re-engineering their domestic economies to make them export-propelled policies; to create the conditions for sustainable

growth based on sound macro-economic policies; and to foster an environment within which market-driven solutions can be found at all levels of the economic system. They have also been steadfastly building regional economic integration as a means of creating economies of scale.

But these efforts at domestic adjustment and regional co-operation alone will not suffice. The changes involved in globalisation are so profound that the implications for small developing countries cannot be addressed only by the pursuit of conventional economic policy.

I therefore submit to you that in confronting the challenges posed by the successful integration of small states into the new global economy, the opportunity has been created for the international community to embrace a new development paradigm.

We can establish that new economic and financial architectures can be devised and put in place that facilitate not only the safe, robust and profitable flow of capital which is so much the preoccupation of the powerful and well endowed, but also the sustained and sustainable development of the vulnerable and the marginalised, and that global development can be elevated to a new plateau of equity in which no one is left behind.

I submit also that it is entirely within the capacity of the geniuses at the disposal of the international community to devise new modalities of co-operation between nations at different levels of development that can uplift those at the bottom without retarding the development of those at the top.

The call for special and differential treatment for small vulnerable economies must therefore cease to be regarded as a threat to international prosperity, and merely as reaffirmation of a precept long ago articulated by Aristotle - that as between equals, equality, and between unequal, proportionality.

I submit also that the exercise through which we are embarked in this conference offers an opportunity of a new productive partnership between small states and multilateral financial and trade institutions.

Regrettably, that relationship has been marked by rancour, suspicion and frustration.

However, as E.M. Forster observed, "The time for telegrams and anger has passed".

This initiative on small states will establish whether the new Comprehensive Development Framework as articulated by the World Bank can be made to work in a manner that truly confers ownership over the development process to the real stake holder.

It will establish whether insofar as the strategic global repositioning of small states cannot be met by traditional financial programmes, there is the will to devise development financial facilities appropriate to contemporary realities.

The initiative which this Conference also exemplifies, challenges us to devise new frameworks to govern the graduation policies of financial institutions, new facilities to mitigate the impact of natural disasters on small societies, new, sensitive approaches to the creation of a new international trade regime that can be of service to all mankind.

As the Chairman of the Commonwealth Ministerial Group on Small States, I should not leave this Opening Ceremony without being very specific about what this Conference is intended to achieve.

The Joint World Bank/Commonwealth Task Force has in its Interim Report of October 1999 already captured the contextual framework within which the economic circumstances of small states should be treated by the international communities.

The Interim Report however also pointed to four areas in which further work was needed and further consultation required before a Final Report on Small States could be submitted for the consideration of the global community.

These concern new approaches to tackling problems of vulnerability and volatility, new approaches towards effective capacity building in small states, examination of the transition mechanisms that will best facilitate the integration of small economies in the evolving international trade regime, and a review of new development options and opportunities presented to small states by globalisation.

This conference is intended to enable concentrated focus on the part of the stakeholders on these four essential issues to facilitate the preparation of a Final Report on Small States which can thereafter provide a continuing agenda for action and analysis by the states themselves and by the international and other organisations that provide external support and influence their development.

The proceedings of this Conference should therefore allow the Task Force on Small States, now that it has set out in an interim report the contextual framework, to prepare the Final Report which includes an integrated and coherent policy framework within which matters concerning the development and repositioning of small states can be approached, and which can trigger a continuing agenda for attention, action and analysis on this most vital matter.

This conference will therefore mark the end of a process of consultation towards the preparation of a Task Force Report. In a larger sense however, it should launch the beginning of a new development paradigm and a new partnership between the institutions of the international community and the small vulnerable societies of the world.

It is in that context that I am pleased to be here, and pledge to use my offices as your Chairman to achieve the purposes this historic conference has been designed to achieve.

GLOBAL CONFERENCE ON SMALL ISLAND STATES

London, 17-18 February 2000

**Statement made by HRH Prince Ulukalala Lavaka Ata,
Prime Minister and Minister for Foreign Affairs, Tonga**

1. Honourable Prime Ministers, Ministers, Excellencies and fellow delegates, I must thank the Commonwealth Secretariat and the World Bank, for hosting yet another needed forum to continue the dialogue on special problems of Small States, particularly the Small Island States, and to suggest measures that could be adopted by the international community to assist us to deal with the new shift in the international economic environment. I should like to thank Australia, Canada, New Zealand and the United Kingdom for their ready assistance to ensure the meeting takes place here in London.
2. The outcome of the St Lucia Conference last year and the report of the Task Force were presented to the Commonwealth Economic Ministers meeting in Cayman Islands as well as to the 1999 World Bank Annual Meeting in Washington DC clearly identified the distinctive characteristics of the Small States, namely their limited capacity; economic exposure; remoteness and insularity; and proneness to natural disasters.
3. As I understand from the resource papers, the issue of vulnerability of the Small States is well addressed and understood. Thus, appropriate mechanisms to minimize their vulnerabilities to international market shocks and natural disasters are currently under discussion with a view to formulating the appropriate measures. It is understood that globalisation and trade liberalization would reduce barriers to international trade thus facilitate the exchanges of the comparative advantages. Similarly, information technologies and regional cooperation would improve the competitive position of any country. However, while we are encouraged by these theories, the practice in the South Pacific Islands is altogether rather difficult.
4. Even though the Small States issues raised by the CARICOM paper are well shared by the Pacific Island communities, but the advantages shared due to their centrality to international markets, their social and political homogeneity is absent in the Pacific Islands. Pacific Island countries do have some common understandings their sovereignty being the obvious, but their culture, political history and types of government are diverse. Regional efforts to offer some economies of scale in supplies and to minimize transportation cost have not been successful because the comparative advantages among the islands vary greatly from one to another. Some regional efforts to serve all the islands, such as regional shipping and airlines, have not proven to be commercially viable. So these regional endeavours clearly need continued financial support if they are to service all of the islands.
5. The livelihood, culture and traditions in the South Pacific Islands are very much blended into their traditional comparative advantages. In that sense, the recommended shift of the Islands comparative advantages from their traditional exports to services and tourism would have adverse social dislocation, and, is quite frankly, asking much of them.

6. The root of the problem in the Small Island economies in the South Pacific is their limited capacity to compete internationally - due to high cost of production emanating from the absence of economies of scale in electricity production and other public utilities. Labour cost is also high but if we do not try to keep our skilled manpower, brain drain would worsen our already limited human resources. Attention should therefore focus on how Small States could reduce their unit cost of production.

7. Furthermore, Small States is a generalized term for all countries with population of under 1.5 million people. Using this cut-off point to separate the big from small states is rather meaningless because by applying the definition, a small state with 1.5 million people would be the equivalent to two Fiji's or 10 times the size of Samoa, 16 times the size of the Tonga and about 750 times the size of Nauru. Putting these figures in capacity context, the extent of economies of scale in a country like Trinidad and Tobago is 16 times the scale capacity of Tonga. Now the question is, are we really giving a fair treatment to the much smaller size economies?

8. Using population to reflect the size or capacity of a country would be inadequate as there are other important variables worth considering such as land area, exclusive economic zone and gross domestic product. Using a composite index of size or level of development would be the compromise.

9. In the context of graduation, a level of development index would be another option in addition to the vulnerability and resilience indices proposed. This level of development index could include a limited number of variables such as population size, land area, sea area and per capita income. These are all size variables whose impacts are being compromised in the present formulation of the other two indices due to the number of variables included.

10. In conclusion, I should like to say that for many of us the sum total of our resources are our peoples and our marine resources and that is why the work of the Pacific Forum Secretariat and our regional organizations such as SOPAC is pivotal to the Pacific region. I recognize the sterling work of the Alliance of Small Island States (AOSIS) and acknowledge the presence of Ambassador Neroni Slade of Samoa, its chairman. Theirs have been a significant input to the recognition of our unique realities and vulnerability, the importance of environmental vulnerability, and the high value of our marine and non-living resources. The caution of shifting emphasis in development assistance given by Sir Shridath Ramphal and the implications of globalisation and trade liberalization on the small states should be borne in mind in our deliberations for it shall be a crucial component of our future negotiations. I also should register the work of the Commonwealth Secretariat, the World Bank, of AOSIS and many others who have brought the realities of Small Island States to the international community. Whether we are big or small our problems are real and deserves to be fully addressed and special measures are needed to alleviate them. It may well be that we should be a special category recognizing that among us are LDCs whose problems need special care.

ANNEX VI

Commonwealth Secretariat/World Bank Joint Task Force on Small States

Process and Schedule for Concluding this Activity

Draft report of the Task Force to be emailed to Advisory Board Members for comments within 48 hours	28 February 2000
Circulate Task Force Report to World Bank Board and Commonwealth Consultative Group on Small States (CGSS)	6 March 2000
World Bank Board Meeting, including comments from EDs representing small states	21 March 2000
Advise from CGSS	dates (tbd)
Circulation of short report to Development Committee (i.e. Executive Summary, including Board comments)	1 April 2000
Circulation of Report to Commonwealth Finance Ministers Meeting, Malta	September 2000
Review of progress of implementing the Report's Recommendations (Small States Forum in the wings of Bank/Fund Annual Meeting)	September 2001
Commonwealth Ministerial Group on Small States (MGSS) and the Commonwealth Heads of Government Meeting, Brisbane	November 2001