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SMALL STATES FORUM

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Washington, DC 20003
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P R O C E E D I N G S

MR. ADAMS: Mr. Chairman, ladies and gentleman, on behalf of the Bank, I want very much to welcome the participants to this meeting. We've invited 45 countries and it's clear we've retained a lot of interest in the issues and concerns that we're going to address.

This is actually the sixth Small States Forum, and it's the fifth time I've had the pleasure to be the host. So I want to thank everyone for the continued engagement and the work that's been done.

Before we start the substantive program, just a couple of remarks. First, we are, as a result of past discussions, one of the issues that is on the agenda for today is discussing some of the work Malta has been doing about strengthening the work in the Small States Forum. We see this very much as working for a set of interactions which ensures more continuous involvement. So we're looking forward to that.

Secondly, we have, I think, a very interesting agenda on the substantive side. We've arranged it, the Minister and I had discussed this a month ago when we met.

And we've tried to make sure the agenda is very much directed at and focused on small states' concerns. And so I look forward to the discussions, both on behalf of some of the Bank interventions, the non-Bank interventions. And we're obviously going to appreciate feedback on that.

We do have interpretation into French, Portuguese and Spanish. And so we have the appropriate technology, if people need that.

What I'd like to do is simply proceed with starting the Forum. So Mr. Minister, Mr. Chairman, I'd like to welcome you and invite you to open the Forum.

THE CHAIRMAN: Thank you, James, the Vice President for East Asian countries, for your service to the World Bank.

Honorable Ministers and Governors, heads of delegations, observers, ladies and gentlemen. I would like to thank Mr. James Adams for his welcoming remarks. Please accept my very warm welcome and greetings from the South Pacific. Vanuatu is honored to chair this year's Forum on behalf of the Pacific Island countries.

Let me first of all, on behalf of Small States Forum, I would like to take this opportunity to sincerely

thank the World Bank and the government of Singapore for the excellent organization and facilities provided for the 2006 Small States Forum meeting.

After consultations, deliberations among ourselves, the World Bank and other regional organizations will have before you a very interesting agenda and one that we believe is pertinent to all small states.

Mr. Chairman, I would like to thank this opportunity to thank the outgoing Chairman, the Honorable Denzil Douglas, the Prime Minister and Minister of Finance from St. Kitts and Nevis, for his leadership in advancing the development challenges of small states.

My colleague ministers will agree with me that Small States Forum has achieved a lot under his leadership, and I'm also conscious of the high standards set by my predecessors. I look forward to your cooperation this year and next year, in adding to their legacy.

As small states, we know our challenges. In our meeting last year we noted that the economic performance of small states needed to improve to meet the growing aspirations of our people. We also took note of relevant issues to small states, including the important issues of

remittances. This year we will go further and discuss the related issues of labor mobility.

I believe that the topics to be discussed today will be relevant to our current challenges and we hope that these issues will continue to be discussed in the future.

Colleagues, I am conscious of the time constraints and call your attention to the 11 areas we need to focus on. We have eminent speakers who will be presenting on various topics throughout this afternoon.

Before we proceed further, I would like to take this opportunity on behalf of the Small States Forum to thank Mr. James Adams for his leadership in advancing the course of the Small States Forum. As we all know, he will no longer be overseeing this forum. However, we hope he can still participate in this event as the Vice President for East Asia and the Pacific.

Moreover, I would like to extend my gratitude to the work and support of the Forum's other partner institutions, namely the Commonwealth Secretariat, European Union, IMF, the Pacific Island Secretariat, UNCTAD and WTO. I am pleased to see the representatives of those institutions present here today, and I look forward to your

continued efforts to assist the small states.

I would like now to ask Mr. Graeme Wheeler, who is currently the World Bank Managing Director of Operations, to make his first introductory remarks.

Thank you.

MR. WHEELER: Thanks very much.

Thanks very much, Jim.

It really is a great pleasure to be here. I feel as if I'm amongst friends, because I'm from New Zealand and, like the Chairman, from a small country in the South Pacific.

Please let me start with an apology, and that is to say that I, unfortunately, have to leave and make a presentation straight after this. So please forgive me for not being able to attend the meeting.

But I'm delighted that once again the Small States Forum has drawn such an impressive response from member states. This is a sign of your desire to share experiences and ensure that your concerns are understood and addressed by the Development Committee in general, and by the World Bank in particular.

Let me begin by reaffirming the Bank's commitment

to the Small States Forum. We're committed to helping support your efforts and we're committed to looking at ways to make it more effective for our small state members.

Our small state responsibilities extend far beyond--and I mean far beyond--the Forum itself. While recognizing that much more needs to be done, Bank support for small states has increased significantly over the past five years. To illustrate, if we compare 1999 to 2001 with 2002 to 2005, for example, if we make that comparison, then average annual Bank disbursements to small states have increased by around 30 percent. And the share of disbursements on concessional IDA terms grew from 35 percent in 1999 to 2000 to 54 percent in 2002 to 2004.

Between 2001 and 2005, over that four year period, the number of World Bank diagnostic reports for small states more than doubled, as has the delivery of technical assistance.

Equally important, Bank instruments are increasingly being customized to address small state needs. To illustrate, let me take one example. Within diagnostic work with small states the advisory work--and by the advisory work, I mean work that's specifically customized

to a sector which, in the shared view of the country and the Bank team, offers the greatest potential for investment and growth--this work more than doubled between FY05 and the financial year 2006 and coverage in the Doing Business report has expanded from 19 small states in 2006 to 39 in 2007.

Let me add that this expansion to the program is, in fact, due to the efforts of a developed small state, Iceland, which came forth with financial support.

All this said, we're still aware that we can do much better. To that extent, I'm pleased to note that later today the Forum will consider adopting the proposal that Malta introduced at the 2005 Small States Forum for the formation of a Small States Network for Economic Development.

As an additional element to its ongoing country-level work, the World Bank has been actively following up on Malta's proposal, and has agreed to support the Network with a dedicated staff person and by helping to establish a multi-donor trust fund to finance the Network's activities. In this regard, I really would like to thank the work of Jim Adams, and also Biagio Bossone, the ED for Malta, in

terms of the constituency. They've done a terrific job.

We're very grateful to Malta, as a developed small state, that they have offered to host the Network's secretariat. In your deliberations today, we would encourage you to take steps to ensure that the Network responds to your needs and that it functions as a demand-driven, rather than a supply-driven organization.

Let me conclude by noting the appropriateness of the Forum being held in a small state, that of Singapore. Unless I'm mistaken, or unless I've been badly briefed, this is the first time that the Forum has met in a small state.

Singapore underscores the fact that, despite the shared constraints imposed by smallness, small countries can surmount their challenges. And we, in the World Bank, along with our partner development institutions that are gathered here today, remain committed to supporting your efforts to do so.

Let me conclude by expressing my best wishes to all the Forum participants for a very productive discussion.

Thanks very much indeed. Thanks for the

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opportunity to address you.

[Applause.]

THE CHAIRMAN: Thank you very much, Graeme, for your helpful thoughts.

Colleagues, as I mentioned earlier we have a full agenda today, so let us move on toward our first session, bearing in mind if I may say that the fullness of the agenda requires our presenters to adhere to a rather constrained time budget, notwithstanding either the capaciousness of their expertise or the complexity of the subjects that we will today discuss.

This session is dedicated to a topic that is of the utmost importance to all of us. Just a week ago, while many of us were in Sri Lanka for the Commonwealth Finance Ministers meeting, a local paper reported that remittances to Sri Lanka were expected to rise to \$3 billion in 2007, up from \$2 billion in 2005, a full 50 percent jump in two years. The paper, citing a study by the country's central bank, spoke about the critical importance both to migrants and to Sri Lanka's economy of seeing that the largest possible share of the monies transferred were not lost as transaction costs, and further noted that both migrants and

their home countries stood to benefit from the higher the proportion of those transfers that were undertaken through formal channels.

Given the importance of the this topic to us, I do not want to take any further time introducing the subject, so let me now ask the World Bank's Alan Winters to summarize quickly the world trends before informing us of recent World Bank research of this matter.

Mr. Winters, the floor is yours.

MR. WINTERS: Thank you very much, Mr. Chairman.

I have agreed to be very quick, so I will skip over several of the slides that I've brought with me. I did some work about three or four years ago for the Commonwealth Secretariat, for Ruslan Grinberg, who is now here and wearing a different hat, and it suggested that migration played two really important roles as far as small states are concerned.

One, it was very clear from the work that we did that there were serious shortages of skilled workers. Skilled workers just were not available in the numbers and the proportions that one would perhaps hope for.

Second, it also became clear to us as we worked

on it that migration offered at least some solution to the problems of being small, temporary migration schemes. And Ruslan has been a great champion of that ever since, as I hope I have. I want to talk about just three things that I've overseen since I've come to the World Bank. First, a little bit on the brain drain of the skilled workers. Secondly, just to point out one study of less-skilled migration and implications from that, and then third, to give you a very, very brief account of some of the other work that we have got going on in the World Bank.

The brain drain, we can define this in lots of different ways, but the basic story is it's a much larger phenomenon for small states than for large ones. And here, you can see that from the slide, something like 45 percent of people with a degree of Caribbean origin live outside their country of origin. If we look at numbers here, for small states, small countries measured on the left-hand side, this is below 650,000, so it's very small states. The blue bars are the proportion of people with degrees who live abroad. I'm color blind, but the other one is the proportions of the population overall.

For small states 10 percent, 11 percent of the

population living abroad, 45 percent of people with degrees. As you get larger to medium-sized countries, both fall, and large companies fall again, but the plain story is for large countries, some brain exit doesn't dramatically change the domestic labor market. For small countries, potentially it does indeed.

Now, I don't want to say that that's necessarily a problem, and one of the elements of the World Bank's ongoing research problem is to move from these data which are constructed in a real data bank, which we can give you access to, to asking not just what are the numbers but what are the effects: does it affect service delivery, does it affect the opportunities that skilled workers might be able to reap by going abroad; and also, if one is interested in trying to get skilled workers to stay at home or to return from periods abroad, what is one going to find to do for them, or what are they going to find for you, if they do come back. There's some more detailed data by country, but that will be on the handout if you get it at the end.

The second item I want to talk about briefly is a small survey study that we have done in the World Bank. It's quite closely related to stuff that Manjula is going

to talk to you about in a second, and that is a study of the lottery system whereby New Zealand offers access to people from Tonga. It's very, very attractive to act as the scientists, because it allows us to unpick one of the real puzzles in understanding the effects of migration. The great problem with migration when it comes to understanding its effects is it's selective. A set of people who deem themselves suitable for migration who want to migrate, that might be a very special set of people, and so how do you tell what's due to being that very special set of people and what's due to the migration itself. New Zealand offers a lottery, and so a whole set of people volunteer to migrate, only some of them do. We are able to compare those who have entered the lottery and succeeded with those who have entered the lottery and failed. There are some complications, but basically it's a very, very nice experiment. It's taught us at least three things. We're still going on with this. First, the increase in income of the people is not nearly as large as the difference in wages between Tonga and New Zealand. It's not as large as you might otherwise think. We've clearly got to look further into this, but it's a strong result.

Secondly, almost straightaway, at least in this particular flow, people start to send remittances back, and they are of quite significant size. Third, the remittance costs of sending back are very high indeed.

Now, all of your from small states or nearly all of you will have quite large remittances. I'm not going to give you the numbers. You'll know them yourself. It is an issue of how does one keep that flow going, does it cause "Dutch disease" and spoil the chances of other export sectors, and those are issues that one needs to consider.

On the issue of remittance costs, one of the other things which the work that I've done in the past I think that Michael Klein is going to talk to you about in the future is small states by the very nature of having small markets tend to face higher transactions costs. You are never going to get remittance costs down to the 1 to 3 percent that we aspire to get them down to for say Mexico/U.S. But if you're looking at 15 to 20 percent, costs of a remittance transfer as we found in the New Zealand/Tonga case, then indeed there is something to do for policy. It is worth working hard to get those costs down. However, remittances are the result of migration.

The real issue is do people migrate, do people migrate usefully.

Finally, just a few issues that we are addressing in the World Bank Research Program, and I'd be happy to talk to people privately afterwards or you can send me an email, we are looking at the effects of brain drain. We are doing some work on the medical brain drain, the particular issue may be not of the very smallest size of states, but the next level up, thinking about return migration, what determines whether people return, what determines whether they get useful employment, issues of circular migration, more or less the same thing. Bt these are both big elements of any solution that we might look to for migration helping small states to develop.

Looking at long-term consequences of temporary migration, we can perhaps pick up short-term income effects, but the question is when people go abroad, say, for a few years, do they save and invest that out, that income, or does it just get spent and have no long-term effects. We're looking at that. We are also looking at consider differences across countries as to whether migration or remittances are equalizing of income

distribution or un-equalizing, and finally, there are at least some issues where gender behavior varies for migratory flows and questions about whether migration systems are set up in ways that bring out or allow us to reap the best that we can.

I hope that's within ten minutes. Thank you very much . I'll be happy to talk to people afterwards quietly. Thank you.

THE CHAIRMAN: Thank you very much, Mr. Winters, for your presentation. Certainly, those of us in the Pacific Region are familiar with one piece of the Bank's recent work, "At Home and Away: Expanding Job Opportunities for Pacific Islanders through Labour Mobility," and we feel fortunate indeed to have present with us today the lead author of that work, Manjula Luthria, who can place the research in context, and I hope offer some practical suggestions about how best to ensure that our citizens' hard work finds its way home to their families and that they can reap the benefits in ways that strengthen our economies. Ms. Luthria, you have the floor.

MS. LUTHRIA: Thank you very much, Mr. Chairman.

A report entitled, "Home and Away," was just

released on August 14th. Those of you familiar with rugby terms, this refers to the home game and the away game where this report advocates greater mobility for the unskilled from the Pacific into possibly very many markets, but certainly where it makes most sense would be the nearby developed markets of Australia and New Zealand, and we looked into the possibilities of expanding labor mobility for the unskilled through temporary movement of labor.

So for part of the year, they could have access to jobs outside their countries while continuing to live at home for the rest of the year. I start with the point that Alan Winters made, which is that size and geography pose constraints in the Pacific because most of the Pacific Island countries, and I speak for the nine that are the World Bank members--there are others, of course, in the Pacific--who are fairly small and certainly also more remote, and this would be an interesting point to note, because I know the Pacific and the Caribbean are often compared, but I think size and remoteness do distinguish the Pacific a little bit more from the Caribbean region.

The World Bank strategy for the Pacific, which was endorsed by the Board last year, basically takes a two-

pronged approach. One is to help the Pacific Islands attract jobs into their countries by improving the investment climate and the business environment broadly, but certainly to compliment that with greater access for people to move to where the jobs are, and given that size and geography pose constraints to domestic job creation, the second bullet here is extremely important. We view this very much just like export diversification. Bilateral donors, multi-laterals, have often argued that one of the symptoms of being small is that the export basket is fairly concentrated, which increases vulnerability to external shocks. And so the answer is to diversify.

But how do you diversify? It's quite difficult to identify products which you can get to the market at competitive prices.

Labor is one of those exports where islands in the Pacific have an advantage and are fortunate enough to be met with labor shortages within the region. But there are import barriers right now to the export of unskilled labor, and this report is an advocacy document to actually provide some evidence to give confidence in the benefits of greater labor mobility for the unskilled.

Our report basically answers three questions. What is the backdrop of the demographic pressures in the region? Is there a coincidence of supply and excess demand for labor? The second question is what has been the impact at the micro-level of migration for those countries, those subsets of countries in the region that have had some labor mobility through remittances?

And the third question is if labor mobility is to be enhanced to include the unskilled, then what sort of arrangements, what sort of bilateral schemes could be designed to work? And what's the global experience? Do they work anywhere? Or do they unanimously fail?

So in answering these three questions one by one, I'll do this as quickly as I can. The answer to the demography question is that population growth rates are high in the Pacific. Certainly for Melanesia employment creation is unlikely to keep up with population growth. And we worked with data on the formal sector only, of course, because that's the data that's available. We recognize, of course, there is a large informal and even subsistence sector in the Pacific. But the pressures to move out of the subsistence sector are increasing, not

decreasing.

So in 2015, less than 10 percent of working age population in Melanesia is likely to find jobs domestically. That's quite significant.

Moving on to the second question, so what's been the impact of remittances at the household level when you look at countries that have had some labor mobility. I'm referring to countries like Tonga, Samoa and, to some extent, Fiji. We've looked at Tonga and Fiji and found that small amounts of money have been sent, but over a very, very long period of time. In fact, there are migrants that have been away from home longer than 30 years that still send money home, usually sent to parents, then to siblings, and then later on to build some sort of retirement nest egg.

Even households that don't have migrants receive remittances, which speak strongly to the strong social structures in the Pacific, where there is a redistribution mechanism back home.

We found strong evidence that it reduces poverty, improves income distribution. All of the evidence of this is in our report--I'm not putting up all those numbers

here--an increased investment in education and, in some cases, even an increase in business activity.

We've taken on some of the anecdotal and some of the impressionistic views that have been around for some time. In our view, this great sort of shame around the fact that remittances are used for consumption, and this halo that they must be used for investment, is really overplayed. These remittances are small amounts of money, regularly sent, to fairly vulnerable and poor households. As I said, it goes to elderly parents for a fairly long period. You would expect that to go into consumption. It's almost a pension payment.

There is also this term that we hear quite often, remittance dependent societies or remittance dependent countries. It's a little bit odd, particularly if you think of it the way we do, as export income. I've really never heard of countries being described as too export dependent.

There's also the other notions of the negative impact on labor supply. Do people work less if they get remittances? Again, I would argue if we replace in our heads more or less the words remittances simply by income,

and then you ask yourself well, as you grow richer do you take more vacations? There's really nothing that odd about what you would find with remittances.

Is it similar to resource rents? Not at all. They couldn't be more different. Resource rents are a few amounts of money concentrated in a few hands. Remittances are small amounts of money spread out across several communities.

The third question of can bilateral schemes work and how should they be designed? We feel there is a very strong need for more balance in migration policies of developed countries where give us your best and brightest may not be the most development friendly, particularly when there are very large amounts of unskilled labor.

Having said this, of course, the permanent migration of unskilled may not be something that recipient countries will be likely to engage in. So a temporary movement for unskilled labor, bilaterally negotiated, is what we are advocating. And it seems like the time is ripe to discuss this because certainly in the Pacific we've had several donor meetings where we discussed proper aid delivery, we discussed proper development policy,

appropriate trade, and we should be discussing proper migration, as well.

Can bilateral schemes work? We studied quite a few and we found that there are many that don't work, but there are a few that do. It isn't cultural factors. It isn't nebulous reasons why some work and some don't. It's very simple design features that make the ones that work work for the recipient and sending countries. There are legitimate receivers concerns regarding over-stayers and worker's rights and viability of schemes. There's also the question that comes up now and then about WTO compatibility. And then there are sending country concerns about well, how do you actually manage this labor outflow? Is there a role for government? Or should it all be privately handled?

Many of these recommendations are spelled out in detail in our report where we actually outline what these design features are which would make the scheme work. Cost-sharing, circular flows, which means allowing the same workers to come back again next year. It sounds like a pretty mundane feature of bilateral schemes. But it's one of the keys to ensuring that you get low overstays. If

migrants have a one-shot chance at a job, it may increase the likelihood of overstays. Whereas, if you have the possibility of an almost certain guarantee of a job year after year after year, most migrants behave in rational ways and choose to go abroad and consume at home for years on end.

We've also found that the commercial viability, particularly into the neighboring markets. We did a small case study for Australia and found that at the end of six months, in doing agricultural work, Pacific Islanders could save as much as 5,000 Australian dollars at the end of six months.

I'll skip through the slide in the interest of time and just mention that there are sending country concerns, as well, in terms of the ability and the capacity to actually handle recruitment, worker's rights, and their return, which are going to be critical to any bilateral scheme. And financial obligations, in terms of travel cost and taxation obligations, as well as the need to provide a facilitating environment for transaction costs for remittances to be reduced as low as possible.

As Alan was saying, there was some work done in

his group which shows that these costs are such an outlier. Even when you control for scale, even when you look for similarly sized remittance flows into other countries, the Pacific is a real outlier in terms of how the costs are, and they don't need to be--I'll be looking to hear from the next speaker on how these can be reduced.

And just to summarize, and end on how we see the World Bank going forward in the Pacific Region, certainly in order to reduce economic vulnerability we would argue that the export of labor should be considered very seriously. We've developed some of the empirical and analytical tools through this research to present, to contribute to this debate, which is very vibrant in the region right now.

Certainly labor mobility has stopped being a domestic immigration policy issue and very much an international development issue.

We're going to continue, over the next few months, to play an honest broker role in this dialogue as it continues to get underway in the Pacific.

And then finally, to help prepare sending country systems to actually manage the supply chain. If you think

of it as the export, then much the same way as attention would be devoted to developing an export market to, say coffee, it would be very helpful to start looking at the supply chain for labor, as well, and pay serious attention to some of the issues that sending countries would have to handle so that they can benefit from this flow. It actually feeds back into the advocacy side, as well. The more that sending countries begin to pay attention to some of these systems that need to be in place, the better the chance that receiving countries will take some assurance from that and, hopefully think of engaging in a small pilot to test drive these recommendations.

Thank you very much.

[Applause.]

THE CHAIRMAN: Thank you very much, Ms. Luthria, for the presentation and for the recent work on the situation in the Pacific Region.

To get a better idea of how one private sector firm is responding to emerging opportunity, we will now turn to Mr. Ashoke Rana, CEO of Himalayan Bank, who is from Nepal.

I feel sure that when we come to the discussion,

many of us will want to pick his brains on how we can do a better job on two fronts: one, preparing our citizens to deal with remittance transactions, and two, fostering competition among money transfer operators so as to give our citizens wider choices and lower costs.

I think that perhaps many of us are not terribly familiar with Nepal, as it falls outside many of the regional organizations that occasionally bring us together; but unless I am mistaken, remittance constitute about 20 percent of Nepal's GDP, a higher share than many countries that are better known for their migrant workers.

Also, by way of background information, and because Mr. Rana is too modest to draw attention to it, we have a certain historical convergence here, as Mr. Rana's father was Governor of Nepal's Central Bank when the country joined the World Bank and IMF.

On that note, we welcome Mr. Rana's presentation. Thank you, Mr. Rana.

MR. RANA: I guess the most important topic here is formalizing the remittance inflows and also reducing the transaction costs. I think these are the key issues to be discussed here today.

Just to give you a brief history, Nepal, as you know, had a long history of sending workers abroad since 1850, when we had the Nepalese Gurkhas in the British and Indian armies.

Recently, the political situation and also the global demand for labor has increased and migrant flows abroad have also increased. As mentioned by the Chairman, presently remittances accounts for almost 20 percent of Nepal's GDP.

I think there are three issues to discuss: the background on Nepal's situation with respect to migrants and share some relevant experience of HBL. I think that, over the last five years, almost 500 migrants have gone abroad. Of these, 75 percent were unskilled, 20 percent were semi-skilled and 5 percent were skilled. Volumes have grown.

The traditional methods that we've seen were the hundi operators. These were the informal money transfer syndicates. When we looked at the problem of competing with these people, we had to face quite a lot of challenges. One is that banks were rather acting a bit arrogant in the fact that we expected beneficiaries to come

to our branches and collect the money. Secondly, as you know, the transaction costs are very high and we had a lot of time explaining to people why, when their relatives sent \$1,000, they received only \$970. Where did that \$30 go? All these issues that we had to face in terms of service quality were addressed by us.

So what we did is we analyzed the problem very carefully to see where we were lacking. How come banks could not bring the remittance inflows into the formal sector? And also, how do we control our transaction costs?

So what we did in the first instance is that we analyzed where our migrants were going and placed service relationship officers there, mainly to interact with these laborers. As you know, most of them were unskilled and they were rather hesitant to enter banks.

Now in the Gulf Region, where most of our remittance workers are based, there's a huge history of these money transfer companies, exchange houses. So we placed our staff there. Basically what we did was we had someone be a liaison officer between the migrants and the bank and slowly tried to educate the workers on how to send money abroad.

This went on for some time, but we did not see significant increases through the formal sector. Again, we went back and looked at the problem. We found out that we did not have enough locations. Our service delivery was not compared to what the hundi operators were doing. The hundi people were actually delivering the remittances on or near about the residences or places where the money should go.

So we looked at this problem and we said okay, let's try and see if we can also establish a network. Now how do we do this? We looked around and we said what kind of technology can we use that should not significantly increase the transactions costs? And we looked at the Internet.

As you know, the Internet is free. Most of it is in Java and XML programming, and these are tools available to most people, I think. So we got some local developers and we developed a software called Himal Remit.

The main things that we looked at was we wanted to penetrate the remittance market. We wanted to offer the best exchange rates, cut down the transaction costs, and introduce a system whereby the amount remitted, we take the

money, the commissions up front, so that the beneficiary sees that somebody sent \$1,000, he received \$1,000, not \$970. This is very important for us.

In the conventional set up, we would use the SWIFT system and it would take 36 to 48 hours, maybe weeks, to give the money to the beneficiaries. We looked at the service quality levels and we said it should be online and it should be almost instantaneous.

Since the introduction of our software, Himal Remit, I think that from a volume of about \$1 million a month, our remittance inflows have come to around \$25 million a month. We have been now creating other opportunities and selling services along with the remittance inflows.

The other issue I'd like to say is that we also had big issues on these remittance things on money laundering and know your customer issues. We deal with correspondent banks who are very sensitive to this issue. So as we have developed our software, we've also looked at tools that we look at, transactions where the amount goes from the remitter to the beneficiary. If it keeps on going to the same address, it's okay. We try and have exception

reports. But suppose we find that someone is sending to multiple people. Then we have a report. And we have other tools to guarantee that this is also followed.

Our main issue here is that for banks or anyone to get into the formal sector, the service delivery must be at par with some of the hundi operators. Himalayan Bank now has around 90 locations in Nepal where we can pay within an hour, through an online system, to anyone who remits money to anybody in Nepal.

Thank you.

[Applause.]

THE CHAIRMAN: Ministers, Governors, invited guests, with Mr. Rana's presentation, that brings us to the end of the presenters for this particular agenda item.

Mr. Rana, thank you very much for the enlightening presentation. Your case study certainly provides a good backdrop for discussions on how we can address some of the common challenges faced by small states.

I would now like to open the floor for discussion, and without confining the scope of your interventions, would raise four possible lines of

discussion. One, country case experiences on country good practices in the field of preparing migrants for work abroad, particularly as regards remitting earnings through formal channels. Two, experiences with leveraging remittance inflows, including lower transaction costs. Three, are any of us clear on what we would want from our bilateral and multilateral partners in terms of work program in this area? And four, what would be the small states collective work agenda on opening up access for temporary labor, particularly with larger countries in their respective regions.

The floor is now open for discussions.

Governors, Ministers, you're welcome to contribute to the discussions of this first item on the agenda.

Thank you.

Can we have somebody break the ice, please?

Bahamas please, I recognize the distinguished delegate from the Bahamas.

BAHAMAS: Thank you very much, Mr. Chairman, and good afternoon, colleagues.

I must confess, I didn't want to start because the line I was going to take on remittances is somewhat out

of the ordinary, at least the received information, because the Bahamas has a serious problem with illegal immigration. And while remittances generally have a positive impact on the recipient country, I think in our context, if you have a country that A, has a problem with illegal immigrants; and like most small countries the local currency is non-convertible. Therefore, any remittances would generally adversely impact the country's foreign reserves to begin with. You also would have, by a multiplier effect, reductions on aggregate demand for the country.

So this would be the immediate fallout of remittances among small developing countries in that context.

But added to that, if you have a well-established illegal immigration network, there's a tendency that the remittances would go to fund, in the other country, for the basis upon which they can then send additional illegal immigrants. And you have this vicious cycle where you have more and more illegals, more and more use of remittances to do it. And of course, at the end of the day, you augment your population and you have additional pressure on the health, education and security services all can be

traced back, in part, to increased remittances.

So I suppose, in looking at this area, one would have to look at the special circumstances where, in fact, remittances would induce adverse economic pressure on some countries.

Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you, Bahamas, for that contribution.

Any other delegates who would like to contribute?

Seeing there are no interventions by the audience, I will ask Alan to come in again with some additional assistance and comments.

Thanks, Alan.

MR. WINTERS: For the sake of keeping the conversation going, yes.

It seems to me that the intervention from Bahamas illustrates the points that different countries have different interests in all of these elements. The notion that an efficient way of curing illegal immigration, if that's what your objective is, is to somehow restrict remittance flows is, it seems to me, an argument that one would want to investigate with some care.

I guess here is not the time to get into a debate about whether increased numbers of migrants are good or bad for the Bahamas. That's a job for the government and not for us.

But if it were the case that you felt that you had a great deal of undesirable illegal immigration, it may be that there are other routes, more direct routes, of tackling it than worrying about, as it were, making remittance procedures rather uncomfortable.

I think, in terms of the effect on the reserves or on aggregate demand, I think very much that goes back to the question of what is it that these people are doing when they arrive? Typically an economy has extra output and income when people come into it, whether legal or not. And that in that case, essentially any reduction in demand or pressure on the reserves that occurs from illegal immigration, it seems to me, is something that one again could probably cope with if one--one would be able to cope with it, providing that one had satisfactory policies in other dimensions.

So it seems to me that it's a very interesting observation, given that most people around the table are

going to be interested in precisely the opposite--flowing at precisely the opposite end. I think that's a very useful intervention.

It seems to me that this is a case where some further analysis might reveal whether or not there are better ways of achieving that set of objectives.

THE CHAIRMAN: Thank you, Alan, for that introduction. I will now give the floor to the delegate from Cyprus.

CYPRUS: Thank you very much. I just wanted to put on the table also a broader context to consider this question. In the case of Cyprus, it wasn't so much the remittances, but the fact that people went abroad for a period of time, earned significant amounts of money and know-how and returned to establish businesses and contribute to a faster economic growth rate. So, in fact, over a period of two generations, we went from significant outward economic migration to a situation where now 15 percent of our labor force is made up of non-Cypriot workers, so it's a dynamic context.

Economic migration helps for a phase of economic development both as a way for alleviating unemployment, of

learning skills, accumulating savings, and coming back, contributing, and now it's now our turn to help, if you like, in this global sense by absorbing economic migrants from other countries.

Thank you.

THE CHAIRMAN: Thank you, delegate from Cyprus.

MR. ADAMS: Perhaps I wanted to ask Mr. Rana in terms of where things stand now of what your cost structures are, how much you charge, and how that compares to the former competitors in the informal sectors?

MR. RANA: Well, there are two competitors that we have. One is the informal, which has very high transaction costs, and one is the online money transfer services, like Western Union and MoneyGram. Typically, they charging costs around \$25, and with our model, the cost for say an average-sized remittance is around \$700 U.S. The cost is coming to around \$7 to \$8, and that's the transaction cost.

QUESTION: [Inaudible.]

THE CHAIRMAN: Thank you very much, delegate from Nepal, for that very encouraging comment.

MS. LUTHRIA: I just wanted to react to the

comment made by the gentleman from Cyprus, because I couldn't agree more, and in the Pacific context, you are absolutely right in pointing out that the financial remittance aspect is just one part of the story. We are talking about people and not machines that are going abroad to do work and come back, so when people go and come, it changes people and the mind set expands and there are new skills and new ideas.

I'm a migrant. I certainly know that I was extremely intolerant of my own home country when I went back, and I said, "Well, why does it take so long to get a phone connection, why do we pay so much more for phone calls here instead of back home," and I think that's what happens over time: You get more intolerant of inefficiencies and create pressures and greater constituency for change.

I point this out because one of the chief criticisms so far the only main criticism coming out of the potential recipients of Pacific migrants is that there is a huge agenda for reform that the Pacific needs to undertake, and labor mobility will simply reduce the pressure for reform and somehow governments will be off the hook. We

couldn't disagree more. We think actually it will expand the constituency for reform, not shrink it.

THE CHAIRMAN: Thank you very much, Luthria, for that comment.

Seeing everybody, this place has been quiet, I would like to thank those who have made contributions to this important--Kiribati Minister.

KIRIBATI: Thank you, Mr. Chairman.

I just wanted to thank the presenters for the very good presentations that they've made.

I had one question that I wanted to ask of Ms. Luthria: I noticed that in the presentation not much has been said about the smaller of the smaller states in terms of the remittance issue, and I was very interested in finding out whether a study has been in the particular case of Kiribus and Tuvalu on the remittances relevant in terms of the seafarers that we have, and how that has been considered in the studies that have been done? We have been advised previously that the seafarers are not considered as a labor mobility as such, and we wanted to know exactly why is that.

MS. LUTHRIA: In our report we just looked at two

examples, Fiji and Tonga, Tonga being sort of the mature, longstanding history of receiving remittances. Also, perhaps the highest per capita remittance recipient in the world, and Fiji being the new entrant in the Pacific. But you're absolutely right to point out there is much more of it going on in the Pacific than just these two countries. Certainly, Kiribus, Tuvalu and Samoa have also had very, very longstanding experience with remittances. So we haven't looked at Kiribus in our report, per se, but you're right in that there is a slight sort of a macro--a bit of an idiosyncratic way of just measuring it. I think seafarers, there's an arbitrary time period--I think it's nine months or a year--for which you actually have to be abroad, and I think being on a ship wasn't somehow constituting being on foreign soil. So there's some technicality to it which just doesn't get recorded as remittances, but that doesn't change the story. It is money that is being sent back and having many of the same micro-level positive impact.

I have seen other accounts of Tuvalu and Kiribus that Pacific researchers have looked into, and I would be happy to discuss them with you perhaps later on.

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BAHAMAS: Thank you very much, Mr. Chairman.

Like my other colleagues, I wish to congratulate the presenters on the topic before us. We heard from one presenter in terms of remittances from the banking sector, and I'm just wondering from a regulatory standpoint, how do we regulate the non-bank remittance, do you do that by a central bank or does the Ministry of Finance get involved? How do you actually deal with that particular issue? Thank you, Mr. Chairman.

MR. RANA: In the case where we look at it, we're looking at small-scale remittances of a ticket size around 700. If the amounts are rather large, there is a restriction placed by the central bank where the reporting requirement is there, so anything above \$2,000 has to be reported. We don't see most of the laborers we see--as you can see before us--is unskilled laborers don't really earn that much, and if there are large amounts being remitted, then I think that needs to be looked into very carefully.

THE CHAIRMAN: Thank you, Nepal, for the response. Well, it's time for a break. Governors and Ministers, we have two important other items. I will now call the meeting to be adjourned for a fifteen minutes'

break, and ask you all to be back in time so that we can complete our work and prepare for the next program for this evening.

Thank you.

THE CHAIRMAN: Distinguished participants, we call our meeting to order.

We now move to the second session of our Forum. Let me now turn to the second agenda item, and you will agree with me that developing and strengthening the private sector remains critical if small states are to sustain economic growth.

This topic is also very much linked to Mr. Rana's final observation about what we as small states can do to smooth the path for private sector investment. It is intended that this session explore some practical proposals and initiatives particularly discussing Private-Public Partnerships as an innovative means for project financing and implementation.

One of my colleagues recently proposed a more apt title for this approach, with an additional "P"--that is, Private-Public Partnerships for the People. So, as a determined politician, I am encouraged to learn a lot more

today, more pressingly--and I speak on behalf of the small states in the Pacific--that private investment flows have not responded as expected even with the concerted efforts to implement reforms.

Of course, there may be various peculiar reasons for this, but I am of the view that we need to proactively tackle these issues rather than continue to patiently sit still.

Let me now welcome Mr. Michael Klein, Vice President, Financial and Private Sector Development, of the World Bank, and International Finance Corporation [inaudible], who I trust will have some useful insights in this area as to how the Bank's programs have assisted small states in developing private sectors given the relatively poor track record of private investment levels in small states.

I should also add that Mr. Klein served in the private sector as Chief Economist of the Royal Dutch Share Group. So we are here in no danger of getting merely ivory tower, armchair advice.

Thank you. Mr. Klein.

MR. KLEIN: Thank you very much, and good

afternoon.

Thank you very much for having me here. I have been asked to present to you some results from this year's Doing Business Report about the government policies in small states that help create the framework conditions for domestic enterprise to have an easier time of setting up enterprises, creating jobs, and creating investment.

In recent years, the Doing Business Report has been expanded to cover a lot of small states. The total number of countries covered today is 175. Courtesy of Australia, New Zealand, many of the Pacific islands could be covered, and courtesy of Iceland, another 20 new small states were included in their review this year.

Let me talk a little bit about what the review covers. On the left-hand side, you see the topic areas. We look at what it takes to start a business, what it takes to operate a business in many areas, all the way to closing down a business. We have updated these data now for this year. We added 20 countries, 19 small states, and we have 50 case studies of reform efforts in this area.

Let me talk through a little bit what the nature of these data is. Here is an example from The Gambia, and

it gives you in the simplest case setting up a business, the approach.

So we formulate for each one of the countries just how the same problem is solved so that we can compare the way it is done, and we specify a particular type of country or domestic small and medium enterprise. Then, we ask the questions, if you operate according to the laws and regulations, what procedures do you have to run through to register this company.

In The Gambia, it happens to be eight procedures. They are listed on the horizontal axis, and each step is listed here on this particular viewgraph in the graph itself, starting with the check of the company name to the final step, which is making a company seal.

Then, for each step, we look at the time it takes--and the yellow bars give you a sense of which step takes what time--and then, the black line gives you a sense of what the costs of each step are. so, for example, you can see that the costly step is Step 3, which is the payment of stamp duty and a deposit of corporate tax with the commissioner, and Step 8 is the one that takes a lot of time--making a company seal.

So you can look at where reform might have most impact on the cost and time of doing business, and you can also compare other countries and see how exactly the same problem has been solved. In Australia, for example, this whole process can be done in two steps and in two days.

This we do for all sorts of indicators, and I'm not going to go through all of them, but if there questions, I can talk about it later.

We aggregate all the indicators to 10 major indicators into a big, overall indicator on the ease of doing business. This just shows the countries listed here amongst the 30 easiest countries in terms of regulatory environment for businesses. You see there are a number of small states in here, actually, with Iceland there, Estonia, St. Lucia, for example.

We also track not only where it is currently easiest, but also who reforms most. And here, this is the list of the top 10 reformers of the last year, led by Georgia, which is not a small state, maybe a medium state, but it goes to show that these reforms in a variety of countries are being tackled.

And then we can do analysis with these numbers,

and I'm just showing a few aggregate numbers to give a little perspective on small states, and additional analysis is of course possible.

So, let me just aggregate all the small states into one. We see that on average, they reform pretty much like the average of the world, neither a lot nor very little. When we then disaggregate into the individual small states that you see or elicit here--I'm sorry--this was not the reform; this was where they ranked on "ease of doing business." And the ease of doing business in the average small state is the average of the world, so to speak.

But then, there is a huge variation underneath this. Estonia is ranked 17 in the world. At the other end of the spectrum, Timor Leste 174 out of 175, and everybody else in between. So you can see that small states clearly span the whole spectrum of states in this world when it comes to the quality of the regulatory environment for business.

When we then look at the individual indicators, the 10 indicators, we can see some other patterns. We find that the licensing issues, which we proxy here with the

construction licenses that are needed to construct a warehouse, seem to be relatively easy, whereas everything having to do with access to credit is relatively complicated.

So there is quite an interesting pattern of things here where everything that is the registration of property, the starting of a business, the enforcement--all the things that make a small and medium-sized enterprise enter the market and have access to credit--seems to be relatively complicated.

Then, when we look at how many reforms were actually undertaken last year in small states, we see that the average for small states is very low, so not much happened on average in those states. Most of the reform in the last year happened in bigger ones.

When we then break that down a little bit to mention some of them who made reforms, we have the list that you see here--Antigua and Barbuda, Estonia, and so on--you can read the numbers--down to Swaziland. They reform typically in no more than two areas. The top reformers in the world all reformed in three, four, five, up to six areas, like Georgia, and made major progress in the overall

ranking.

These are some of the examples of the reforms, to give you a flavor. So, in Antigua and Barbuda, starting a business was reformed; time to set up a business was reduced from 31 to 21 days. Other reforms in The Gambia, Micronesia, and the Seychelles are shown here in various areas, including enforcing contracts and registering property. And the reforms were quite reasonable, quite dramatic in some cases. The Micronesia reform, for example, reduces minimum capital requirement from 50 percent of per capita income to zero, which brings it to the best practice in the world. Now, some may say this is a difficult agenda for small states, but in fact when we create a hypothetical small state taking the best practices and the easiest practices from each one of them and aggregate it into a quote-unquote "ideal small state," it would be number three in the world, behind Singapore and New Zealand. So it clearly goes to show that various small states have found a way of making the business environment quite easy, and that this is within reach of every government.

Then, let me just make a key point on the purpose

of all of this. We focus in our analysis not on what it takes for foreign investors to come in but for domestic small and medium enterprises, how difficult is it for locals to set up, to operate, to create jobs, get investment, get access to credit, et cetera. And we find that the more complicated the procedures are, the more people are in the informal sector.

I keep mentioning the same example in many cases, because I still think it is quite impressive--the country in the world that has the highest number of mandated vacation days for their workers is not France, is not my country, Germany, it is not Sweden, et cetera, cetera--it is Sierra Leone, where 38 days are mandated by law for workers there. The effect of such generous protection, shall we say, is that nobody gets it. People work in the informal sector, and rigid regulations and cumbersome procedures and costly procedures put people in the informal sector. So, new entrants to the labor markets, for example, women and young people, are discriminated against through particularly labor market rigidity. When labor markets get less rigid, women and young people, as we can see on the right-hand side here for women, actually get

more access to the labor market.

So altogether, this agenda is not one--why we talk about business regulation, and it is about regulation--the purpose is not to make some capitalists make more money. The purpose is to make people have success on the basis of rules and not on the basis of who they know. It is an agenda of inclusion of people in the economy of the country so that they can get jobs, they can get higher wages, and so that they can actually benefit from protection of the social system and not be excluded through overly restrictive rules.

I'll finish off here by showing that overall, the ease of doing business when controlling for differences in countries, including per capita income, is actually highly correlated with job creation and reduction of unemployment.

Ladies and gentlemen, this was just a short overview. If you wish to have more detailed information or want to see to what extent this applies to your own countries and whether or not we can support this with reform efforts, we would be happy to assist.

Thank you.

[Applause.]

THE CHAIRMAN: Thank you very much, Mr. Klein, for your observations. We are encouraged that the Doing Business project now covers nearly all states, since it is so important that small states not be marginalized in international institutions.

I am sure that my colleagues will have questions for you about the relative standing of their countries, and we look forward to your views about what factors are most relevant in specific reform areas in response to their questions.

It seems to me that one of the greatest features of the Small States Forum over the years is the ease with which it brings together analysts, practitioners of development, on the one hand, and senior political figures accountable to their constituents for delivering growth and social services on the other. Each of these groups helps, I think, keep the other from flying too far off track by introducing the reality check.

To that end, I am pleased to introduce Barbados' Minister of Finance, Honorable Clyde Mascoll. We are fortunate today to get the Minister's perspective on the

challenges of and appropriate strategies for strengthening the private sector in small states, including particularly the role of private-public partnerships.

I would only add by way of introduction that Barbados has often been a vanguard of success when it comes to adaptation and economic and social development.

Honorable Minister, the floor is yours.

MR. MASCOLL: Thank you, Mr. Chair.

It is my intention to speak on public-private partnerships, but before I do so, just let me put into context why I feel this matter has become one that is gaining the increasing attention of states.

To my mind, the major issue confronting any small state for sustainable economic growth and development has to be the capacity to earn foreign exchange, because it is the only constraint to managing a small economy--the availability of foreign exchange.

But there is an equally pressing matter which has to do with the size and structure of the public sector. In fact, I see the whole WTO globalization business as one that determines the level of sovereignty of small states, and by extension determines the capacity of governments to manage

and manage effectively.

In light of that, this whole question of the private-public partnership has now become a means by which governments can continue to seek, to perform, or to execute programs and policies for the good of the people, that is, the provision of social goods and services.

In my country, we have embarked on this strategy. It was in fact recommended by the international organizations. Therefore, what we have sought to do, really, is to continue to keep the provision of goods and services for our people at a particular level, particularly in areas of water, garbage disposal, health, education, transport, and all these other areas, which would become increasingly more challenging for small states to provide.

I therefore want to give you the benefit of our experience. The method of PPP is often promoted as an opportunity for governments to make needed investment in public infrastructure, but it is also a way in which they can cope with issues of indebtedness or to try to get around the question of having to show debt.

For example, in our country, we have had recently to build a prison after it was burned by prisoners.

Certainly, if the government had gone to the market to raise in excess of \$250 million, it would have immediately been treated as debt, because it is either central government debt or government-guaranteed debt. But if a private company determines that it can make such a contribution to government in the provision of a prison, and then government on the back end of it seeks to service over a period of 25 years, it makes it easier for government to actually continue to provide such a service without having to incur up front additional debt or national debt.

In this regard, we therefore need to look at issues of are we getting value for money as a country when we introduce this method of PPPs. Can we afford this approach? Is it sustainable, and is it reliable?

What I can tell you from my recent experience in the provision of the expansion of a highway in Barbados--it is a small country, only 166 square miles; in fact, until recent times, it was the most densely-populated country in the world, but Singapore has taken over--but what has happened there is that your own development has now turned around and become offensive in a sense. That is, our road network is now heavily used, and as a small country, we

cannot expand laterally, so we have made a determination to introduce flyovers after a study showed that 70 percent of our traffic moving North-South along our main highway actually goes through the roundabout. We're going to take that traffic over the roundabout and free up the movement of traffic from East to West and West to East and therefore give us greater capacity.

Initially, it was felt--and there was a major debate in the country--that we did not need such an expansion in our highway, but if we are going to pursue competitiveness, if we're going to look to export, if we're going to look to bring companies into our country to set up, all workers need to be able to get to work, first and foremost, and having gotten to work, they need to be productive.

So that in actual fact, the provision of an expansion of our highway is indeed an economic issue, because it will contribute to increased productivity of our workers and freer movement across the country.

Now, on the whole question of affordability, could we afford it--could we afford not to build flyovers? No, we cannot. But if we had gone again to the market to look for

additional debt in order to be able to provide a much needed social good, it would have once again contributed to our debt and our overall debt service requirements up ahead. Therefore, the decision was taken again to allow for the private provision of a public good, which is what this whole question of the PPP is about, giving the private sector an opportunity to make a contribution to the infrastructural development of the country. It has proven to be a very worthwhile tool for us in Barbados.

And certainly when we look at the overall question of the source of funding--should we have to raise a local loan to provide a good that is predominantly going to be imported, or should we look to an external loan in order to offset whatever foreign exchange we have to extend in the building of such a social good--again a decision was made that it is more appropriate to allow for a private company to raise those funds abroad in order for us to be able to build this new highway or expand the highway such that we don't have the pressure on our foreign reserves in the immediate future with respect to the building of an infrastructure that will redound to the benefit of this country.

We made those decisions, and there are other projects as well. A Court of Justice is being build using a private-public partnership. A Coast Guard facility is being built using the private-public partnership--and there are certain kinds of details which 10 minutes would not allow me the privilege to expand in my initial presentation.

But certainly when we look at the overall delivery of the PPPs, we are confined for Barbados that it is a meaningful alternative approach to infrastructural development and the kind of investment that we must have in order to be able to sustain our current level of economic growth and development.

In addition, we have to anticipate as a country-- there is the CARICOM movement, the coming together of the Caribbean economies, and in any such integration process there will be "losers" and "gainers" initially--in quotes. That is, people may find certain countries in the Region easier to move to. We believe that Barbados in fact will attract--and it has already started to attract--other workers from around the Region.

We have had major discussion on this issue in recent times, and perhaps, given the example of Singapore,

we may have to anticipate that expanding our population may be an ideal way to go in order to give us the critical mass to be able to deal with other aspects of the economy, be it in agriculture, be it in manufacturing. And if we're going to think along those lines, then we have to be prepared to understand that the provision of education and health, housing, will now require even higher levels of investment.

But if you think positively about it, it is quite possible--and I think that eventually, it will show and will yield such results--that investment in social goods of this nature will in fact redound to the overall economic benefit of the economy in the medium to long term. And if that is so, then, government cannot be expected to provide all the resources necessary, and that is why we are finding the private-public partnership a very attractive alternative way of providing the necessary social goods and services in our country.

There is one thing, though, that having encouraged small states to get involved in private-public partnerships, the international organizations are now suggesting that they need to look at the treatment of these finances. Should they be treated as debt, or should they be treated as

private risks which government is seeking to guarantee or to confront sometime down the road?

This is very critical for us, because in all fairness, you cannot reprobate and approbate at the same time. You cannot ask small states to get involved in building infrastructure and then, when you make suggestions about the involvement of the private sector in the provision of these services, come on the back end and look to penalize small countries for adopting a strategy that you have suggested. It will therefore remain an area of contention and an area of debate, certainly for Barbados and, I suspect, other countries in the Region that will be willing to pursue private-public partnerships in the near future or in the distant future.

That in itself, as I said, will be determined largely by the way in which you perceive the importance of such projects in the overall social and economic environment of the small state. I wish to submit in fact that having said that, it is an alternative strategy that small states ought not to be penalized. And let me just cite two examples.

If you are going to provide a prison, a means of

security for a country, you cannot ask a prisoner to make a contribution to his accommodation. Therefore, it is a pure public good in a sense but a good that has to be provided. In the context of Barbados, where we are expanding what we call the ABC Highway, we don't have the physical space to even install a plant or something in order to be able to collect a toll. In fact, what will happen is that the very thing that you are seeking to solve--that is, the problem of the congestion--will in fact recur if you seek to collect your toll at some point or points along the highway. We don't have the physical space to do it.

So in this regard, you cannot now say that there will be certain demand risks associated with the provision of such a service to our people and therefore then suggest that private sector involvement does not see it ideally as a public-private partnership in the typical sense that we read about in the literature. In fact, I wish to submit as well that when we look at the overall methodology of a private-public partnership, you have to consider the various circumstances of small states in assessing whether or not you consider such an investment a purely public investment or a private investment that would ultimately be public in

nature--that is, you know government will have to pay, over an extended period of time, 20 or 25 years, for the delivery of such a project.

I think, honestly, that we have a grand opportunity. We can afford to execute such projects. They obviously have value for money. The private sector is able to deliver such a project far more efficiently, as has been shown in Barbados. In fact, the project along the highway of Barbados is unique in that there are two local companies which are currently executing that project, and you would never believe the extent of the competition where they are seeking to outdo each other. Had that project remained in the hands of the government or the public sector, it would not have been so efficiently and effectively executed.

And what is most amazing about it is that the very public that initially reacted is now in board because of the way in which the project is being executed. So that it is critical to get public support as well in the provision of a private-public partnership. It is critical to demonstrate that there will not be cost overruns, as have been experienced in most public sector-driven projects over the years, and that this method in fact will serve the interests

of the country in ensuring value for money, in ensuring that it is affordable in the context of what the initial cost was that it will be executed for, and ensuring that it will be sustained because in the actual contract, there is provision for the private sector over an extended 25-year period to maintain the highway, and it will ensure that there is a certain degree of reliability in terms of the quality and the standards that will have been executed on this project.

I therefore invite this session to consider that this seems to be a very attractive alternative way of providing infrastructural development or investment for small states, but I would also wish that the international institutions not consider it necessary now to come and penalize small states on the back end when they have been encouraging them to get involved in such.

Thank you.

[Applause.]

THE CHAIRMAN: Distinguished participants, I think that concludes the presenters for this agenda item.

Minister, thank you very much for your assessment and guidance, which will doubtless be put to good use by

many of us here today.

Now let us hear about the experiences from other Regions or from other countries in the Caribbean. I am sure our speakers are ready to expand on their presentations as well as other clarifications.

Please let us have your reactions both to Mr. Klein's presentation on the World Bank's work and to the stimulating points made by our colleague from Barbados. The floor is open for discussion and comments on both presentations of this particular agenda item.

First, on behalf of my country, I would like to thank the presenter for his presentation. I think he has opened up a new channel, a new page, here for my country, because here, we find out from the presentations that there are two public or national assets being furthered through private funding. That is a very new concept for us, because we mostly deal with government institutions and other international financial institutions like the Asian Development Bank, the World Bank and the others.

It is quite difficult--if we try to approach the private sector for private funding, you get a lot of noises from the public. You cannot do that. But these are very

good points made by the Minister. I think it needs a lot of discussion and comments from the least-developed countries that have very limited resources, and we have tight hands in accessing funds from public institutions.

Thank you.

Yes, Malta.

MR. ADAMS: Actually, we have a microphone, so if anyone in addition in the back benches would like to speak, that is available as well.

Please.

MALTA: Thank you.

We agree with honorable Minister Mascoll about public-private partnerships. We will be using them on water and have been for the last few years.

We are following the UK model, which was passed on to us, and we do have some experiences in this area as well. The main reason that we wanted to adopt the PPP model was to move the public sector into a quality assurance framework instead of doing the work itself and giving the work back to the private sector, work that it is good at, and it is obviously more experienced in.

The EU--we are part of the European Union--does

have good accounting rules, we believe, where PPPs keep the project debt off the balance sheet and where rents are paid over the 20 to 25 years of facilities management.

Very quickly, it is based on three risks being passed on to the private sector--the construction risk, the availability risk--in other words, once facilities management is taken on by the private sector, the project has to remain open and operable; and demand risk, which depends on the nature of the PPP. So, for example, if the project is to create school facilities in the north of Malta, and the demographics change over 20 years, and demand increases, then it is up to the private operator to increase the size of the resource or the facility. That is part of the risk taken on by the private sector.

We have found, though, unfortunately, that the financial cost--in other words, the rents--of these types of projects are more expensive than had we to borrow and do the project ourselves. The reason is that our debt rating is very good, and the private sector, especially the banks, tends to price the risk higher than our borrowing rate.

We are in fact now about to start changing the UK model and tweaking it for us and to work with the banks

before we issue tenders for these types of projects. The idea is to work with the banks to reduce the interest rates charged to the private sector--in other words, we'll start managing the financial risks and the operating risks even before we issue the tenders.

We are also trying to choose projects where we can put people in the public sector back into the private sector--Malta's public sector is rather large, unfortunately. However, as you can imagine, this is a sticky issue, especially with [inaudible], and has not always worked.

We are also finding that PPPs, because of the rental payments instead of the big bank payment up front, are not conducive to international aid and international finance. We are having this issue with the EU funds which we received. Typically, international funding is project funding, it is paid up front as the resource is being built, and it doesn't really lend itself for rental payments over the 20 to 25 years of facilities management.

CHAIRMAN: Thank you, Malta.

I recognized the distinguished delegate from Fiji.

FIJI: Thank you, Chair.

I would just like to thank the two presenters for the very useful topics that are being discussed and also some of the very useful insights in terms of these two exciting areas. I have just two questions for both presenters.

One is for Mr. Klein, just in terms of the issues that he has just put that some of the small island states can reduce the costs of doing business at a very small cost. The question that I would like to raise is that some of these small island states, because of the size of the economy, have established some infrastructure sectors--for example, telecommunications and so forth--and they have licenses there have been established between the private companies who run that telecommunication, for example, and the government, and the licenses are normally for 20 or 25 years--for a very long term--and they are normally just recognized as a monopoly.

So when you start to dismantle it, there is really a huge cost that the government has to pay in order to dismantle that license. My question is, is there a way, or are there some suggestions or solutions or any other

incentives that governments can turn to in terms of managing that?

As a second question, the Chairman was in relation to the Minister's presentation in terms of private partnerships. My question is, for example, how the Government of Barbados was able to manage the interest of the private sector given that their interests are more or less in terms of returns on the investment, and the government objective are normally in the long term, which is to get the infrastructure in place for economic growth.

So, how do you manage that interest in terms of the private sector is now more or less interested in maximizing the returns on the investments, which they don't intend to get the returns within 25 years. They put in their money, and what they expect is to get the returns as soon as possible; but for government, it is quite different. So, how do you manage that from a government point of view from the private sector?

Those are my two questions, Chairman.

THE CHAIRMAN: Thank you for the questions.

I will ask Mr. Klein to respond to the first question, followed by Mr. Mascoll.

MR. KLEIN: The first question is one that is actually not treated by the Doing Business report, but I will answer without reference to that report.

The Doing Business report just deals with the rules and regulations for domestic small and medium enterprises and what it takes for them to enter the market, how to operate, et cetera.

The particular question on infrastructure, telecom being one of the infrastructure areas, what happens if there is a de facto monopoly or a license issue for 20 to 25 years, and you wish to introduce competition; how can you undo that in a way that does not cost so much.

I would think the first basic thought that one needs to consider is in the infrastructure areas, which ones are the competitive segments where it is physically possible to have competition, and today, because of mobile telephony, et cetera, indeed in telecommunications, it is possible even in small states to have competition.

Once you have a license, of course--and years ago, I worked in Jamaica--these long-term licenses which were there with British Wireless at the time are difficult to undo; if you want to stick to a contract, there may be a

price--so the issue is up front to think about which segments are competitive and not to issue 20- to 25-year licenses. But once they are there, there is a cost. There may be compensation necessary under the law if you change a contract. And I have no magic solution on how to overcome that. It is a matter of negotiation.

A particular area that is worth considering, to take one other example which came up recently in discussions, for small states is the import of petroleum products, which is sometimes very expensive, particularly today, with the prices that we are at, and everybody is looking for ways to minimize that. Studies have found that, for example, in the Pacific Islands, in many countries, petroleum product prices are quite high. And there are two islands that have found an interesting way of introducing extra competition to keep prices as low as they can be--American Samoa and Samoa. The way they did it is precisely by looking at which segments are competitive in the petroleum product supply chain and which ones are not. And the one that is not is in small islands, but not in large states, and that is the storage facilities. There, the government has a public-private partnership on

the storage facilities and basically maintains government oversight rights and regulatory rights on them and calls for periodic tenders of petroleum products, so it provides competition in the actual delivery of petroleum products but maintains a regulated monopoly on the petroleum product storage facilities.

So it is this kind of thinking that can help avoid the kinds of issues and costs that you mentioned, but once you have a long-term contract, there may well be a cost to pay, and there is no nice answer on how to make that go away.

MR. MASCOLL: I think it is true to say that there is a divergence of interests between the private and public sectors in the short run, but the truth is that history has shown that in the longer term, there is a convergence. That is, governments have recognized that the initial cost of projects may not necessarily be executed efficiently and effectively when it is done by the public sector itself, and that in the long run, failure to do adequate maintenance and other things will in fact contribute to the overall cost of the project being out of line with what was considered initially.

It is in this regard, in fact, that this thinking can now be assessed far more differently from earlier times, so that I believe that over time, once you have executed a public project efficiently, that you see the similar kinds of gains and returns, and that over time, it is far less costly for government. Given our experiences certainly in the Region, you start trying to build some project for \$30 million, and it ends up costing \$40 and \$50 million.

If a private sector entity can come in and manage that project far more efficiently and effectively in the initial stages, then, what appears to be a loss up front is really a gain in the long term.

So I think that while there may appear to be short-term differences or divergence, there is long-term convergence of the interests of the private and public sectors.

THE CHAIRMAN: Thank you, Minister, for the response.

Any other comments or questions?

The Representative from Cyprus again.

CYPRUS: Thanks, Mr. Chairman.

Just some observations. I would agree with most of what my Maltese colleague said. I think that the experience in Europe has been that where countries have used the PPP method to finance and undertake infrastructure investments, the financial costs, risks, obligations have been very much underestimated, and that in fact there is one country in Europe which developed its highway network using this method in the early 90s--it's decayed--which has got into a lot of financial problems. I mean, its public sector, its debt went up a lot, its deficit has exceeded the Maastricht criteria, and its mainly because of the postponed obligations coming out of using this method of financing infrastructure investments, so I think that in going into these projects, one has to be extremely careful in assessing the various risks involved and looking at all the details, because otherwise I think it's just really not a free lunch. Thank you.

MR. MASCOLL: Thank you.

I can understand that, but what I wish to say for small states, because I've read the literature on the larger developing countries, building highways, transport networks and charging tolls, and in some instances the

private sector underestimating demand for a particular service and then not realizing the demand in the medium term and government having to carry the risks.

Now, what I'm saying in the small state situation, and that's why it was explained that we don't intend to charge any toll for anything on the highway. We can't afford the infrastructure to do so. We don't have the space to do that, so that in actual fact, the kind of PPP that is critical to Barbados and the rest of the Region will have to be one that looks at the up-front efficiency gains; that is, in the execution of the project itself, and the reality is that there are many instances in the Region where we can show that public projects have been poorly executed and that cost overruns have been incurred, and that what we are seeing is that once the private sector gets involved in the delivery of the public good, that there are efficiency gains in the initial stages of the project. And I think that to a large extent that is what is encouraging the Barbados government getting involved in such a methodology, apart from the fact that the whole question of debt has become an issue and it is an alternative strategy, but more so, the efficiency, and also

what we are finding is that we are getting a lot of benefit by way of transfer of knowledge and technology.

Simply put, the company that is currently building the flyovers in Barbados was able to put on the television set as a program what the flyovers would look like, and that quelled a whole side of debate that was taking place, because once Barbadians saw what was the intent of the flyover, what is the finished product or what it would look like, there was then no more debate in Barbados on the matter, and this is perhaps the greatest benefit for us as small states in going the route of privately providing a public good, but I appreciate that there are serious risks involved in delivering such services, as has been seen in other countries around the world, in Latin America for sure this has happened, and certainly in Africa it has happened. But we in small states, there is this benefit we are deriving which has become crucial in terms of assessing the alternative strategy.

THE CHAIRMAN: Thank you, Minister.

ST. KITTS AND NEVIS: Just a brief intervention that I would like to congratulate first of all the

presenters for some really thought-stimulating presentations. The only issue for me and this is in relation to the presentation by Barbados, the only issue for me is how do you develop, and I agree with him in terms of the involvement of the private sector could probably contribute to efficiency, but how do you develop a consistent accounting framework to compare two countries that have funded a place differently in sync because I may have built a prison, went to the market with \$50 million and built the prison and paid that service charge. Another country builds a prison through PPP arrangement. The rent that they pay on a monthly basis is identical to my debt service charge. There is no revenue-generating capacity for the prison, so that in both cases, both the rent and the debt service charge is coming directly from the public purse.

My question to you: how do you compare the relative performance of both countries, and what sort of accounting framework would you use; in other words, would you focus on the substance of the transaction or on the form of the transaction?

THE CHAIRMAN: Before responding, there is

another person, the delegate from Guyana. If you could make your point, and then the Minister will make a response.

GUYANA: Thank you, Chair.

Also, we'd like to commend the presenters and to recognize that in the context of the limited fiscal space of many of our countries, the issue of PPP and infrastructure in particular is of extreme importance. The question to Mr. Klein is given the perception of higher risks in many small states to attract private investments in infrastructure, what rule can the World Bank play? What instruments such as partial-risk guarantees or partial-credit guarantees, or indeed aid which are grants essentially to help with feasibility studies or regulatory setups, what role can World Bank play since everybody in this room--I think there are about 45 of us--are all members of the Bank? What role can the World Bank Group play in assisting in this area of infrastructure provision with respect to public/private partnerships?

THE CHAIRMAN: Thank you, Guyana, for the questions.

And we'll let the Minister respond to this first

part of the questions.

MR. MASCOLL: That's a very interesting question, St. Kitts. The thing is, though, and it becomes a legal matter because in actual fact, the whole question of risks, the question that has been introduced is critical to assess in the overall efficacy of PPPs. It is seen as a major area of contention. But what happens with respect to the scenario that you painted is really legal reasons, and in actual fact in a PPP arrangement, the risk really is transferred legally to the private sector, and that's the way out.

Now, the risks which we spoke about were economic risks associated with demand and whether or not you will be able to get the projected revenue and where would the financial responsibility fall in the event that the private sector company cannot deliver, but in terms of the actual scenario which you painted, the question there really becomes the legal framework that has been wrapped around the PPP. I mean, that circumstance, therefore, the legal risk really shifted to the private sector, and that to me is the escape for the government.

MR. ADAMS: I've asked Michael to respond to the

question, but I thought it would also be useful given his role in the Bank in overseeing the private sector side, we've had a very good example of a specific country case, but I've also asked him to talk a little more generally about some of the messages that we're getting more broadly from the work with respect to the private sector.

MR. KLEIN: Let me give an overview and then answer the question about the high risks in small states and what the World Bank may or may not be able to do to help with that. The very simple basics is if the government wants to shift things to the private sector, risks to the private sector, and not count exposure to PPPs as part of government debt in any way, it requires that user fees are sufficient to pay for the whole thing and generate the kind of cash flow that the private sector needs to make a sufficient return. As long as the private sector doesn't have enough cash flow, and it will ask anyway for a guarantee or expect a guarantee, and at the end of the day the government may be settled in some way with that.

So the fundamental question is the private sector does not invest if there is not money at the end. The

private sector doesn't give money for free. It needs to see the income at the end of the day. So the question is where is that income coming from. It's only going away from the government if private citizens pay. So the areas where that is typically possible in most countries without any problem is telecommunications. By now, people have become used to the notion that this is pretty much a private business. You know, 10, 20 years ago it was seen to be a state task, et cetera, et cetera, but now because of technological development, it's clearly possible to shift all the risks to the private sector and have well-structured deals, and the kind of long-term concession agreements or license agreements of the 20, 25 year variety are no longer necessary and shouldn't be taken on by anybody.

The second area where it is possible to charge user fees that are full cost covering and enable risk to be shifted effectively away from the fiscal authorities tend to be in ports management, ports concession, airports, and the like, where the people who pay tend to be large companies that use these facilities, and that is also true for freight rail, but freight rail may not be an issue in

many of the small island countries and so on, but it is an issue in other countries. It gets more tricky when you move into electricity and water, where the politics of pricing are much more complicated. In many cases, people might be willing to pay, but the politics are such that prices are not set at cost-covering levels. On average in the world, electricity prices are maybe in the order of 60, 70 percent or so of costs, and hence the private sector will not earn enough money on average and will ask for some residual guarantees, for example such that the World Bank might count a guarantee, et cetera, et cetera. And in water, it's even worse. In water, on average prices are maybe at the level of 30 percent of costs, and if the price only charges 30 percent of costs, then if you want to have an investor there has to be some other source of money to make up for that.

So in those areas, in electricity and water, it is in principle possible to shift things because people are in principle willing to pay for this, but politically it turns out to be difficult in many cases. Then you come into the areas where it is very difficult to charge at all, and the example of prisons have been mentioned. Of course,

you can have prison labor and have people sell things, but that may be unacceptable under many legal systems, et cetera.

Anyway, let's assume prisoners cannot do anything that gets paid for, which is typical, prisons will ultimately have to be paid for from the tax purse, and the question really is here whether bringing in the private sector in some form or fashion and under PPP arrangements can reduce costs, and I'll comment on that in a second.

The other area which is where in principle sometimes you can charge but in practice it is often hard to make it work is roads. There are certain types of roads where full-cost coverage is relatively easy. These are roads that relieve congestion. These are ring roads, certain bridges that have no alternatives where people are forced to drive through, where traffic volumes are very high, and there you can effectively shift risks, but most roads you can't at the moment, and so in those areas the question really becomes what alternatives might provide better value for money than public sector provision, and that gets to the question of how do we assess this, and I think case by case we need to see what are the

alternatives, compare them and use the value-for-money tests that typically are applied in the these circumstances.

So for example, in the case of a road, one option is to auction off the right to build and operate a road to a company and ask that company to finance it. An alternative is to have a public sector fund its turnkey construction contract that is implemented by a private-sector company, supplemented by a management contract for the operations of the road, et cetera, et cetera. So we need to see what are the different options, try and make an assessment of what they might cost. And one of the critical features in making that assessment and the value-for-money test will be assumptions about the financing costs for the private sector. That has been mentioned by the delegate from Malta in the beginning.

Typically, the ostensible costs of finance for the public sector tend to be lower than that for the private sector because the public sector has the taxpayer standing ready to pay if the project should fail. And so the credit of the public sector tends to be higher and the ostensible interest rate charged on that is lower. Does

that mean that public-sector finance is actually cheaper from the social point of view? That is not clear at all, because the taxpayer de facto provides unremunerated credit insurance, and if you calculate the costs to society of that unremunerated credit insurance, it is no longer obvious that up-front the interest rates to be used in value-for-money tests should be any different from the private and for the private and public sector.

So this I think is sort of a panorama of considerations when thinking about which kind of private/public partnerships might make sense, and that brings me to the question that was asked. First of all, I don't think that investors would think that small states are necessarily high risk. States like Estonia, Mauritius and so on are not seen to be particularly high risk, and so I don't think that on average the size of the state necessarily implies a higher risk perception. In those cases where the private sector feels that cash flow generated from user fees is insufficient or may be insufficient to cover the risk-adjusted cost of capital of the private sector, in those cases they will ask for guarantees. And then typically when the government will

have to make a decision whether or not to give such a guarantee, and in those cases where the government itself is not credit worthy, that's where the World Bank could help with counter-guarantees.

Also, of course, as you mentioned grants. If you want to get the benefits from private provision but pricing is not possible for political reasons like in many water systems, it is possible to have performance-based grants where you say to the private sector I make you the following offer: you get the right to build and operate or just operate or lease, whatever the approach might be, a water system. The users pay either nothing or a little bit and the rest is made up for grants, the rest of the user fees, and those fees are paid out if and when water flows, but only then and not up front as a subsidy to a construction project. That can be done. You shift the performance risks to the private sector. If the water system doesn't work, the state is off the hook, but if the water does flow, then the subsidy has to be paid, the substitute for user fees, to some degree. These are the options.

MR. MASCOLL: That really explains the difference

between politics and economics in small states, as opposed to large states. Now, politicians in small states are willing to ensure that persons who are unable to pay still have access. And that's the difference between small states and large states.

In large states, everything is determined by your ability to pay. In small states, there is a far deeper consciousness which deals with the whole question of the delivery of social goods to people who cannot afford to pay. And in that regard therefore, even if a user fee cannot be charged, the overall tax collection can still be allocated as to allow you to determine whether the provision of a good is critical to a government or is not, and is not based strictly on market forces or things that you cannot fully estimate anyhow. Because there's imperfection in every market.

And while we understand the need to go towards the market, nobody's able to calculate what the market truly does, whether it truly clears when demand equals supply, because nobody really knows. And that makes the difference between a small state and large states.

THE CHAIRMAN: Thank you.

Minister want to respond? Barbados again.

BARBADOS: I would like to heartily support that particular point, and also to add that there's a tendency to compartmentalize the cost and benefits of a project so that you expect the particular cost of the project to be met by those who benefit from it.

But I think that if one looks across the board at a macro level, one has to look at the social benefit as well. And the population, for example, may be quite willing to pay more in order to have the benefit, or shall I say the safety, the security, for example of having a safe prison.

So that the additional taxes or whatever that may be necessary to finance it, it may be something that the might welcome. And they do not, in fact, necessarily see it as an onerous cost because it is something that is beneficial at the social level, in terms of security and safety and so on for the entire population. And that means that you really cannot necessarily compartmentalize the benefits and costs all the time. One has to look at the broad level of the general benefit to the country and the ability of the taxpayer to meet that cost.

THE CHAIRMAN: Thank you.

I would recognize the delegate from Gabon.

GABON: [Interpreted from French] Thank you, Chairman.

I also wanted to pick up right away on the point made by Barbados and also upheld by the last speaker.

Governance is not always the same thing for the population of a small country as it is for the population of a large country, and I'm talking in terms of the population size here, when it comes to access to certain vital services and when it comes to putting in place certain vital infrastructure. The profit motive is not necessarily sufficient to ensure that investment is put in place.

Gabon may be a small country in terms of population size but geographically speaking it's the same size as England. So it's very sparsely populated. Nevertheless, even if there is a very low population density, they still want decent roads to be able to get around, and they still want electricity networks. They still want running water, schools, medicine.

So we're talking about considerable levels of

investment vis-à-vis the population size compared to a country with say 30 or 40 million people. The proportion is quite different. And I can't say to the population of my country sorry, it's your fault for living in the back of beyond, we can't build a road for you. I can't say that to them because there is this concept of what it means to have what you need and live reasonably comfortable. And that means having electricity, running water and so on. These are seen as basic needs, basic amenities.

What the World Bank is suggesting, and let's put it very mildly, I'd say that they're rather more forceful in the way in which they put it, they're basically saying it should be profitable. French Development Agency, the African Development Bank, World Bank may be called upon to help, in which case I can see the point that yes, there should be a return on that investment.

But look at it from our national point of view. We are faced with demands from our population. So the profit, the return on the investment cannot be the overriding factor on all occasions.

So what I would say to the Minister of Finance of Barbados is that in a small country you can have a need for

investment which will not be profitable because it's what the population demands. And we are obliged to respond to the demands of our population.

I can take an example, there's an electricity company in Gabon. We used to have a state electricity company. It worked more or less okay, kept going. At any rate, it was privatized. It was the first privatized company in Gabon. And now we can see why so much attention was paid to the details of the privatization, why people came to buy it, because it's highly profitable. The concession contract says that this electricity company, which also covers distribution of electricity, only covers electricity to the large cities. That's what it says in the contract. So it only provides electricity where it is profitable to do so, where you have a high density of population, people living in other words, but also shops and businesses and so on.

The isolated villages and settlements aren't covered. They didn't want to take them on board. But there are citizens living there. They are no lesser as citizens because they happen to live there. So fine, we've got electricity in the big cities, but tough luck to

everyone else.

so I think that's a problem and I wanted to express it.

Thanks.

THE CHAIRMAN: Thank you, distinguished representative from Gabon. I think you have made some very good contributions in there.

Mr. Klein would like to make some remarks, and I'm afraid we have to move on. We've got another agenda item there that we need to pay some attention to and give some time to discuss it after this. Mr. Klein.

MR. KLEIN: Just a quick remark.

We started off with a discussion about the pros and cons about public/private partnerships and getting the private sector in. One of the particular questions that seemed to be on the table was how can we do this in such a way that this is really off-balance sheet and not counted as part of public debt? So then if you have that perspective in mind, that is one.

The second point is it has been mentioned that there are lots of concerns about bringing power to rural areas, using roads for social purposes, et cetera. And of

course, the governments have the option and the obligation, actually, to see what kind of social benefits are being pursued.

And they may decide whether or not to charge people for this. But if you decide, for social reasons, not to have user fees, or it's physically impossible to have user fees, then you will not get rid of the debt from the public sector balance sheet. Just saying that if you want a PPP, that really gets the things off the government's debt balance sheet, you have to have user fees that provide adequate cash flow. If not it will be, in some form or fashion, on the government's balance sheet.

That's just a simple equation that isn't going to go away.

THE CHAIRMAN: Thank you, Mr. Klein.

I take it that that's the closing remarks on this particular agenda item.

We will now turn to the topic of our final session today, which is an important one as we discussed the small states agenda, ways to strengthen small states and plan for next year's Forum.

Most of you will recall Malta's proposal at last

year's Forum, on ways to strengthen small states. We will review an update of Malta's proposal made at last year's Forum with respect to the possible establishment of a Small States Network for Economic Development and its potential work program.

First, I'd like to call on the Commonwealth Secretariat's Deputy Secretary General, Mr. Ransford Smith, whom I should both congratulate on his new job and ask to convey our good wishes to our former colleague, Mr. Winston Cox. It seems to me that Mr. Smith is ideally placed to begin this session, as his presentation of the World Bank/Commonwealth Secretariat-supported review of the original Small States agenda is forward looking and will thus guide the joint work of small states and their partners.

Mr. Smith, you are very welcome at your first Small States Forum. We look forward with pleasure to seeing you many times in the coming years, and to your remarks today.

Mr. Smith, you have the floor. Thank you.

MR. SMITH: Thank you very much, Mr. Chairman, and let me thank you for the welcome you have extended, and

also the kind words regarding my predecessor.

Mr. Chairman, honorable Ministers, ladies and gentlemen, you will recall that the review of the 2000 Commonwealth/World Bank Joint Task Force Report on Small States was discussed during the 2005 Annual Small States Forum and the Commonwealth Finance Ministers which preceded it.

At these meetings, you requested that additional and more widespread consultations be on the table with member governments before resubmitting the conclusions and recommendations to the 2006 Commonwealth Finance Ministers Meeting and the 2006 Small States Forum. That is this forum today.

We have responded to the request. Extensive consultations were held with capital-based officials of most small states, as well as with their representatives in London, Geneva, Brussels, and New York. The seminal work in the 2000 report identified and elaborated on the characteristics of small states and set out a framework of assistance for small states by development partners. The 2005 review examines the developments since 2000 and their effects on small states.

Following the analysis of these developments, the review makes a number of conclusions and recommendations. It was on these conclusions and recommendations that consultations were held, at your request. There was concurrence among small states that the review's summary of developments since its 2000 report was issued reflected, in large measure, the prevailing conditions.

There were, understandably, differences of emphasis as to the causes of some of the adverse macroeconomic developments of recent years. For example, some states highlighted the aftermath of September 11th, 2001 as a major contributory factor to increased income volatility. Others stressed the impact of the more rapid than expected erosion of trade preferences and the rapid increase in oil prices. They also highlighted the burden being placed on their public sector by the increased levels of migration, which was especially affecting the education and health sectors.

On the positive side, virtually all small states emphasized the critical and growing importance of remittances by migrant workers. Small states pointed out that they had implemented most of the development

strategies suggested by the donor community, but that the impact on poverty had hitherto been limited.

Several reviewers felt that the differences between regions should have been given more emphasis in the 2005 review. Landlocked African small states, for example, noted that they shared many characteristics with small island developing states, including limited institutional capacity, limited diversification, and poverty. However, they also stressed that they faced some unique challenges, such as the high cost of transit to their neighbors. It was noted that there continued to be a tendency in much of the small states development literature and academic discussions to concentrate on small island developing states.

There was almost universal support for the outward oriented development strategies highlighted in the review. Several ministers emphasized the importance of articulating the specific policy and institutional prescriptions of such an approach at the country level. It was clear from the consultation process that there was widespread recognition that the dismantling of trade preferences was now inevitable.

However, there was an equally strong sentiment that small states should demand an orderly transition and be helped to participate effectively in world trade.

There was concurrence that the recommendations of the 2000 report remained relevant, particularly on their emphasis on attracting private investment and providing the complimentary public investment in infrastructure, education, and institutional reform. There was virtual consensus that given their openness and vulnerability, small states had no choice but to follow prudent debt management policies.

Many emphasized the challenge of developing the private sector due to the high cost of doing business in small states. There was unanimity in many small states that their large diaspora had a key role to play in private sector development and promoting and attracting foreign direct investment.

Several government officials and NGOs from all regions highlighted the importance of strengthening the role of civil society and rightly noted that this was a gap in the review. In light of this feedback, the authors have adjusted or modified some of the recommendations contained

in the original draft of the review.

A summary of the consultations and the list of countries, organizations and experts consulted, are included in Annex 1 and 2, respectively, of the latest version of the review that is before you.

You will recall that the review makes a number of conclusions and recommendations that form critical elements of an updated strategy. These include increasing competitiveness and improving the investment climate; empowering and improving the quality, health and safety of the small states' human resources; enhancing Regional cooperation; building environmental and other resilience mechanisms to offset the unique vulnerabilities of small states; and improving the quality of international assistance.

It was emphasized that consideration should be given to the development of an action plan with specific time tables and targets, designed to implement the vision articulated in the Review. The work programs of the World Bank, the Commonwealth Secretariat and other development partners should relate to this plan. The Review also stated that consideration should be given to the proposal

of setting up a permanent Small-States Network in close collaboration with the World Bank and the Commonwealth Secretariat. This was welcomed and supported by the Commonwealth Finance Minister's meeting when it met last week in Colombo. Malta will elaborate on this proposal in the next presentation.

May I take the opportunity in presenting the Review and its recommendations, to also emphasize that the Commonwealth Secretariat continues to attach high priority to its work in supporting the integration of small states in the global economy, and in meeting the challenges arising from globalization. Small states comprise 60 percent of all membership. During the past year, for example, the Secretariat undertook a number of projects that assisted small states. These included projects related to policy development and capacity building in areas such as trade, investment, education, and the development of small and medium enterprises.

The Commonwealth has also pledged financial support to the Virtual University for Small States of the Commonwealth. This facility will begin operations in August 2007, with a launch of two open learning programs in

business and tourism studies. We at the Commonwealth remain committed to working with our member countries, Regional organizations, and other partner institutions to implement projects and programs that are beneficial to small states. Honorable Ministers, ladies and gentlemen, you may now wish to comment on the conclusions and recommendations of the review and to propose the way forward that would enable small states to benefit from as well as cope with the challenges of globalization. I thank you, Mr. Chairman.

THE CHAIRMAN: I thank Mr. Smith for his contribution to this subject. We know that Commonwealth Secretariat of Small States as the majority of members is a champion for the cause and for all of us here. I have reason to thank you not only for your presentation but for the Commonwealth Secretariat's continuing support for small states.

I would now lead into our next subject of Malta's proposal for the establishment of a Small States Network for Economic Development by noting that the proposal observes that, "The Commonwealth Secretariat, with small states as the majority of members, was probably the first

international organization to champion the cause of such states," as previously mentioned, so all of us here have reason to thank you not only for your presentation but also for the Commonwealth Secretariat's, again, for their continuing support of small states.

Comes now to Malta, which last year took up one of the challenges outlined in the original Small States report, that of developing a mechanism whereby we could ensure that our whole is greater than the sum of its parts, that we realize critical mass, and that we devise a means to amplify our voices.

As Chair, I won't say very much about the proposal itself beyond noting that it was formally introduced at last year's Forum, and has been posted for comment World Bank's Small States website since September 2005, has been circulated along with a draft Network Statute, by Malta, through the good offices of the World Bank; was introduced to Executive Directors of the World Bank by Executive Director for Albania, Greece, Italy, Malta, Portugal, San Marino, and Timor-Leste, and has drawn on support from the World Bank over the past year. Thus, with further ado I will ask the Governor of Malta's Central

Bank, Mr. Michael Bonello, to speak to the proposal.

Mr. Bonello, you have the floor.

Thank you.

MR. BONELLO: Thank you, Mr. Chairman.

I think I can be brief, because as you have rightly pointed out, the proposal is very well known by now to members of the forum. It has been circulated by Mr. Graeme Wheeler on the 31st of August. Since then there has also been a draft statute proposed for the consideration of the members of the forum and a letter from Mr. Adams. On the same date, on the 13th of September, members of the forum were addressed a letter by the Prime Minister of Malta on the same subject, and as you said quite rightly, the recent Commonwealth Finance Minister's conference also took up the matter. So at this stage, and I noticed that the Chair has kindly started to distribute copies of the draft resolution, I think in the meantime we can go on to show a short video presentation which also contains a spoken message from the Prime Minister of Malta.

Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Bonello.

[Video played.]

CHAIRMAN: Thank you very much, Government of Malta. On behalf of all the Ministers, Governors and participants, we thank you for that excellent presentation through the screen.

I now call on Mr. Bonello to introduce a formal resolution, which will now call for the establishment of the Network. It needs to be seconded, and then, in view of its wide circulation over the past years, I am inclined to suggest that we put the resolution to a vote, unless members have major and substantial revisions to suggest.

Thank you.

MR. BONELLO: Thank you, Mr. Chairman.

I think we have now all had the opportunity to read through the proposal, which essentially reiterates the purposes of the Network in the first paragraph. Of course, these will be spelled out further in the statute and given substance, substantive form, later on in the form of a work program to be agreed later, and the Forum is being asked to agree to the proposal in principle here, and of course, everybody would thereby become part of the Network. And in order to take the process further, and also in view of the fact that the Forum only meets once a year, in order not to

take too much time to get this proposal to fruition, it is being proposed to entrust to a team composed of five persons representing four states, members of the Forum that have already acted as Chair of the Forum, plus Malta, as well as a representative of the World Bank appointed by the Commonwealth Secretariat, together to work on the statute, a draft of which has already been circulated, so I imagine the drafting team would be receptive to suggestions, proposals from members of the Forum in the meantime, but once they are constituted as a drafting team, they would have the possibility then to work as a small group to put together a final version of the statute.

So that, as the proposal says there, any guidance that would be received from the Forum members would be taken on board, and once, I suppose, the drafting team has completed their work, then it would be possible, using some form of communication between all the members, to activate the proposal and actually have the Network established.

Thank you, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Bonello.

The floor is open for comments or any proposals on the resolution that has been read in this meeting.

We need a second. Yes?

MAURITIUS: Mauritius. Mauritius supports the proposal, Mr. Chairman.

THE CHAIRMAN: The motion has been seconded by Mauritius. Sorry.

The floor is now open for any comments by member states.

[Pause.]

THE CHAIRMAN: It looks as if we are not hearing much objection. It looks as if we have a consensus on the resolution.

Yes, Kiribus?

KIRIBATI: Well, I presume, Mr. Chairman, that once it is seconded, there will be no further comments to add, but just a thought. Since the current Chair is not included as part of the drafting team, I would like to suggest that the current chair also be included there.

Thank you.

THE CHAIRMAN: We don't have any problems with that. It's up to the members to decide.

MR. BONELLO: Mr. Chairman, it shouldn't be any difficulty. In any case, I understand the drafting team

will be consulting widely and receiving any comments on the draft from more members who are free to do so, anyway. So I don't think there is any difficulty.

THE CHAIRMAN: Thank you.

Could we ask clarification from the mover and the seconder on the question that is raised by the member from Kiribus, whether it is appropriate to include the Chair in the drafting committee--yes or no, that's all.

MR. BONELLO: Yes, I think it would be possible to include Vanuatu as well in the drafting team. There is no difficulty there--as the current Chair.

THE CHAIRMAN: Thank you. I think that is accepted in the resolution. Seeing that it has been moved and seconded, and the proposal has been accepted, those who agree say "Ayes."

[A chorus of ayes.]

THE CHAIRMAN: Those who disagree--oh, sorry. The representative from Fiji.

FIJI: Chair, actually, I would have liked to ask just a clarification on two issues, but since it has already been seconded, what are the options that I have? Is it possible to suggest clarifications, or can't we do

that once it has been seconded? Just a clarification.

[Pause.]

FIJI: Just for clarity, Chair, in terms of this proposal. I know it has been discussed many times and so on. Just in hindsight in terms of this proposal, it is stated here in the first bullet point that other bilateral organizations are going to be involved, apart from the World Bank.

Is it possible just to get some ideas in terms of who are these bilateral organizations?

Second is in terms of the envelope for this total project. What are we looking at in terms of the whole? Is it that the Bank is going to provide the whole--while Malta is going to host it, the World Bank is going to provide assistance, but what sort of assistance? And are Forum island members expected to contribute a certain percentage to this Network? What is the total envelope we are looking at in terms of this, just for clarity, Chairman.

THE CHAIRMAN: Thank you, Fiji.

I will ask Mr. James Adams to respond.

MR. ADAMS: With respect to other donors, what we expect to be able to do is involve the donors that have

been interested in the small states issue, and I think that includes everything from the multilateral side, the Bank, the UN, the EU, to bilateral donors that have given an important emphasis on the small states issue.

So I would see it--and here, I'll come to the second piece--in terms of exactly the costing of the proposal, I think the intention is to use a trust fund mechanism to begin to mobilize resources, and after that initial work is done, the intention would be to put together a detailed budget, but I think that would come after the framework is set up and there is an agreement among the small states.

So I think that what we are focusing on now primarily is putting in place the legal structures and after that, obviously, the work would have to be done on detailing the proposals, including both the financing arrangements and the technical arrangements for how those would be managed.

THE CHAIRMAN: Thank you, Mr. Adams.

Fiji?

FIJI: I am just curious, because nothing is free, as you know. When you set up a proposed lending

budget for any particular aspect, nothing is free. There is always a cost. That is the reason we just wanted to clarify to member countries whether there is any contribution that we have to make from all member states as part of the whole Network, or is it all funded by--I know he is going to put forward a proposal in terms of budget--we understand that--but as far as the Network, in the future, are we expected to contribute a certain percentage from member countries who are part of this Forum, or not?

MR. ADAMS: I think the intention from the beginning--and I'll turn this over to Malta as well--but the intention from the beginning was to mobilize resources to engage capacities of these countries to work together, not to tax these countries. So I think the intention is to mobilize these trust funds to provide support, to energize interactions between the small states.

So, while there might be suggestions about participation in terms of some reviews by government officials, the intention is not to get a financial contribution from the small states. But please, let's also--

MR. BONELLO: I simply wanted to confirm, yes,

the point that Mr. Adams just made. In section 4 of the proposal, in fact, there is a very clear statement there-- "the understanding that financial support is not a prerequisite for membership of the Network or accessing its services." So that is the underlying intention.

THE CHAIRMAN: Thank you, Mr. James Adams, for the clarifications.

Colleagues, the resolution has been moved, seconded, an amendment has been accepted. A vote has been taken, there have been no negative votes taken. I declare that the ayes had it.

Let me now congratulate Malta for its hard work and for its willingness to stand up and be counted by agreeing to bear the cost of hosting the Network secretariat. I think it would be most beneficial to focus the discussion on suggestions for a work program or areas of focus, which discussion would also possibly contribute to subjects for next year's Forum.

Before I do so, I would like to suggest that while I am taking note of the proposal's text on the Board of Trustees, ask Barbados, Malta, Mauritius, Samoa, St. Kitts and Nevis, and the World Bank and the Commonwealth

Secretariat to review on our behalf the draft text of the Network's governing statute, which has been circulated to all members of the Forum, and submit to all members electronically a penultimate draft text for our comments, leading toward a final draft that would be considered on a no-objection basis by the end of this calendar year.

In the interim, the regional constituencies could be determining their nominations for the rotating chairs of the Board of Trustees.

I would also suggest that in this period, the World Bank, again in line with the text of the Network proposal, initiate efforts to 1) establish a multi-donor trust fund to finance the Network and its initiative, and 2) set out provisional proposals for a work program, bearing in mind the discussion that we are about to have.

May I have the Forum's assent for these suggestions?

[Pause.]

THE CHAIRMAN: We will now start the debate on how this Network can better respond to our needs, specifically what areas of focus we think the Network

should have in its first year of operation. And perhaps we could also tie this into the issue of possible topics for next year's Forum. I do not think we have to settle this latter matter now, but as Chair, with the responsibility of ensuring that members are satisfied that their deliberations are productive, I would wish the earliest possible guidance as to what subjects might be of interest. I would encourage you all to consider the task force report on the review of the small states.

May I seek assent of the meeting to allow time till the first of December to refer to your suggestions? We, for our part, will be liaising with the Pacific Islands Forum Secretariat, assist with providing issues that are of relevance to the countries in our region. I would also encourage you all to be in touch with your respective regional organizations.

We will now have intervention by Mr. Biagio Bossone and Mr. James Adams. If I may, in looking at the clock, I propose to bring discussion to a close. After reviewing the summary of the Forum that the World Bank will prepare, I will forward a Chair's summary of the network's interim Board of Trustees to guide the consideration of a

provisional work program, which they will submit to Forum members for comments.

One reason I am concerned about the clock is that I wanted us to take a very few moments to stand back and reflect particularly on the contributions of two individuals. First, and on behalf of my colleagues I wish to pay tribute to Mr. Biagio Bossone, the outgoing World Bank Executive Director of Albania, Greece, Italy, Malta, Portugal, San Marino, and Timor-Leste.

Mr. Bossone has been instrumental in fostering support for Malta's proposal for a Small States Network for Economic Development. But even more important, he has been exemplary in his energetic and proactive support for his less populous constituent states, an approach that is less widespread than we would like. Biagio, if you would rise for comment, we would be delighted both to recognize you and to listen to any words you might care to share at this time.

Thank you.

MR. BOSSONE: Thank you very much, Mr. Chairman.
Thank you for this acknowledgment.

I salute the approval of this resolution today

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with particular personal favor, also because in a few weeks I will be relinquishing my duties as Executive Director representing a number of countries, of course including Malta. So it's a special day for me to see this idea basically taking off.

I think at least two conditions were particularly important to make this initiative possible. One was the enthusiastic response from the Maltese authorities since the very beginning, even when the initiative was in its very infancy.

The second thing was the enthusiastic as well, I should say, response from the Bank. Here I should thank my good friend Jim Adams with whom we discussed this idea since the very beginning, and through his very constructive help we came to something that I think looks today quite interesting and appealing.

A couple more comments, if I may, Mr. Chairman. One is that the concept of ownership is extremely relevant here. I think the success of this initiative relies and will rely on the small states participating it owning it, feeling like being the owner of it. They have to consider the Network as they own, through which they can benefit.

But most of all I should say, through which they can give, they can contribute to others. Only to the extent that they will be willing to give, they would also benefit from it.

The second thing is I would like to really emphasize the importance of this instrument as one that would enable small states to raise their voice. One of the costs of being small--of course you know much better than me--is the feebleness of voice in the global context. So this is an instrument through which you will be able to really talk to each other, analyze problems, help each other, and maybe come up also to common positions that you will be able to put forward in the appropriate context.

Let me conclude by really wishing you the best. I will be watching this initiative hopefully becoming very, very successful and in a year's time at the next meeting of this Forum, the idea would be to have a very fully-fledged, globally operating, successful network.

Thank you very much.

[Applause.]

MR. CHAIRMAN: Thank you very much, Mr. Bossone. I would also like to take note of another person in

transition to whom we are indebted, Mr. James Adams, who is sufficiently familiar to all here assembled that I do not need to add words.

James, if you would like to say a few words since, although we hope and expect to see you again at these Forums, this is the final time that you will have oversight of this program.

MR. ADAMS: Thank you, Mr. Minister.

As I said at the beginning, this is actually the fifth time I've had the privilege of participating in the Forum. We've gone around the cycle, because I started with a chairperson from the Pacific Islands, we went through the Africa region, and Latin America, and the Caribbean region, and now we're back to the Pacific Islands again. So I feel very comfortable that we have in place in the Forum a framework within which people can discuss key issues and follow up those key issues.

In that context, I think the expansion that we've talked about today of putting in place a network is very important. I think Biagio has nicely underlined the advantages of the Network. It is, hopefully, about putting it in place where the good practices that exist in

individual small states can be more effectively translated and supportive to other small states. So I look forward to that being a more effective instrument of getting people within this room to actually draw from each other's strengths.

In closing, I just want to say that both the work of the chairs on this Forum has been essential to its success. I have appreciated very much the support we've had from the Maltese government.

The other participant that's been continuous has been the Commonwealth Secretariat, and we very much appreciated their emphasis on this agenda.

And finally, all the participants in the Forum, both on the partners' side in terms of countries, but also on the staff side in the Bank, who I think are committed to making this a more effective instrument, to work together.

So from my perspective, I'll move from being, I guess the host is the proper description I've had, to where I'll be a participant, because of course in the Pacific region where I'm going to work on East Asia in the Bank we have one of the key constituencies, including the country that you represent. So I'm not going to desert the Forum

and I certainly look forward to participating as a participant and not as a host. But I am confident that the new leadership of the group that I head in the Bank will give this a similar emphasis and focus to build on the Forum and to make a success out of the Network that's been proposed.

Thank you very much.

[Applause.]

MR. CHAIRMAN: Thank you very much, Mr. Adams, for that very encouraging talk.

Ministers, Governors, in conclusion, first let me thank all the presenters and other participants: together you have contributed to making this a highly productive Forum. I won't try to summarize everything we've said. I will leave that to the Secretariat staff who will produce and circulate a summary of our discussions and transcript of this session. These documents will be posted on the Bank's Small States website. However, I would like to highlight a few of the more critical points of our conversation.

One, the remittances are increasingly playing a major role in many of our economies. It seems to me that

facilitating access for temporary movement of labor and preparing our citizens for temporary work abroad is something that we should work towards. We can help each other in this and I would request the World Bank to report back at next year's Forum on ways in which small states as a group can advance the policy and implementation requirements to benefit from job opportunities abroad.

In a related matter, I would like an update on how best remittance flows can be sustained, and importantly, how can it be used to leverage productive investments.

Secondly, there is now doubt that the private sector has to be developed much more to sustain economic growth. We, for our part as small states, can contribute to push forward the reform agenda and at the same time request the World Bank to assist with more innovative ways to develop the private sector in the small states context.

Finally, today we discussed how we may deepen our ownership of the small states agenda through a dedicated institutional mechanism. I look forward to the learning of new developments as much as you, I am sure, in the coming Forums.

On that note, let me once again thank you all for participation in this Forum and extend my best wishes to you all. I look forward to working with you all in the coming months as we prepare for the 2007 Small States Forum.

Thank you very much for your attention.

[Applause.]

[Whereupon, at 5:41 p.m., the Forum was concluded.]