Global Conference on Development Agenda for Small States
London, 17-18 February 2000

Chairman’s Conclusions

Participants of this Conference have welcomed the contributions of the presenters of papers, as well as the work of the Task Force, which has already greatly advanced the debate on the opportunities and challenges facing small states.

As Chairman of the Conference, I have welcomed the contributions of participants to the discussion and am in no doubt that these will be a useful guide to the Task Force in completing its Final Report.

In my Chairman’s Conclusions from the Conference, I cannot promise to cover every detail and nuance that has been raised but I believe that in the following remarks I have captured a broad consensus from our deliberations.

Action and an Ongoing Work Programme

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

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

- The work of the Commonwealth in analysing the vulnerability of small states was welcomed, as was the derivation of a vulnerability index for developing countries. The latter analysis, just concluded, demonstrates that most small states are more vulnerable than their larger developing country counterparts, and proposes that this vulnerability should be taken into account in programmes of assistance provided by the multilateral development, finance and trade institutions. The work being carried elsewhere on similar indices was also recognised.

- The vulnerability and special characteristics of small states, and weak capacity in the private sector, contribute to perceived riskiness and difficulty in attracting private investment flows. A relatively high level of continuing official assistance is therefore appropriate for small states, as is the continued application of flexible graduation procedures at the multilateral institutions.

- Given the strong risks and consequences of natural disasters in many small states we welcomed the work by the World Bank on new approaches to disaster mitigation and insurance in the Caribbean. We also welcomed the Bank’s intention to co-operate with states in the region to develop and support risk pooling arrangements, to complement improved disaster mitigation and prevention measures (for example, in the context of the Prevention Consortium) which can greatly reduce the costs of disasters when they occur. And we encouraged the Bank to build on the same approaches in other regions.

- Many small states remain dependent on commodity production, and we encouraged the Bank in its further work on commodity price risk management to pay attention to issues and commodities of relevance to small states. We recognised, however, that many small states are exposed to different risks, for example fluctuations in volumes and tourism earnings, and that these will need a combination of different approaches.

- Many small states have vulnerable physical environments as well as vulnerable economies. As development takes place it will be crucial to ensure that it is sustainable, by protecting the environment at the same time. Many mistakes have already been made in this area, for example in insensitive tourism development and over-exploitation of non-renewable resources. We welcomed the willingness of the international agencies, including the World Bank, to support small states in this regard, both with advice and finance.

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2. Strengthening Capacity

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

- There is a continuing task of accumulating knowledge about policies and approaches that work and do not work for small states, and sharing this knowledge and experience among states both within and across regions. We welcomed the establishment by the Commonwealth Secretariat of a dedicated small states web site and the proposal that the World Bank establish a capacity for accumulating and sharing such knowledge, both that generated within the Bank and outside – using mechanisms such as the creation of a Bank-wide small states thematic group, developing a small states web site, and arranging meetings where representatives of small states can share experiences and discuss new developments.

- An important approach in tackling limited capacity in small states is to develop regional approaches wherever feasible. The multilateral institutions and other donors should reinforce existing programmes by enhancing their lending and non-lending services to encourage and support such co-operation, particularly by assisting regional organisations dealing predominantly with small states.

- A particular aspect of limited public sector capacity is the lack of adequate resources to participate fully in international trade negotiations. The Commonwealth, through its permanent trade advisers in Geneva and Fiji, already provides assistance of this type to its member countries. It will continue to do so and has expressed a willingness to take a lead in expanding such facilities. We welcomed the offers by the World Bank and others to provide additional support in this respect, and the recent creation of an ‘Advisory Centre on WTO Law’ – and hoped the WTO will find other ways to help, for example by allowing groups of small states to be represented collectively at discussions where they so wish.

- Another aspect of limited public sector capacity, where the multilateral institutions can help, is dealing with utilities’ regulation and competition policy; issues of considerable importance with the prevalence of monopoly or oligopoly suppliers in small states.

- Activities and requirements of multiple donors place heavy and unnecessary burdens on limited administrative capacity in many small states, as was well illustrated by a recent study by the World Bank Operations Evaluation Department. This needs to be addressed by a new approach building on principles of partnership and country leadership that underline the Comprehensive Development Framework approach. We strongly urged donors to join together country by country, in country-led partnerships to align their objectives, rationalise their support and simplify their procedures to reduce these burdens.
Again, helping build country capacity and the forging of closer working relationships with regional organisations would help in this regard.

3. Issues of Transition to the Developing Global Trade Regime

- Small states must adapt, indeed transform, their economies to secure the benefits of globalisation and the increasingly open global trading environment – trade policy for small states, as for other developing countries, needs to be seen as part of sound overall economic development strategy. But the work of the Task Force has shown that many small states will face special difficulties in making this transition and will need time to adjust to changes in the external trade regime, and sequence changes in their economies. For those vulnerable small states that are not LDCs, we recognised that it would be inappropriate to generally accord them the present Special and Differential Treatment for LDCs. However, their particular vulnerability should be recognised as justifying special consideration to deal with crucial areas of transformation of their economies, including length of transition period, and other matters as the global process of trade liberalisation, and removal of special protective regimes, continues. The WTO also needs a fundamental review of the current process of accession as it affects small states and the associated costs for these countries.

- We recognised that trade liberalisation can have major fiscal consequences for small states and were encouraged that the IMF takes a pragmatic approach to the advice it gives to small states that risk losing a major source of fiscal revenue as tariffs fall, recognising that for some open, small economies low, flat-rate tariffs may be a component of an efficient source tax system. However, as small states move to more service based economies, they will need to adopt broader-based consumption taxes. They will also need technical assistance from the IMF and others in tax administration.

4. New Opportunities and Challenges from Globalisation

- Some small states will need external support and advice as they seek to reposition their economies. They need enabling environments and the right kind of public policy support – for example in training and education, and creating regulatory frameworks – to encourage new activities, many of which will be in the service sectors.

- We recognised the right of countries to compete in international financial markets, through the provision of both onshore and offshore financial services. These activities are currently the subject of scrutiny by the OECD’s Forum on Harmful Tax Competition and the Financial Stability Forum. This is causing concern for a number of small states because of a lack of adequate consultation on the matters being addressed. We welcomed the OECD’s indication of willingness to engage constructively with small states on tax competition issues and encouraged the development of an effective multilateral discussion. We also noted the substantial importance of financial services to the economies of small
states and, at the same time, acknowledge the need for improvements in operating practices and regulatory standards in relation to financial transactions in order to safeguard the international banking and financial system, and to prevent financial and tax crime. It is important for all these issues to be considered in international fora where small states themselves have a voice so that their interests could be taken into account. It would therefore be appropriate for multilateral institutions to study these issues and look for solutions that pay proper regard to the interests of small states as well as the need to foster stability in the global financial system.

• Finally, work on the opportunities that information technology and electronic commerce can bring to small isolated states suggests that these technologies can be a major source of help in their development. But success requires the correct public sector infrastructure, crucially a regulatory framework that will deliver high quality/low cost telecommunications services. It is important to note that this provides a challenge in which many small states must have external support from the Multilateral Development Banks and others.

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

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

London
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