

PROPOSAL FOR THE ESTABLISHMENT OF THE SMALL STATES NETWORK FOR ECONOMIC DEVELOPMENT

1. INTRODUCTION

1.1 Background

Small states¹ have a number of special characteristics that constrain their development options. The most important ones stem from their small economic size, limiting their ability to reap economies of scale and diversify their economies. Small size also leads to a high degree of economic openness, rendering such states very vulnerable to external shocks – a reality exacerbated by the globalisation process. Those small states which are also islands face additional disadvantages, mostly associated with transportation costs.

1.2 International recognition of the special problems of small states

As a result of the growing interest in small states issues, and as a result of the fact that about 20 percent of all independent countries are small states (and therefore exert considerable political weight), a number of international and regional organisations have included small states issues as part of their remit. The Commonwealth Secretariat, with small states as the majority of members, was probably the first international organisation to champion the cause of such states, initially focusing on their political vulnerability and subsequently on their economic volatility. The Alliance of Small Island States (AOSIS), set up in the early 1990s, was instrumental in raising awareness of environmental issues, notably climate change. AOSIS also succeeded in giving a strong voice to small island states within the UN system. Other international organisations, notably UNCTAD, have supported small states in their endeavours to have their voices heard. Regional organisations in the Pacific and Indian Oceans and in the Caribbean also supported the cause of small states, so that at present there is a wide recognition that small states, particularly island ones, have special problems that hamper their economic development. The World Bank, too, has been active on small states issues, particularly in the years since the Commonwealth/World Bank Joint Task Force

¹ There is no single definition of a small state because size is a relative concept. Population is often taken as an indicator of size. In addition, there is no special significance in the selection of a particular population threshold to define small states. The Commonwealth and the World Bank, in their work on small states, typically use a threshold of 1.5 million people, but they also include larger member countries (Botswana, Jamaica, Lesotho and Namibia) because they share many of the same challenges characteristic of small states. The present proposal, which emerged at the 2005 Small States Forum held in Washington, DC, in conjunction with the 2005 Annual Meetings of the International Monetary Fund and the World Bank, uses the same threshold as a convenient operational yardstick for classifying all small states, and it applies the threshold and its focus only to sovereign states.

on Small States presented its final report to the Development Committee in April 2000. Not only has World Bank support for small states grown significantly in recent years, perhaps more importantly this support has broadened from projects and programs to include the founding and ongoing support for an annual Small States Forum. The Forum serves as a venue for small states to bring their concerns more actively, collectively, and directly to the international community, and its work benefits substantially from support by other partner institutions: the Commonwealth Secretariat, EU, IMF, UNCTAD, and WTO.

1.3 Leveraging and Extending Existing Relationships

This proposal puts forward the idea of setting up of a small states network under the auspices of the World Bank and the Commonwealth Secretariat as a means of facilitating the exchange of “development good practices” among small states and promoting the increased integration of the concerns and interests of small states into the policies and programmes of the international community.

The proposal builds on the discussion by small states and their partners during the 2005 Small States Forum, where reference was made to the work of the Forum since its inception, and to the strengths and weaknesses of international support for small states. During the discussion, the need for continuity between one session of the Forum and another, and the need for a heightened focus on the economic development of small states, were highlighted, and the establishment of a permanent secretariat of and for small states was mooted.

2. THE MALTA MEETINGS

During the 2005 Small States Forum held at the World Bank in September 2005, Malta proposed the setting up of such a network, and the other members of the Forum supported this idea. Subsequently a meeting was held in Malta in February 2006, between representatives of the World Bank, the Malta Ministry of Finance and the Central Bank of Malta in order to discuss the matter further, with a follow-up meeting held in July 2006.² During these meetings, it was agreed that there is potential demand for the services that could be offered by such a network (see Section 3). It was also agreed that for such a network to be successfully set up, leadership would be required by a group of small states to take the idea forward and to foster ownership. The Government of Malta has indicated its readiness to play such a role, in collaboration with interested small states.

² The meetings were held in Valletta, Malta, with James Adams, Henry Chase, and Executive Director Biagio Bossone representing the World Bank, Alan Caruana, Lino Briguglio and Gordon Cordina representing the Ministry of Finance, and Alfred Demarco representing the Central Bank of Malta.

In addition, it was also agreed that the structure of the network should be inclusive in order to facilitate a participative and mutually beneficial approach. Given that small states are heterogeneous in many aspects (geography, development, politics, language, history and culture), care should be taken to ensure that the Network serves its widest constituency and does so equitably.

The network should also ensure that its work is directly relevant to small states' issues by means of a small, permanent, well-resourced secretariat structure. The Government of Malta has expressed its willingness to host and house such a secretariat. Malta is an example of a small state that has been successful in development, in participating in regional integration, and in networking of expertise and technology. Malta is also at the forefront of promoting small states issues in academic circles, and currently serves as the Chair of the Commonwealth.

Participants at the Malta meetings also considered it critical that the network be owned, managed and led by small states. The network should, above all, be managed professionally in order to ensure efficiency and effectiveness in the provision of value added.

The participants at the Malta meetings also agreed that it would be beneficial for the success of the network if the World Bank formally recognised and supported it. The World Bank has subsequently made a commitment to support and actively participate in such an enterprise, as an additional element of its commitment to the development of small states.

3. OBJECTIVES OF THE NETWORK

Following the Malta meetings, the Government of Malta is proposing that that the Small States Network for Economic Development (SSNED) be established with the following objectives:

- (a) act as a clearing house to share expertise and technologies specific to small states, so as to provide countries with just-in-time services on specific policy and institutional development. Projects supported by the SSNED should involve the sharing good practice and should preferably involve the utilisation of expertise from small states, for example through twinning arrangements.
- (b) promote appropriate training opportunities utilising the considerable experience and expertise available in the small states.

- (c) build an inventory of experts to enable experts from successful states to share their expertise in order to help other small states in their development projects, and to promote competitiveness and resilience building.
- (d) provide a more continuous channel of communication among small states and between small states and the World Bank and other development institutions.
- (e) support the World Bank-sponsored Small States Forum.
- (f) reinforce the voice of small states, not only in the international arena generally but also within multilateral and bilateral organizations that support their development efforts.
- (g) discuss issues and seek solutions on matters of interest to small states, identifying, disseminating and utilising existing and fresh research.

4. NETWORK MEMBERSHIP AND STRUCTURE

All members of the Small States Forum are eligible to join the Network, with the understanding that financial support is *not* a prerequisite for SSNED membership or the accessing of its services.

The Government of Malta is proposing that the Network have a Board of Trustees and a Permanent Secretariat.

4.1 Board of Trustees

The Network shall have a Board of Trustees.

The Board shall be composed of:

- Five persons representing four Small States Forum Members that have completed service as Forum Chair (namely Barbados, Mauritius, Samoa and St. Kitts & Nevis), plus Malta, as the author of the network proposal and host of the network's secretariat.
- Four persons, representing other Members of the Network, elected for a period of two years by the Small States Forum. Three of these shall be located in Pacific, Caribbean, and Indian Ocean, and shall be respectively nominated by the Pacific Forum Secretariat, the Caribbean Community (CARICOM) and the Indian Ocean Commission. The fourth shall be located in a region other than the Pacific, Caribbean,

and Indian Ocean regions, and shall be nominated by those states eligible to this position.

- Four persons representing the following Partners:
 - the World Bank
 - The Commonwealth Secretariat
 - two major donor countries or organisations, as reflected in their willingness to support the work of the SSNED.

The Chair and the Vice-Chair of the Board shall be elected by the Board itself, for a period of two years, from among the Small State Members of the Board, on a rotating regional basis.

The Board shall have overall responsibility for policy and for financial control of the Network. The Board will review and approve work plans, budgets and reports prepared or authorised by the Secretariat.

4.2 Permanent Secretariat

The Network shall have a Permanent Secretariat, in order to:

- run the network on a day-to-day basis
- provide documentation for the deliberations of the Board
- execute all decisions of the Board
- prepare an annual report of the activities of the Network
- keep accurate and detailed records of financial transactions
- perform other tasks as directed by the Board.

The Secretariat will be led by a Secretary General, appointed by the Board for a period of five years, which can be renewed once for a second period of five years.

The size of the Secretariat shall be determined, and the members of the Secretariat shall be appointed, by the Board to match requirements appropriately with resources.

The World Bank has committed to designate a full-time staff member who would be responsible for maintaining relations with the Secretariat, helping formulate its initial work program, identifying priority development needs and issues of mutual interest, locating suitable sources of “just-in-time” expertise and, as needed, identifying suitable financial support for these services, and maintaining links with the Bank’s country departments responsible for small states.

4.3 Location of the Secretariat

It is proposed that the Permanent Secretariat of the SSNED be located in suitable premises in Malta, such as the Foundation for International Studies at the University of Malta. (The Foundation for International Studies has a long-standing experience in international affairs, and locating the SSNED there will foster synergies with the existing institutes and programmes within the Foundation.) The premises will be made available by Malta as its contribution to the SSNED. The Bank staff member would be located in Washington, DC, so as to better leverage SSNED activities and institutional and operational support for the Network.

5. TRUST FUND

The Network will be supported by a multi-donor trust fund, with the main functions of providing grant resources for projects and for the administration of the Network; the trust fund will be established with the assistance of the World Bank. The management of the trust fund will initially be undertaken by the World Bank, and will be passed to the Network as warranted by its capacity and in line with the applicable fiduciary obligations of trust fund donors.

Members of the Network will be invited to propose projects that could be funded by the Network through the trust fund. The Network itself can initiate projects utilising resources from the trust fund

6. FIRST STEPS

Endorsement for this proposal will be sought from Small States members, during the 2006 Small States Forum in Singapore. Endorsement will also be sought for the founding members of the Board of Trustees (outlined in 4.1) to function as a Working Group to report back on a proposed statute (to be circulated shortly) formally outlining the governance structure of the SSNED.

The following first steps are being proposed, subsequent to establishment of the SSNED.

- The World Bank will work to generate support among World Bank members and interested international organisations to establish a trust fund to cover the operating costs of the secretariat for the initial years. The European Union and the Commonwealth will be invited to support SSNED.
- The Board of Trustees will identify and engage Secretariat personnel.
- Board of Trustees will identify a number of pilot projects that can be realised fairly

quickly (see below).

- A budget for the first three years for the operation of the Network would be drawn up by the Board of Trustees.

7. INITIAL PROJECTS

The initial areas of focus for the SSNED will be determined by the Board of Trustees, bearing in mind advice offered in Singapore by members of the Small States Forum. The following suggestions are made here for consideration by Forum members:

- Projects aimed at assisting small states to develop taxation schemes to counteract the reduction in government revenue from trade taxes.
- Projects aimed at supporting small states to develop insurance scheme and disaster recovery support and mechanisms.
- Projects aimed at enabling small states to develop institutional capacity needed to compete effectively in world trade.

As previously noted, these projects should involve the sharing good practice and should preferably involve utilising expertise from small states, for example through twinning arrangements, funded through the trust fund described above.

8. TENTATIVE BUDGET

A budget for the first three years for running of the Network is indicated by Malta, in consultation with the World Bank. The following should be noted:

- Project initiatives are funded separately and are not included in this budget.
- Costs related to establishing and managing the proposed trust fund are not included in this budget.
- All salary scales conform to Malta wage scale norms and include National Insurance contributions to cover Malta pension requirements.
- Proposed management positions are for administration, IT systems coordination, and project initiatives coordination. A research and advocacy management position is anticipated after year 3.

TENTATIVE BUDGET FOR THE OPERATION OF THE SSNED FOR THE FIRST 3 YEARS

	2007	2008	2009
Budget Item	\$	\$	\$
Premises (rental value: Malta contribution)	65,000	65,000	65,000
Secretary General	50,000	52,000	54,000
Administration	100,500	103,000	106,000
Two Secretarial assistants	35,000	36,500	38,000
Professional services	20,000	10,000	10,400
Cleaning and services support	15,000	15,500	16,000
Equipment (rental value) and repairs	20,000	20,800	21,600
IT systems and related support	120,000	50,000	52,000
Travel and subsistence	70,000	80,000	90,000
Communications	20,000	20,800	21,600
Conference and Workgroup resources	60,000	70,000	80,000
Total	575,500	523,600	554,600