

JOINT COMMONWEALTH SECRETARIAT WORLD BANK TASK FORCE ON SMALL STATES AND ITS ADVISORY BOARD

17-19 February 1999, St. Lucia

Conclusions of the Conference

The following communication has been received from the Commonwealth Secretariat.

I. INTRODUCTION

This Conference is a key component of the work of the Joint Commonwealth/World Bank Task Force on Small States. The main purpose of this meeting was to ensure widest possible consultations on the vulnerability of small states and appropriate policies to overcome their problems. It was attended by over 125 people, representing 25 small states, the international donor community, a number of regional organizations and the private sector. Among the participants were several Prime Ministers and Deputy Prime Ministers, and senior ministers from small states. The meeting was opened by, the Hon. Kenny Anthony, Prime Minister of St. Lucia.

II. ISSUES

The conference debated many issues of concern to small states, with the assistance of a series of reports prepared for the meeting by the Commonwealth Secretariat and the World Bank (see Annex). The debate focused on the following issues:

- The implications of higher volatility in growth of output (GDP) for the development of small states;
- The problem of economies of scale on the one hand, and the advantages arising from trade openness;
- The role of trade preferences in growth of many small states;
- Greater opportunities created by globalization, but the transitional costs of integrating small economies into the global economy;
- The development of a vulnerability index, with widespread acceptability, to augment other criteria in the determination of the special and differential treatment of small states in the international system;
- The use of insurance and other financial instruments in mitigating adverse effects of disasters;

- The need to pursue sound domestic policies for sustaining economic growth;
- Policies to encourage domestic savings and to attract direct foreign investment and other private capital flows;
- Support from the international donor community in order to resolve the problems of transition of small economies; and
- The problem of graduation of many small states from various loan windows of the international financial institutions.

III. CONCLUSIONS

The meeting noted that the main aim of the Task Force was to undertake a comprehensive assessment of vulnerability and to call for the special and differential treatment of small states in the international system in order to overcome this problem. The St. Lucia Conference has advanced this process and clarified some of the critical issues. For instance, it was able to confirm that small economies experienced greater output volatility and were more vulnerable. The meeting also noted that spurious results could be derived from aggregate econometric analyses in view of the complexities of the concept of vulnerability. For operational purposes of the Task Force, a qualitative analysis was adequate to argue the case of vulnerability.

The meeting welcomed a World Bank initiative on small states, set out during the deliberations, that the Bank intended to place before its Board. UNCTAD proposed an inter-agency integrated approach for providing technical assistance to small states. Participants felt that it would be useful if other major agencies followed the World Bank approach, indicating the range of their programmes and how these might be modified to address the particular concerns and problems of small states. The main elements of the Bank's initiative were:

- A strategic assessment of small states, which would include an examination of the past record of these countries in terms of other social and economic development, as well as future prospects. (This will be annexed to the Report of the Task Force).
- The preparation of an in-depth analysis of globalization and its impact on small states. This would include proposals for the provision of an adequate transition period for small economies to be integrated into the global economy and the possibility of establishing adequate social security arrangements and financing mechanisms to cover transitional costs.
- *Ex ante* (mitigation) and *ex post* should be available to small states suffering from natural disasters. The Bank proposals on insurance and financial instruments for mitigating the adverse effects of these catastrophes were welcomed.
- The Bank would pay special attention to co-ordinating the assistance provided by donors and international financial institutions to small states. It would organize a meeting of these institutions at the earliest opportunity in order to discuss the modalities and identify niche areas for each organization in providing for such assistance, with leadership being accorded to the agency with the greatest comparative advantage in each particular area.
- The Bank would assist in the establishment and development of institutions to promote greater regional integration. For example, it would also provide assistance

to establish the necessary institutional arrangements to deal with WTO negotiations and issues of concern to these countries.

Other conclusions which emerged from the meeting were:

- (i) On the vulnerability index, the meeting recognized the robustness of the current work, though there remained some unresolved issues. Notwithstanding these limitations, the meeting noted its value as an operational tool. Now, the challenge for the Task Force was to determine its application and build a broad international consensus for its use.
- (ii) In terms of application of the index, the meeting noted the value of using it in conjunction with per capita GNP in determining eligibility for concessional assistance and graduation from the loan windows of international financial institutions. Furthermore, the index could be utilised by the WTO in determining the special and differential treatment of countries under its various provisions.
- (iii) More consultations were needed to secure agreement on the case for the special and differential treatment of small states in the international trading system. However, WTO rules should not be considered immutable. Also, there was greater optimism on issues such as streamlining WTO accession procedures, obtaining a reduction of membership fees for small states and establishing an Advisory Center to facilitate the use of the dispute settlement mechanism.
- (iv) Many small states do not have the capacity to participate effectively in WTO discussions. The Task Force was asked to explore the feasibility of setting up a small states facility in Geneva and arranging its funding on a multilateral basis.
- (v) The key role of knowledge and access to this asset was emphasized, as well as human resource capacity building, in promoting the development of small states. The broad consensus was to promote a regional approach to take advantage of new technologies in the field of communications, as well as in developing other infrastructure.
- (vi) The need for greater social justice at the international level was noted. A good case in point was the continued assistance given to military regimes and developing country nuclear powers by multilateral lending institutions, while access to such resources was denied to more vulnerable small states.
- (vii) It was considered that the work of the Task Force would benefit from more case studies analysing the diversity of experience of small states.

ANNEX

List of Reports

World Bank

1. Aid, Risk and the Special Concerns of Small States (Paul Collier and David Dollar)
2. Small States, Small Problems (William Easterly and Aart Kraay)
3. Small States in World Politics; the International Political Position and Diplomatic Influence of the World's Growing Number of Small Countries (Alan K Henrickson)
4. Economic Growth and Development Lessons from the Experience of Cyprus: A Small Island Economy (Symeon Matsis)
5. The Mauritian Experience (Nikbhil Treebhoo hun)
6. Proposed Strategy for a World Bank role in a Small States Regional Catastrophe Insurance Programme (John Pollner)

Commonwealth Secretariat

1. Small States: a Composite Vulnerability Index (Jonathan P. Atkins and Sonia Mazzi)
 2. Trade Implications for Vulnerable States of the Global Trade Regime (Roman Grynberg)
 3. After Lomé: A Strategy for ACP-EU Relations in the 21st Century (Christopher Stevens, Matthew McQueen and Jane Kennan)
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