



Small States Biennial Conference

Marlborough House, London, 28-29 July 2010

MARLBOROUGH HOUSE SMALL STATES CONSENSUS

Introduction

1. As representatives of small states from the Africa, Asia-Pacific and Caribbean Regions, we participated in the first Small States Biennial Conference, held at Marlborough House, London on 28 and 29 July 2010. The conference was convened by the Commonwealth Secretariat in response to the call of Commonwealth Heads of Government and Commonwealth Finance Ministers, at their respective meetings in 2009.
2. We reflected on the multiple challenges confronting small states in the global economy. We considered the profound adverse impacts of the global economic crisis on the development and growth prospects of small states and shared our assessments of the prospects for small states in the global economic recovery. A number of small states had strengthened their policy efforts in the pre-crisis period and had begun to achieve tangible improvements in poverty reduction and progress across the range of Millennium Development Goals. These gains have been substantially eroded by the global economic crisis, which has transmitted its impact to small states through several key channels, including investment, trade, tourism and remittance flows. We found that small states have been disproportionately affected by the crisis.
3. We emphasised that our countries suffer from acute vulnerabilities which are inherent to small states, including a susceptibility to external shocks. In recent years significant external shocks have transmitted to our small states through food, fuel, financial and environmental crises. We found that these have retarded our prospects for growth and sustainable development, and eroded our economic and social resilience.
4. We considered prospects for recovery. We found that small states are substantially lagging behind the progress of developing countries as a whole, as the global economy recovers. A return to pre-crisis levels of economic growth calls for an extraordinary national and collective effort by small states and will require augmented international financial and technical support, particularly including ODA and a substantial strengthening of human and institutional resources and capacity.

5. We shared and celebrated some examples of success and of best practices in small states, particularly in resilience building and recovery through effective economic management practices. These should be more widely shared among small states.
6. We considered opportunities to promote enhanced growth, sustainable development and poverty reduction in small states and agreed on a number of steps toward these goals. We observed that national actions alone will not be sufficient for small states to achieve these goals and the contributions and support of regional and international development partners will be crucial over the long-term. In this regard, we warmly welcomed the presence and active contributions of our partners in identifying challenges, exploring solutions, and considering how best to engage with small states in pursuing our shared and common objectives of achieving sustainable development and poverty reduction.

Vulnerability and Resilience of Small States

7. Because of our small size, we continue to face special development challenges, which we expect to endure over the longer term. These include limited ability to exploit economies of scale; limited prospects for trade and economic diversification; for some, a relative lack of natural resource endowments; dependence on a narrow range of exports coupled with high levels of import dependence, particularly on a basket of strategic imports, including food and fuel; remoteness and insularity; susceptibility to natural disasters; limited institutional and human capacity; lack of access to external markets; poverty; and unanticipated vulnerabilities due to openness to global financial and trade markets.
8. We emphasised that small states need to build resilience to cope with their inherent vulnerabilities. We welcomed the resilience framework especially formulated for small states by the Commonwealth Secretariat in collaboration with the University of Malta. The framework calls for macroeconomic stability, microeconomic market efficiency, social development, political governance and environmental governance. We agreed that the resilience framework should be further refined and taken up by interested small states with the necessary support of the Commonwealth Secretariat and international development partners. In this regard we urged the active consideration of the framework by international development partners, with a view to taking this framework on board.

Sustainable Development

9. We benefitted from an extensive discussion on sustainable development in small states. We recognised that strong and effective economic governance is essential to enable us to address poverty and invest in key resources for development, including human and natural resources. We noted the importance of building strong democratic institutions which would support sustainable outcomes.

10. Climate change is one of the greatest challenges to our sustainable development and in this context we explored the value of green economy approaches for small states, and some of the practical issues in applying such policies. These include improving access to finance, technology and human resources; strengthening national institutions and institutional capacity; improving and harmonising legislation; and improved coordination and planning.
11. We recognised that a number of opportunities could be leveraged through a greater use of integrated planning frameworks, and a stronger focus on resilience building in the following areas: renewable energy technologies, to both improve energy security and strengthen balance of payments in the medium term; sustainable transport systems; more sustainable use of water resources; and an improved response to natural hazards. To secure the best outcomes, it is also important to integrate environmental issues into all aspects of development policy, including trade policy.
12. We expressed a number of concerns about the cost of compliance with green goals. Support is needed for scaling-up pilot programmes and bringing economically viable technologies and approaches to the market in small states. Capacity needs to be built to better access existing financing mechanisms, and to deliver support through education, green economic metrics and technical advice. There are innovative areas that can be explored such as the role of oceans as carbon sinks, while continuing concerted efforts towards mechanisms that support payments for the carbon services of forests, particularly including standing forests. We strongly urged that the commitments to fast-start financing for adaptation agreed in Copenhagen be met expeditiously.
13. A number of specific opportunities have been identified for action, including the establishment of technology-based small states collaborative programmes to audit, develop and harness more effectively intellectual property assets in countries. We need to better capture and exploit the knowledge and experience that currently exists within our small states on green technology development and innovation.
14. We identified a number of priority concerns for the UN-led Mauritius Strategy for Implementation 5-year review process, which takes place in New York in September 2010. These include a fundamental need for greater and additional financial resources to support development efforts, and technology transfer on an affordable basis. We will also seek to have the concerns of small states effectively considered during the Rio+20 process.

Private Sector Development

15. A vibrant private sector remains a *sine qua non* for sustainable growth, job creation and the reduction of poverty in small states. In this regard, we agreed that small states must continue to improve their business

environment, and more extensively share experience from the many examples of best practice and reform within small states. We agreed that networks for sharing experience, policy development, legislation and best practices in innovation should be improved and strengthened. Inaccurate indicators for doing business can harm business development and bring unintended costs. In this regard we urged that in developing International Doing Business Indicators, international financial institutions exercise particular care in ensuring accuracy, to ensure that published information appropriately represents the status quo.

16. We noted the opportunities offered for improving service delivery through public-private partnerships, and agreed to pursue this further, with support from our development partners.
17. We recognised both the importance of the natural resource sector in some small states and the fact that their sustainable exploitation requires partnership between governments and the private sector. We agreed on the need to formulate natural resource policies, and strategies based on our development needs, to ensure that the exploitation of resources contributes to our overall development.

Access to International Finance

18. We noted that small states are disproportionately reliant on international capital flows. We expressed concern that many lack access to concessional finance. Access to stable levels of international resources is consequently a key to increasing resilience, reducing poverty and achieving sustainable development. We highlighted concerns about the greater vulnerability of small states to market developments caused by increasing dependence on non-concessional external and domestic sources of finance. In this context, we discussed the challenges of small states in achieving and maintaining access to the full range of international financial flows from private and official sources and how these challenges could be addressed.
19. The meeting observed that events in small states did not cause the global economic crisis, yet their sovereign access to international finance has been reduced and its cost increased. Furthermore, the reduction in foreign direct investment to small states has been greater than that to developing countries as a whole since 2007, and has not risen in the global recovery of 2010. In addition, net inflows to small states from private international creditors have recovered only slightly this year after their virtual cessation in 2009.
20. We welcomed the responses of the Bretton Woods Institutions in the crisis notably: the significantly increased flows of concessional resources and trade finance to a number of small states; revised access rules; reduced conditionality; and improvements in institutional governance. These measures should continue with a strengthened focus on promoting the interests of small states. Specifically, we called for the augmented level of

concessional resources and trade finance to be maintained at 2009 levels, at least until small states have restored pre-crisis levels of economic growth. We urged an ambitious replenishment of IDA16 and the allocation of a higher proportion of these resources to small states. We called on the Bretton Woods Institutions to further strengthen efforts to improve governance and the representation of small states.

21. We urged an increase in the level of official development assistance to small states. We acknowledged the maintenance of international development assistance at pre-crisis trends during the crisis, but stressed that donors should deliver fully on their commitments.

External Indebtedness of Small and Vulnerable Economies

22. We considered the external debt circumstances of our small states, many of which are middle-income countries. Many had high levels of indebtedness before the global economic crisis. The crisis has worsened this situation by reducing access to international private credit; prejudicing their sovereign ratings and significantly increasing debt servicing obligations. The result has been a significant deterioration in the debt sustainability outlook in many small vulnerable economies.
23. Many small states expressed concern about graduation and the consequent impact on access to concessional resources. The majority of small states categorised as middle- and high-income countries do not have access to international debt relief initiatives. Yet these states have significant exposure to vulnerability. For these reasons we called for a broader international recognition of the underlying debt problem of small and vulnerable economies and urged the international community to develop innovative instruments and mechanisms to address the debt problem of small vulnerable economies.
24. We recalled that Commonwealth Heads of Government and Commonwealth Finance Ministers last year called for the international community to address this challenge. We emphasised the need for these proposals to address specific challenges including debt restructuring and reduction; ensuring access to adequate finance on appropriate terms which ensure debt sustainability from the official and private sectors; and seeking to reform the current international financial architecture to help countries better manage their structural vulnerability to exogenous shocks and their impact.

International Trade and Regional Integration

25. We recognised that international trade is a key to the economic growth of small states. For many of our small states it represents over 50 per cent of GDP. While small states trade has grown, trade deficits have also deepened, particularly since the financial crisis. Many now face persistent trade deficits which require an effective solution. We recognised that in future, economic growth strategies in small states will require: the

development of innovative approaches to enhance regional cooperation on intermediate goods; investment in productive capacities in small states; diversification and value-adding; the further development of domestic markets where possible; support for the development of SMEs; stronger investment in environmental resources; and strengthening of regional integration.

26. In discussing regional diversification strategies, it was recognised that our traditional developed country markets remain important, but observed that trade is increasing amongst developing countries. Small states' export strategies need to orient towards these new sources of growth for exports. In seeking to diversify and expand trade, small states called on development partners to scale up aid-for-trade initiatives.

27. We urged the Commonwealth to conduct analytical work to examine the potential for emerging new South-South trade corridors, as well as to identify effective trade-related growth strategies for our small states, including through greater regional integration and cooperation. The meeting observed that configurations created by EPAs undermined regional integration in some regions. We urged that every effort be made to ensure EPAs contribute to the strengthening of regional integration. We called for a prompt and ambitious resolution of the Doha Development Round, with outcomes which advance the development interests of small states.

Small States in the Global Economy

28. We discussed the influence of small states in the global economy. We noted that their economic size and remoteness have severely limited their ability to influence global decision-making in trade, finance, social policy, the provision of global public goods and in international security; and has limited their ability to protect their interests when these decisions are made. Yet, exercising influence can ensure that their circumstances are understood, that international institutions are able to fashion appropriate policy interventions and responses and that international standards, codes and regulatory norms can be established cognisant of the capacities of small states to achieve these. Taken collectively, we noted that increased influence in global decision-making is central to the ability of small states to be able to address their vulnerabilities and to promote resilience.

29. Toward these objectives, we discussed the need for the international community to find ways to recognise small states as a special category in decision-making pertaining to international finance and international trade, and consider how tools such as vulnerability and resilience indices and profiling can be used to support such decision-making. We welcomed the discussion on the inclusion of the vulnerability criterion in the IDA allocation framework. We called for the international community to recognise the need for a formal definition of small states.

30. We explored the idea of a high level advocacy group at a political level. We urged that work continue on examining the concerns of small states, including through existing and new mechanisms. We also encouraged the Commonwealth Secretariat to strengthen further its efforts to develop and maintain networks for collaboration and the sharing of best practices amongst small states.
31. We welcomed the support that development partners have provided to small states over many years. We were encouraged by the collegiate, collaborative and supportive nature of the discussions, and encouraged development partners to explore ways to expand their technical and financial assistance to support the growth, development and resilience of small states; and to promote the greater use of qualified local expertise.

Conclusion

32. In concluding our deliberations, we agreed that the inaugural Biennial Small States Conference had served its purpose of taking stock of the circumstances of small states, highlighting progress and best practices, sharing experience, examining and discussing contemporary challenges and identifying a new generation of opportunities for collaboration.
33. We proposed that the Commonwealth Secretariat review the outcomes of the conference and develop a consensus-based plan of action, embracing small states, development partners and the Commonwealth Secretariat, as appropriate, to take forward over the next two years.
34. We agreed that the Commonwealth Secretariat should convene the second biennial conference in 2012.
35. We expressed appreciation to the Commonwealth Secretariat for convening and hosting this conference and to the Australian Agency for International Development for its support in co-sponsoring the conference.

Marlborough House
29 July 2010