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**Development-centred globalization:**

**Towards inclusive and sustainable growth and development**

## UNCTAD XIII pre-Conference event: Expert Group Meeting on Addressing the Vulnerabilities of Small Island Developing States (SIDS) more Effectively<sup>1</sup>

Held in Flic en Flac, Mauritius, 5–6 December 2011

Summary prepared by the UNCTAD secretariat

### Introduction

1. Seventeen experts and about 20 other participants convened to respond to the General Assembly's call for further moves "to consider what improved and additional measures might be needed to more effectively address the unique and particular vulnerabilities and development needs of small island developing States" (resolution 65/2 of 15 October 2010, para. 33). The first day of the meeting (5 December 2011) coincided with the adoption, by the Economic and Social Council in New York, of resolution E/2011/L.52 on small island developing States (SIDS), which echoed the General Assembly's earlier call as quoted above. This underscored the timeliness of the meeting.

2. Presentations and discussions were organized in three sessions based on three principal questions:

(a) What aspects of resilience-building should receive priority attention in the quest for structural progress, a central development goal of SIDS?

(b) What international support measures could make resilience-building efforts of SIDS more effective?

(c) Is the advent of a genuine "SIDS status" a necessary condition for addressing the vulnerabilities of SIDS more effectively?

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<sup>1</sup> Organized by the UNCTAD secretariat in cooperation with the Indian Ocean Commission.

## I. Findings and observations

3. The experts recognized, in the light of relevant data brought to their attention, that SIDS are, *inter alia*, (a) significantly (33 per cent) more vulnerable to external shocks with economic consequences than non-SIDS developing countries; (b) considerably (over 12 times) more exposed to oil price-related shocks than non-SIDS; and (c) structurally more vulnerable (by at least 8 per cent) to climate change effects than non-SIDS developing countries;

4. It was also recognized that, although the issue of SIDS vulnerability has often been highlighted within and outside the United Nations, the relationship between vulnerability and socio-economic progress (or lack thereof) has been largely overlooked in the SIDS agenda. The concurrence of high vulnerability to the risk of external shocks and relative prosperity in comparison with other types of economies (the “island paradox”) was noted as a unique characteristic of SIDS.

5. The problem of high indebtedness (as measured through the external debt to GDP ratio) was referred to as an issue common to several SIDS. Debt burdens were analysed as “the price of small islandness”, explained by the exorbitant cost of development financing when a small economic base is not commensurate with the indivisible cost of a needed infrastructure. The need for a new generation of concessionary financing measures in which per capita income would cease to be a determining criterion was voiced by the experts, who advocated the use of vulnerability-related criteria in assessing the eligibility of a SIDS for concessionary financing.

6. The experts recalled the World Bank’s “small island exception” policy as perhaps the only existing international support measure for SIDS, although the World Bank has not applied it across all SIDS regions, and has never explicitly referred to any SIDS status. Through this exception to its concessionary policy over two decades, the World Bank has granted to small island economies with a lower middle income the level of preferential financing terms that would normally be reserved for low-income States.

7. Another facet of the “island paradox” was recalled, namely the fact that decades of political attention to these countries (notably in the United Nations arena) could have generated so little special treatment of SIDS. The non-reference to the SIDS denomination in the World Trade Organization, where special attention has been focusing on an alternative, undefined cluster (“small and vulnerable economies”), was noted as evidence of the sharp contrast between the historical significance of Least Developed Country (LDC) status on the one hand, and the elusive nature of SIDS status on the other. The recent initiatives by some development partners to offer “smooth transition” measures to countries (mostly SIDS) graduating from the LDCs category were praised.

## II. Recommendations

### A. Development financing

8. Empirical and analytical work to assess the magnitude of the debt burden endured by SIDS should be undertaken before any plea for concessionary financing mechanisms can be made credibly. Such analytical work should at the same time examine the evolution of SIDS financial needs in the light of trends in aid and foreign direct investment flows. The experts did not discuss the list of SIDS that should be relied upon for this work. **UNCTAD’s role in this particular analytical area was referred to as desirable.**

9. Financial mechanisms to respond to the problem of “lumpiness” in the investment needs of SIDS should be explored, probably as part of a wider debate toward possible generalization of the World Bank’s “small island exception”. The natural role of regional development banks was underlined, as was the importance of clarity in the list of potential beneficiaries (genuine SIDS).

## **B. Trade policy**

10. SIDS should explore the justification for, and possibility of, persuading preferential market access givers to introduce, for SIDS only and on SIDS-specific grounds, elements of relaxation in rules of origin, given the difficulty, for many SIDS, to meet value-added requirements. The experts noted that such flexibility would be a form of preferential treatment, naturally implying clarity about the range of beneficiaries, therefore an internationally accepted list of SIDS.

11. Preferential market access givers should also be encouraged to consider (and find multilaterally acceptable modalities for) extending, for an indefinite period, duty-free quota-free access for products originating from countries that just graduated from LDC status when these countries are SIDS and formally requesting this special treatment. **The history and competence of UNCTAD in the above two matters were recalled.**

## **C. Technical assistance**

12. The idea of establishing a special programme of technical assistance to SIDS should be explored within the United Nations system, with a view to supporting the resilience-building efforts of these countries. The following two areas of technical assistance could be focused upon, *inter alia*, (a) legal advice on trade law aimed at enhancing the value added and branding potential of SIDS’ traditional products, particularly in relation to fisheries, an area of key economic interest in which geographical indications are often desirable, and where the question of rules of origin is likely to be a thorny issue; (b) technical advice to secure market entry for products of export interest, notably to facilitate compliance with sanitary and phytosanitary requirements, and legal advice on how to challenge action possibly aimed at restricting or banning imports of SIDS products. **UNCTAD’s role in this regard (preferably within a multi-agency framework) was called upon.**

## **D. Systemic action (of relevance to the question of SIDS status)**

13. An expert group meeting to discuss criteria for defining the countries that are targeted (though not named) by the Mauritius Strategy for SIDS should be convened in 2012, in advance of the work which the Committee for Development Policy will be undertaking in accordance with resolution E/2011/L.52 on SIDS. It was suggested that the Office of the High Representative for Least Developed Countries, Land-locked Developing Countries and Small Island Developing States (OHRLLS) would be a naturally qualified institution to convene this meeting, which should bring together multi-disciplinary entities and persons from within and outside the United Nations system. **The historical role of UNCTAD in category-related matters was referred to as a strong reason for further involvement of the secretariat.**