

The Gozo Workshop on Economic Resilience of Small States

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Introduction

In April 2006, the Commonwealth Secretariat and the Islands and Small States Institute of the University of Malta organised a workshop on economic resilience building in small states. The workshop was attended by various experts from the United Nations, the World Bank, the Commonwealth Secretariat, Wider Institute, the Food and Agriculture Organisation, the Pacific Forum, the Foundation for Development Cooperation, the Indian Ocean Commission, the Australian National University, the University of the West Indies, the University of the South Pacific and the University of Mauritius.



The opening session of the Workshop. From left to right: Dr Eliwoni Kisanga, representing the Commonwealth Secretariat, Prof. Lino Briguglio, the convener of the Workshop, Mr Tony Borg, representing the Ministry for Gozo, and Mr Giovanni Miceli, representing the Ministry of Foreign Affairs.

Objectives

The objectives of the workshop were to discuss the methodology of indicator construction and to propose ways in which an economic resilience index can be constructed with the aim of (a) supporting decision-making relating to resilience building to enable small states to withstand their inherent economic vulnerability and (b) setting targets, monitoring developments and establishing good practice benchmarks with regard to resilience

building. Another aim of the workshop was to issue a statement on the need for economic resilience building in small states.

During the workshop a number of indices were presented and discussed. These included:

- Indicators of Sustainable Development (United Nations)
- The Human Development Index (United Nations)
- The Environmental Sustainability Index (Yale University)
- Constructing a Governance Index (World Bank)
- Country and Policy and Institutional Ratings Assessment (World Bank)
- The newly compiled Index of Economic Resilience presented by members of the Economics Department of the University of Malta.

The discussion focussed on the need for resilience building in small states. This need for resilience building has been given centre stage at the “Mauritius Strategy for the Further Implementation of the Barbados Programme of Action”, which was adopted by the International Community in January 2005.

The Economic Resilience Index

Professor L. Briguglio and Mr. G. Cordina delivered a presentation on developing an economic resilience index. The index attempts to measure what a country is doing to mitigate or exacerbate its inherent vulnerability.

Prof Briguglio explained that small jurisdictions tend to be economically vulnerable and this reality is well-documented. The main factors leading to such vulnerability are a very high degree of economic openness, a high degree of dependence on a narrow range of products and a high degree of dependence of strategic imports, notably food and fuel.

Although economic vulnerability poses serious development constraints, many small jurisdictions do not perform badly by international standards. Prof. Briguglio called this reality the “Singapore Paradox” referring to an inherently economically vulnerable small state that has managed to cope with its vulnerability through deliberate economic development policies. He argued that, therefore, economic vulnerability need not necessarily lead to poverty or underdevelopment. On the other hand, larger countries, including those endowed with natural resources, may remain economically backward if they fail to adopt good governance and sound economic policies.

The “Singapore Paradox” can be explained in terms of the juxtaposition of economic vulnerability and economic resilience. Mr Gordon Cordina referring to such juxtaposition, proposed a methodological approach whereby economic vulnerability is confined to inherent features which are permanent or quasi-permanent, while economic resilience is associated with man-made measures, which enable a country to withstand or bounce back from the negative effects of external shocks.

In this regard the term “economic resilience” would refer to a country’s ability (a) to recover quickly from a shock (shock counteraction) and (b) to withstand the effect of the shock (shock absorption). Mr Cordina argued that the issue of resilience is of particular importance for small jurisdictions, because it relates to a country’s ability to move on economically in spite of their high exposure to downside risks.

Mr Cordina put forward the argument that policies that promote macroeconomic stability and improve flexibility in market adjustment are important for economic success in small jurisdictions, be they politically independent or otherwise. He said that the methodological approach proposed by juxtaposing vulnerability and resilience can be used to put forward the argument that being small and vulnerable need not lead to economic backwardness in a particular jurisdiction, if suitable policies are adopted to strengthen economic resilience. It also supports the argument that small jurisdictions states, should not take a complacent stand in the face of their economic vulnerability, but should take action to build up their resilience. Finally the exercise

points to the need for the international donor community to support small island developing states in building their economic resilience.

Economic Resilience and Good Governance

Throughout the workshop, it was emphasized that economic resilience does not depend on economic variables only, with good governance being singled out as an overarching condition in this regard. Social development was also considered as important contributory factor towards economic resilience building. The index of economic resilience proposed by the Economics Department of the University of Malta attempts to bring all these factors together and to quantitatively estimate the extent to which countries have adopted resilience building policies.



A session of the workshop in progress

Final Statement

At the end of the workshop, participants adopted the following statement

1. Twenty-five experts from Commonwealth countries and international/regional organisations participated in a workshop on constructing an index of economic resilience of small states, held at the University Gozo Centre, Malta, between 10 and 12 April 2006. The participants included policymakers, practitioners and academics from the World Bank, the United Nations, the FAO, the Indian Ocean Commission, the Pacific Forum Secretariat, the Commonwealth Secretariat and from Universities of a number of small island states.

Eight University of Malta post-graduate students and two researchers from the Central Bank of Malta attended as observers.

2. The workshop built on the outcomes of the workshops held in Gozo (Malta) in March 2004 and March 2005 where the concepts of economic vulnerability and resilience were defined and a preliminary index of economic resilience was developed. The April 2006 workshop sought to further develop the framework for the measurement of economic resilience primarily by considering its potential relationships with other indices intended to measure one or more facets of resilience including Indicators of Sustainable Development, Human Development Index, Environmental Sustainability Index, Governance Index, Country Policy and Institutional Assessments and Competitiveness Indices. The Workshop also explored policy orientations towards developing economic resilience in order to mitigate the effects of economic vulnerability.

3. The workshop took into account the outcomes of the Mauritius International Meeting to review the implementation of the Barbados Programme of Action for the Sustainable Development of Small Island Developing States, held in January 2005. The Mauritius Meeting confirmed that SIDS as a group face particular handicaps as a result of their economic, environmental and social vulnerabilities, and called for work on the development of a resilience index. The workshop also took into consideration the Gozo Statement on Vulnerable Small States which emerged from the Commonwealth Heads of Government Meeting held in Malta in November 2005, which stated that inter alia “small states face well-recognized vulnerabilities, and that they are now confronted by new challenges.” The statement recognizes the “significant efforts that small states have made within the limits of their resources and capabilities to build levels of resilience to their vulnerabilities” while urging “the international community to take stronger and more effective action to help vulnerable small states”.

4. Participants discussed various issues that influence the economic vulnerability of small states including:

- their exposure to international trade;
- international trade arrangements including the

erosion of preferential trade arrangements;

- governance weaknesses;
- climate change and natural disasters;
- HIV/AIDS and other major health problems.

5. Participants reaffirmed that the concepts of vulnerability and resilience and their importance of small states are now internationally recognised. Vulnerability arises from an inherent exposure to adverse external shocks beyond the country’s control, as well as structural handicaps, exacerbated by inter alia a high degree of openness, export concentration and high dependence on strategic imports, remoteness and high transport costs, susceptibility to natural disasters and climate change. Although these conditions pose serious handicaps for the sustainable economic development of small states, participants noted that a number of small states have been able to mitigate the effects of these difficulties through appropriate policy orientations focused on building resilience.

6. Participants agreed that resilience building in small states should be given top priority in view of the high exposure of these states to external shocks.



The video-conferencing session in progress. Dr D. Kaufman addresses the workshop from his World Bank office in Washington DC.

The Resilience of Small States

7. Participants recognized the need for a focused conceptual framework on resilience building in addressing the vulnerability concerns and promoting sustainable economic growth, as well as in strengthening national and regional policy approaches. The building of economic resilience has been recognized to emanate from good policy

practices in sustainable development, including: macroeconomic stability; microeconomic market efficiency; governance, social development and cohesion, and environmental management.

8. Participants considered the further work that has been undertaken on an index that attempts to measure the degree of economic resilience with regard to these dimensions, based on available information. The participants agreed that the work carried out so far as presented in the workshop constituted a valid contribution to the development of a methodological framework and the measurement of economic resilience. This work should in future continue also with a view to effective policy orientations towards resilience-building by strengthening country policies and institutional performance through consultation and collaboration with international organisations.

9. Participants also recognized the need for integrated, participatory and collaborative schemes, involving all major stakeholders, to ensure the success of resilience strategies, principally through capacity building.

10. Participants recognised that the primary responsibility for building national resilience lies with the individual countries themselves. At the same time participants recognised the role that the international community can play in supporting countries in this endeavour.

Recommendations for Small States

11. Participants agreed that available evidence and expert opinion supports the view that the building of resilience requires an integrated approach covering a wide range of policy dimensions. Among the various policy issues in this regard, participants highlighted the following:

- (a) prudent and sound macroeconomic policies within the context of promoting competitiveness within a framework of sustainable economic growth and development;
- (b) appropriate microeconomic policies aimed at promoting the efficient use of resources;
- (c) promotion of good governance in the public and private sector to facilitate sustainable economic growth, ensure security and respect for the rule

- of law, eradicate corruption and to promote accountability, transparency and efficiency;
- (d) education, training and lifelong learning to promote human capital, including entrepreneurship;
- (e) social development and cohesion through programmes aimed at eradicating poverty and promoting dialogue among stakeholders in development;
- (f) the enhancement of ecological capital and sound environmental management through horizontal and vertical integration of environmental sustainability, and the acknowledgment that environmental resilience is an integral part of economic resilience;
- (g) capacity-building towards the formulation, effective implementation and evaluation of policies and programmes aimed at building resilience;
- (h) enhancement of capacity to efficiently utilise external resources to build resilience;
- (i) identification of best practices and sharing of experiences in the development of resilience; and
- (j) building greater awareness among policy makers and all stakeholders regarding the need for resilience building.



Workshop lunch at the central courtyard of the University Gozo Centre

Regional and International Dimensions

12. Participants agreed that the negotiating capacity of small states, particularly SIDS can be enhanced by appropriate analytical tools including vulnerability and resilience indices. The support of regional and international organisations was urged in this regard.

13. In particular, participants welcomed the

mandates of the UN General Assembly of July 2005, the UN-DESA Regional Meetings culminating in an inter-regional meeting in Rome in November 2005 and the continuing support being committed by the UN to SIDS through each UN agency to provide support to these states.

14. Participants discussed regional cooperation and integration as instruments in the structural adjustment process in building resilience.

15. Participants commended the work of international and regional organisations that have supported efforts by small states to promote their sustainable development and in strengthening their negotiating capacity.

Future Work

16. Participants recognized the potential value of the resilience index as a tool for planning and development and commended the work presented so far in improving the evidence base for building and measuring economic resilience of small states. They agreed on the need for further research work in the area of resilience, particularly by using the results obtained to identify the best policy orientations for small states to develop their economic resilience to assist national and regional policy-making. In particular, participants urged the undertaking of research to identify cases of best practice regarding resilience building among small states from which important lessons can be derived for other small states and for the international community. This research should encompass a sufficient cross-section of small states, taking into account differences in their economic, social and cultural characteristics.

17. Participants requested the Commonwealth Secretariat and the University of Malta to organise an international conference aimed at disseminating information about resilience building and to foster awareness on the need for small states to build resilience to mitigate their vulnerability, involving possible users of the economic resilience index.

18. Participants agreed that refinements carried to be done to the economic resilience index, including the factoring in of environmental management concerns.

19. Participants also noted the need for dissemination

of information about resilience building at fora which attract high level participation from SIDS and support from key stakeholders, including the 9th Annual Conference of the Global Development Network (GDN) will be hosted by the Oceania Development Network (ODN) in Brisbane, Australia, in January 2008. The ODN has supported inter-regional networking on SIDS' issues and participants were invited to consider the possibility of a contribution to GDN 2008 or a side-event focussing on resilience building for small states, which could attract high level participation and support from key stakeholders.

Expression of Gratitude

20. Participants expressed their gratitude to the Government of Malta and the University of Malta for their hospitality and warm welcome and for creating congenial conditions for a successful meeting.

21. Participants also thanked the Minister of Foreign Affairs and the Minister for Gozo for their contributions to the deliberations, and the support expressed by both ministers in promoting measures in favour of small states.

22. Participants requested the Chairman of AOSIS to circulate the workshop outcomes to the members of AOSIS, and other international organisations to note and disseminate this final statement.

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