CARIBBEAN DEVELOPMENT BANK

SPEECHES PRESENTED BY THE PRESIDENT
DR. COMPTON BOURNE, O.E.

DURING THE PERIOD

SEPTEMBER 2004 TO MARCH 2005

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BY
THE PRESIDENT
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CDB is pleased to present this selection of Addresses delivered on various occasions between September 2004 to March 2005 by the President, Dr. Compton Bourne, O.E.

APRIL 2005

ABBREVIATIONS

ACP	**African, Caribbean and Pacific**
bn	**billion**
BMCs	**Borrowing Member Countries**
CARICOM	**Caribbean Community**
CARIFTA	**Caribbean Free Trade Area**
CCJ	**Caribbean Court of Justice**
CEO	**Chief Executive Officer**
CDB	**Caribbean Development Bank**
CSME	**CARICOM Single Market and Economy**
CTAG	
EU	**European Union**
FTAA	**Free Trade Area of the Americas**
GDP	**Gross Domestic Product**
GNP	**Gross National Product**
HDR	**Human Development Report**
LDCs	**Less Developed Countries**
MDGs	**Mille nnium Development Goals**
mn	**million**
OECD	**Organisation for Economic Cooperation and Development**
OECS	**Organisation of Eastern Caribbean States**
REPA	**Regional Economic Partnership Agreement**
UK	**United Kingdom**
UN	**United Nations**
UNECLAC	**United Nations Economic Commission for Latin America and the Caribbean**
USA	**United States of America**
VAT	**Value Added Tax**
WTO	**World Trade Organisation**

TABLE OF CONTENTS

Page

REMARKS

by

DR. COMPTON BOURNE, O.E.

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

at the

CEREMONY FOR THE SIGNING OF LOAN AGREEMENTS

for the

BUCCOO COMMUNITY DEVELOPMENT PROJECT

and

INSTITUTIONAL STRENGTHENING PROGRAMME OF THE TOBAGO HOUSE OF ASSEMBLY

SEPTEMBER 3, 2004

TOBAGO

REMARKS AT THE CEREMONY FOR THE SIGNING OF LOAN AGREEMENTS FOR THE BUCCOO COMMUNITY DEVELOPMENT PROJECT AND INSTITUTIONAL STRENGTHENING PROGRAMME OF THE TOBAGO HOUSE OF ASSEMBLY

Hon. Camille Robinson-Regis, Minister of Planning and Development, Mr. Orville London, Chief Secretary, Tobago House of Assembly, Secretaries of the Tobago House of Assembly, Ladies and Gentlemen:

I am privileged to have been invited to participate in this Signing Ceremony. The Caribbean Development Bank (CDB) of which I have the honour to be President approved two loan agreements with the Government of the Republic of Trinidad and Tobago. Both are intended to be of direct benefit to Tobago.

One of the agreements finances the provision of technical assistance for feasibility studies and preparation of final designs for the Buccoo Community Development Project. This project is of tremendous significance for the residents of the area and for tourism in Tobago. Several critical problems or deficiencies have retarded the proper socio-economic development of the community. They include:

(i) degradation of the beach and near coastal waters;

(ii) the absence of properly functional facilities for landing fish and processing fish;

(iii) a recreational jetty in urgent need of rehabilitation for use by boats which service the Reef and Nylon Pool;

(iv) the inadequacy of water and sewerage facilities which constitute health hazards and pollute the beaches;

(v) the inadequacy of parking facilities for the growth in entertainment services such as the now famous "Sunday School"; and

(vi) the absence of a community centre.

The Tobago House of Assembly and the Ministry of Planning and Development have determined that substantial progress be effected on all of these matters. The intention is to construct a new fishing jetty and to construct a fish facility which would allow for sanitary disposal of fish waste and provide cold storage for unsold catch. It is also the intention to rehabilitate the existing concrete jetty currently used by fishing boats and by tour boats into a dedicated recreational jetty. With respect to water and sewerage, the project will construct and remodel the surface drainage system and establish a centralised waste-water system. Furthermore, a new Community Resource Centre and Goat Race Facility will be constructed. This multi-purpose facility will cater for cultural presentations, television broadcasting, village council meetings, etc.

The other loan agreement is directed towards strengthening the capacity of the Tobago House of Assembly to manage projects, including their financial dimensions. The project has four components:

(i) establishment of an effective public sector investment programming management system;

(ii) support for the establishment of a Treasury Management Unit;

(iii) strengthening procurement management systems and procedures; and

(iv) enhancement of the capacity of the Management Services Unit to provide management consultancy services.

The CDB, which has an extremely strong commitment to promoting the socio-economic development of all its Borrowing Member Countries and to improving their public governance in the broadest sense, has no doubt that the initiatives taken by the Tobago House of Assembly and the Ministry of Planning and Development have the potential for conferring major benefits to the people of Tobago. We are proud to be able to play a small part in the process.

On behalf of the Management and Staff of the Bank, I wish the Tobago House of Assembly every success in these undertakings.

ANNUAL CONFERENCE OF THE ASSOCIATION OF THE CARIBBEAN UNIVERSITIES AND RESEARCH INSTITUTES UNICA 2004

Address by

Professor Compton Bourne, Ph.D., O.E.

President

Caribbean Development Bank

at the

THE ROLE AND SIGNIFICANCE OF HIGHER EDUCATION IN THE SUSTAINABLE DEVELOPMENT OF THE CARIBBEAN

CURAÇAO

NETHERLANDS ANTILLES

NOVEMBER 10-13, 2004

THE ROLE AND SIGNIFICANCE OF HIGHER EDUCATION IN THE SUSTAINABLE DEVELOPMENT OF THE CARIBBEAN

I. INTRODUCTION

I have been asked to address the topic of the role and significance of higher education in the sustainable development of the Caribbean. Sustainable development means different things to different people. Some conceive of it in environmental terms with particular regard to conservation and preservation of the environment for current and future generations. Others see it in terms of a country's ability to provide decent, healthy, affordable livelihoods for its people over time.

For present purposes, I choose to work with a definition rooted in economics, though by no means denying the salience of the environmental quality perspective for the work of higher education institutions. Certainly, academic curricula and training programmes which develop human understanding of ecological and environmental issues and concerns, which develop human capacity to make sound decisions and to effectively regulate and manage treatment of the environment must make meaningful contributions to the quality of life now and into the future.

One can go further and recognise the influence of environmental factors on economic performance. Tourism, a major Caribbean industry, owes its success in no small measure to the quality of the physical environment. Erosion of beaches, degradation of mangrove swamps, pollution of rivers, and global warming resulting in increased frequency and magnitude of natural hazard occurrences can reduce the attractiveness and earning potential of many of the Caribbean islands. Likewise, bio-diversity loss for plant and animal species can counter attempts to develop ecotourism and safari-type tourism products in other countries such as Dominica and Guyana.

The focus on an economic-based definition of sustainable development in this presentation is therefore one mandated by time constraints.

II. SUSTAINABLE ECONOMIC DEVELOPMENT

Sustainable economic development may be defined as an upward trajectory or path of economic growth and socio-economic development which is resilient to external shocks. Incorporation of "socio-economic development" in the definition is intended as a reminder that the link between economic growth and improvements in quality of life summarised by the term "socio economic development" although usually positive is by no means unique in the mathematical sense that economic growth does not necessary lead to socio-economic development.

The notion of an upward trajectory has two factors. Firstly, it encompasses the time displacement, i.e. upward shift, in the economic growth performance of Caribbean countries**.**

Table 1 shows that average annual economic growth rates for these countries have tended to be in the vicinity of 2% to 4% over the past decade. Sustainable economic growth requires economic growth rates of the order of 6% to 8%. Secondly, the notion of upward trajectory speaks to the persistence of economic growth. The third and fourth columns of **Table 1** show that for many countries the standard deviation of GDP growth rates are between 3% and

6% of annual average growth rates. Volatility is what presently characterises the economic growth record of Caribbean countries. Sustainable economic development requires stable economic growth.

TABLE 1: Economic Growth in Some Caribbean Countries

	Average Annual Growth Rates of per capita GDP (Percentage)		**Standard Deviation of Growth Rates (Percentage)**	
Country	**1980s**	**1990s**	**1980s**	**1990s**
Antigua & Barbuda	6.66	1.96	3.49	3.20
Bahamas	1.61	0.01	5.80	2.62
Belize	2.81	1.93	6.14	2.99
Barbados	1.82	0.50	4.40	3.68
Dominica	6.29	1.95	4.60	1.31
Dominican Republic	1.52	3.03	2.86	4.37
Grenada	4.72	2.53	3.54	2.58
Guyana	-3.32	3.79	4.92	3.99
Haiti	-1.49	2.47	2.95	5.56
Jamaica	0.19	-0.12	4.30	2.01
St. Kitts & Nevis	6.89	4.32	4.96	2.04
St. Lucia	4.28	3.14	10.49	6.54
Suriname	-1.73	2.71	8.64	5.23
Trinidad & Tobago	-0.73	2.30	5.86	5.23
St. Vincent & the Grenadines	4.80	2.42	3.47	3.20

Source: Taken from Tables 1.2 and 2.1 in "Macroeconomic Volatility, Household Vulnerability and Institutional Policy Responses", Report No. 24165-LAC, World Bank, June 2002.

The external shocks, i.e. factors which may drive Caribbean economies off their warranted growth paths or their historical growth paths may be placed in three categories: economic, political and physical. Among the economic the more significant are adverse changes in foreign trade regimes, collapse of markets and large negative changes in financial flows. There have been adverse changes in the trade regime for bananas by the World Trade Organisation panel ruling which effectively eliminated European preferences for Caribbean banana producers. The price-support margin for Caribbean sugar exports to Europe has been similarly adversely affected by another World Trade Organisation ruling. In short order, the future of two major agricultural export industries has been imperilled. The collapse of markets due to the emergence of new products, abrupt shifts in consumer preferences, and the emergence

of new competitive rivals is always a risk in open competitive systems. Globalisation has added to these risks for small Caribbean economies which lack the attitudes of large-scale operations and reciprocal ease of access into the markets of the large, industrial nations. Countries often seek to sustain their economic growth in the face of trade contractions (expected to be temporary) by sourcing external loans and grants. Substantially diminished access to foreign financial capital because of considerations such as impaired credit worthiness (eg. Barbados, Belize, Grenada, Jamaica in 2004) could result in significant retardation of economic growth.

Political shocks to Caribbean economic systems include domestic conflicts and riots witnessed sporadically in Guyana since 1962 and in Venezuela intensively since 2000. They also include insurrections such as those in Grenada in 1979 and 1983, Suriname in the 1980s, and Trinidad and Tobago in 1970 and 1990. Political shocks of these kinds damage investor confidence, disrupt production and trade, and divert resources from production and investment into security and safety and the exercise of "military" power. Some political shocks are of international nature. A foreign country or group of countries may impose trade sanctions in pursuit of political objectives, e.g. US trade embargoes on Cuba, or may cease financial assistance for similar reasons eg. suspension of US security assistance for some Caribbean countries because of their refusal to side with the US on an International Criminal Court of Justice issue.

The predominant physical shocks are natural hazard occurrences such as hurricanes and tropical storms, earthquakes, volcanoes and floods which destroy production and residential capital stock and human lives with regrettable frequency, disrupt production, cause employment and income losses and weaken public finances. Natural hazard vulnerability may seem such an endemic part of Caribbean countries that no further elaboration is required here, save to say that although natural hazards are to a large extent intrinsic, natural hazard vulnerability is not and that natural hazard vulnerability can be minimised and managed.

The resilience of Caribbean countries to external shocks is contingent upon the adaptability and flexibility of their industries, their enterprises, and their public and private decision systems. Rolling with the trade punches, switching products, adopting new and improved negotiating and trading stances, sourcing new markets and establishing new market niches, reacting quickly, anticipating major changes in the international environment and adjusting early to them, and building sensibly with natural hazard occurrences in mind are but a few expressions of adaptability and flexibility that come to mind.

They all depend upon human resource quality. Human resource quality is the key to resilience in Caribbean countries. In large economies, flexibility and adaptability derive mainly from the emergence of new enterprises rather than from changes in product lines or production technology in existing enterprises. Small Caribbean economies in which new enterprise development is weak would find it easier to switch in terms of markets than in terms of products and production technology. The limited malleability of plant and equipment is a further reason why the stress has to be placed on human capital in the search for economic resilience.

III. EDUCATION AND ECONOMIC DEVELOPMENT

Frederick Harbison and Charles Meyers (1965) wrote the following lyrical phrase:

"*Education is both the seed and the flower of economic development*"

This sentence captures both education's role as a contributor to economic development and its significance as a benefit of economic development.

Somewhat earlier, W. Arthur Lewis (1955) and Theodore Schultz (1961) in what might be termed intuitive theories of economic growth argued convincingly that education through enhancing the quality of human resources and strengthening institutions contributes significantly to long-term economic growth. More recent endogenous growth theorists such as Paul Romer (1986), Robert Lucas (1988) and Robert Barro (1991) addressed the economic growth contributions of education through the elaboration and quantification of formal economic growth models, with Romer in particular stressing the role of knowledge and new technology adoption in the economic growth process.

Most of the education and economic growth literature examines the role of education through all levels of education, typically employing some summary measure of education such as number of years of schooling. However, in this presentation the focus is on the role of higher education specifically. A cue can be taken from W. Arthur Lewis who in 1974 writing on the subject of "The University in Less Developed Countries" identified four roles as aspects of university involvement in the process of economic development, namely:

(a) Bearer of Culture
(b) Trainer of Skills
(c) Frontier of Knowledge
(d) Service Agency

IV. TRAINER OF SKILLS

Education usually improves the quality of labour. This is the traditional nexus between education and economic growth and development which applies no less to higher education than to primary, secondary or post-secondary education. Higher education provides the range and quantity of trained and expert resources required for economic development.

In the conventional language of macroeconomics, university education is seen as an investment in human capital where human capital can be defined as:

"the knowledge, skills, competencies and other attributes embodied in individuals that are relevant to economic activity." (OECD 1998).

Investments in human capital by Caribbean countries can be presumed to generate sizeable rates of social return. In the case of Trinidad and Tobago, Bourne and Dass (2003) for the period 1986-1999 estimated social rates of return between 6% and 9% for agriculture graduates, between 9% and 13% for Natural Science graduates, between 12% and 14% for Engineering graduates, between 7% and 13% for Humanities, and between 10% and 15% for Social Sciences.

Despite the conclusive nature of these and similar micro-studies, there has been doubt created about the role of education by the results of some empirical aggregate models (Benhabib and Spiegel 1994, Barro and Sala-i-Martin 1995, Pritchett 1997) which show negative associations between education and economic growth. The glaring inconsistency between the negative results of those aggregate models and the positive association implied by the substantial social rates of return reported universally by studies employing different data sets for different countries across the globe have prompted methodological re-examination of the aggregate studies. Krueger and Lindahl (2001) in a very detailed and careful study demonstrate that correction for errors in measuring schooling and in measuring GDP and controlling for the effect of physical capital in cross-country regressions resolve the inconsistency between the micro and macro results, specifically, the macro results then confirm the positive association between education and economic growth show by rates of return studies.

The substantial social rates of return to higher education observed in the Caribbean may fall unless higher education remains relevant in the sense of providing the body of knowledge and skills which can serve as the basis for innovation and competitiveness and enables the visions and strategies essential for continuing success in a globalised world.

It sometimes seems that debates in higher education circles deal more with issues such as expansion of access and the lowering of entrance requirements to facilitate expanded access and their consequences for the quality of university graduate output. The tradeoff between scale and quality is not a new one in the higher education sector. Universities throughout the world have fought to maintain quality in the face of enrolment growth by changing methods of instructional delivery and by improvements in educational technology, eg. computer-assisted learning and the like. The challenges posed by lower entrance standards have also been managed by more deliberate determination of desired outputs and the creation of an institutional structure to supply the desired range of products.

One of the roles of higher education planners is to focus on identifying more clearly the variegated requirements of the market place for higher education products and on determining the correspondingly appropriate supply configuration of the higher education sector. From this perspective, leadership in education policy and planning is one of the major contributions that higher education can make to sustainable development.

V. THE PRODUCTIVITY OF NON-GRADUATES

Some rates of return studies for the Caribbean have shown social rates of return to university education which are lower than those from investment in primary and secondary education respectively.

Sometimes, the findings are not so much that social rates of return to university education are lower than those for primary and secondary education but that the gap between social rates of return and private rates of return is larger for university education than for primary and secondary education.

Two policy inferences have been typically drawn from these kinds of empirical findings. One is that there should be a greater element of user cost-recovery through tuition fees in higher education. Correspondingly, public subsidy of university education should be proportionately lower. This is not an unreasonable inference if satisfactory arrangements exist for bridging loans to finance tuition and other private costs or if there are workable schemes for deferred payment of accrued tuition charges, as in Australia for instance.

The other inference incorrectly drawn is that public investment in education should be skewed towards primary and secondary education. The error lies in not taking into account the interdependence of the productivities of graduates and non-graduates. University graduates raise the productivity of non-graduates. This is an important positive externality – on indirect contribution to economic development. No less important, however, is the effect of having a sufficiently well-trained and educated cadre of non-university graduates on the productivity of university graduates. Factors of production complement each other in the production process, limitations or constraints on one impinging on the contributions of the others. Human resources as a differentiated or non-homogeneous input has within it the elements of complementary and constraint found between human resources and other inputs in the production relation.

Instead of seeking to skew public investment on the basis of disparities in social rates of return by levels of education, educational policy makers and planners should be focussed on striking the appropriate balance in the rates of expansion in the primary, secondary, post-secondary and tertiary sub-sectors of the higher education sector. Caribbean countries have not achieved the correct balance. The post-secondary sub-sector is weak almost everywhere.

Wide quality differences exist in the secondary sub-sector as evidenced by variations in student pass rates of the formal school leaving examinations such as those administered by the Caribbean Examinations Council and the Cambridge Examinations Board. The co-existence of a few elite secondary schools with very high student pass rates and many run-of-the-mill schools with low student pass rates not only compounds problems of inequality to access to good quality secondary education but also deprives the higher education sub-sector itself of an adequate supply of properly prepared new entrants.

VI. KNOWLEDGE CREATION, DIFUSION AND TECHNOLOGY TRANSFER

Knowledge and innovation are sources of economic growth. They confer advantages of technological progress, organisational improvement, new product development, production adaptability and flexibility. Universities and specialised research centres are the prime sources of new knowledge and education. However, much of that work takes place in a few major industrial countries.

Caribbean university research is inadequately funded. Research and development expenditures comprise small proportions of university budgets reflecting the higher priority governments as the principal source of university finance assigned to undergraduate teaching services and the lower priority assigned to postgraduate teaching and research. Much of the research which gets done is financed by charitable foundations and international agencies or is done as add-ons to basic teaching functions. Caribbean universities are not exceptional in the national under-funding of their research activities. Statistics on the ratio of research and development expenditures to Gross National Product reveal that the countries on a whole allocate very little funds to research and development.

The Caribbean higher education sector has not made its principal contribution as frontier of knowledge through technological advances in production or marketing on the basis of original research. Instead, the main lines of its contributions are the following. One, science and technology dissemination and transfer. The universities are active in sourcing scientific and technological knowledge from institutions and scholars at the frontier in major industrial countries and in disseminating and transferring that knowledge through classroom encounters principally. This role has tremendous value because it ensures a cadre of persons sufficiently knowledgeable in science and technology to ensure that the countries' production systems do not lag far behind their international competitors and comparators. However, the universities' role in technology transfer should extend beyond classroom and laboratory instruction. It should encompass direct links between the universities and the economic systems, as for example in structured research and development programmes which address specific science and technology requirements of production enterprises or industries. This aspect of technology transfer mechanisms is recognised to have been tremendously important to the economic progress of Japan, Taiwan and South Korea. In the Caribbean, higher education institutions have weak functional connections with the economic systems outside of the supply of graduates. Therefore, there is much scope for the higher education institutions to establish stronger and more widespread linkages between their science and technology faculties and production enterprises, industries and economic sectors.

The observation that science and technology transfer has dominated the work of the universities as frontiers of knowledge institutions does not mean that there has been no original science and technology research in the Caribbean. One can readily point to examples such as the isolation of chemical compounds from natural products and innovations in plant and animal

species. However, there does appear to be a disconnect between much of that work and its utilisation for the benefit of Caribbean society.

In 1993, the University of the West Indies (UWI) established a Research and Development Fund with a multilateral institution grant contribution of USD 10 million of which USD 1 million was reserved for "pure" research and the remainder allocated to research projects with prospects of commercial development. The UWI experience provides some explanations of the difficulties confronting higher education institutions in creating science and technology knowledge for sustainable development. **First**, total resources available are extremely limited. **Second**, allocations from the limited pool are driven as much by populism as by scientific merit and commercial potential. These two factors combine to cause inadequate funding for any major project with prospects of income reflows. **Third,** strong traditions of research individualism and micro-rivalries frustrate the emergence of critical mass, weakens time persistence of research effort, and prevents credible institutional commitments to funding agencies, all of which are necessary for attraction of substantial financial resources and successful project implementation of high quality research programmes. **Fourth,** there is a cultural disdain among Caribbean scholars for income generation which when combined with ignorance of business decision-making systems and business practices has several consequences: frequent failure to win financial support from the corporate sector; reluctance to transit from the research stage to the development stage of research and development projects; and negotiation of contracts with enterprises that turn out to be commercially unrewarding for both the researchers and the academic institutions.

In "their frontier of knowledge" function, higher education institutions contribute to improvements in the quality of Caribbean life and national identity through research in medical sciences, the social sciences, humanities and education as a discipline itself. More recent examples in medical sciences include the work on HIV/AIDS, community medicine, diabetes and other chronic diseases, glaucoma, and cardiovascular surgery. In the social sciences major contributions have been made to understanding of Caribbean social structure, public governance and political behaviour, macroeconomic policy and the working of various economic sectors and industries. The humanities, including the performing arts, have been instrumental in clarifying and developing Caribbean identities through historical research charting the passage of Caribbean peoples from earliest times to the present and through documenting and analysing expressions of their creative sensibilities. Research in education above all has spawned pedagogies more closely attuned to the cultural and linguistic diversity of the Caribbean.

W. Arthur Lewis (1974) in commenting on the research situation of universities in less developed countries (LDCs) 30 years ago noted that:

"*Many of our LDC universities, clinging to the research ideal and its corollaries, get the worse of both worlds; they have to pay salaries competitive with Oxford and Cambridge, and to limit teaching hours, without getting much creativity for the money*."

Lewis sees this situation as a "*British trap*" in which UWI and others have been caught and warns that "*our Governments are beginning to see through the pretense that we are advancing the frontiers of knowledge*." Lewis' recommendation then was for restriction of the number of research-dominated universities and expansion of the proportion of essentially teaching institutions on the American rather than the British pattern. Judging from the recent growth in the number of teaching-dominated undergraduate institutions in many Caribbean countries, it does seem that the Lewisian chickens are coming home to roost.

A new challenge therefore confronts the older research-dominated institutions. They have to fundamentally differentiate themselves from the purpose-created teaching universities and colleges. They can only do so by reorganising themselves through requisite reconfiguration of academic staff and physical resources to produce the kinds of products which are the trademarks of research-dominated universities, namely, much higher ratios of postgraduate to undergraduate students, more high quality research output and better interface with business and government. This is easier said than done for at least three reasons. **First**, there would still be tremendous pressure by the external publics, notably governments, for expansion of undergraduate output. **Second**, the quasi-fixity of intellectual capital and plant and equipment constrain the speed of adjustment. **Thirdly**, the innate conservatism of universities where the stock of knowledge seems to matter more than increments to the stock of knowledge together with a predominance of inertia have tremendous influence on university decision-making, too often delaying decisions, obstructing change, and working against strategic choices. For Caribbean universities to succeed, they would have to convince their respective governments that there is economic and social value in knowledge-deepening. They would also have to introduce newer forms of contracting and other ways of managing academic personnel so as to better facilitate change and renewal and achievement of critical mass.

VII. UNIVERSITY EDUCATION AND QUALITY OF GOVERNANCE

Higher education provides enlightenment and develops analytical capacity in addition to the specialised knowledge and skills. Its graduates acquire capacity to understand issues and problems in their national regional and international dimensions. They learn to appreciate the fuller meaning of participatory democracy. Universities contribute to the understanding and acceptance of social responsibility and to the virtues of tolerance and respect for social diversity. All these civic values nurtured in university curricula should contribute to improvements in public and private governance.

Universities also contribute directly through provision of advisory services, especially to the public sector but also to the corporate and non-governmental sectors. This contribution often goes unheralded and unquantified, but it is significant in Caribbean countries which still have substantial deficits in expertise across a wide range of disciplines and professions.

VIII. THE PROMOTION OF CULTURE

W. Arthur Lewis (1974) dealt separately with two aspects of *"culture"*: social relations and aesthetics. They are not really separate. Culture in the popular meaning of aesthetics and artistic sensibility is a powerful instrument for building social relations. For example, the UWI

Centre for the Creative and Festival Arts at St. Augustine, Trinidad has used theatrical productions to address the problem of male violence against females in domestic situations.

Higher education can contribute to sustainable development if it promotes social cohesion. As noted earlier, domestic political instability as a consequence of social splintering and destructive rivalries can exert substantial negative influence on economic growth and development. Furthermore, higher education can also play a valuable role by nurturing social responsibility which itself is a contributory factor to social cohesion and national purpose. Additionally, universities can instill values which link rewards to effort.

With ascendancy of commercial utilitarianism in academic and professional curricula, universities have effectively although perhaps unintentionally, backed away from their role of promoting social cohesion and social responsibility. In so doing, they have left a vacuum in which greed and selfishness flourish. In this respect, Caribbean universities are becoming more like mirror images of their societies than influential agents for social transformation. However, all is not lost. There is recognition among educational planners that courses in ethics, philosophy, history and so on have real value in education for good citizenship and corporate and public leadership.

IX. FINAL REMARKS

This paper has sketched several aspects of the role of higher education in sustainable economic development and has sought to provide indications of the significance of that role.

Except for some of the recent research on rates of return to university education, there is hardly any empirical demonstration of the significance of universities and other higher education institutions to sustainable development in the Caribbean: neither by socio-economic benefit analysis or by case studies of particular activities and outputs. Therefore, the value of higher education remains a presumption too easily dismissed or minimised by political directorates when the politics of convenience dictates. Casual references to the number of graduates in high public office and in senior management positions in business while sufficient for illustrative purposes are not compelling in budgetary competition.

Higher education institutions can do themselves much good by undertaking the necessary empirical work on their significance to the communities they serve. By helping themselves in the fierce competition for funds, they will be better equipped to continue their valuable work towards sustainable Caribbean development.

LECTURE

CARIBBEAN DEVELOPMENT AND THE ROLE OF THE CARIBBEAN DEVELOPMENT BANK

by

DR. COMPTON BOURNE, O.E.

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

at the

FACULTY OF POLITICAL AND SOCIAL SCIENCES

UNIVERSITY OF MEXICO

NOVEMBER 30, 2004

CARIBBEAN DEVELOPMENT AND THE ROLE OF THE CARIBBEAN DEVELOPMENT BANK

I. INTRODUCTION

CARICOM countries are a bit of a puzzle for many in the international community of nations. With a total population of six million persons, they are quite small measured against global standards. Moreover, two of the 17 CARICOM members and associated states have more than a half of the total population. Jamaica has a population of 2.6 mn and Trinidad and Tobago a population of 1.3 mn. Six countries have populations of less than 50,000; five between 70,000 and 160,000; and four between 250,000 and 775,000. In effect, most of the countries are micro-states.

Most of them are also geographically small, island economies. Space constraints are a real problem posing quite sharply the issue of choice between different purposes for land use such as agriculture, residential settlements, and industrial settlements. Belize, Guyana and Dominica to a lesser extent, are exceptions to this problem of choice between competing claims on land. Small geographical size has also limited endowment of natural resources, although here too there are exceptions. Trinidad and Tobago has a major offshore petroleum and natural gas industry. Jamaica has bauxite. But for most islands, the major natural resources other than agricultural land are their beaches.

The puzzle for the international community is the fact that, despite their small geographical and population size, CARICOM countries seem reasonably well off compared to many other developing countries. Per capita gross domestic product in 2000 were certainly multiples of those of less developed countries and are usually higher than the average for countries placed in the United Nations (UN) medium human development category. In the Bahamas, Barbados and St. Kitts and Nevis, per capita GDP was not less than half of that in the UK or 37% of that in the USA.

The UN computes an index of human development which captures a wider set of variables which compositely affect human development. The index value for CARICOM countries in 2002 ranged between .742 and .874 except for St. Vincent and the Grenadines at .733 and Guyana at .708. Countries classified as high human development had a group average index of .918, countries in the medium human development category had an average index of .691 and countries in the low human development category an average index of .448. There is therefore quite strong evidence that CARICOM countries are not among the poorest developing countries. However, as the comparisons with high income countries would suggest, CARICOM countries do have higher standards to which they might aspire. The goal is to be among the world's developed nations.

II. THE ECONOMIC GROWTH RECORD

The period 1980-2000 was one of economic growth for most CARICOM countries. Economic growth was stronger in the 1980s than in the 1990s. For the 1980-89 period, 12 countries grew their real per capita GDP measured in constant prices at an average annual rate of 4-6%. Three others grew at 2-3%. However, during the 1990s, only two countries had average annual growth rates as high as 4%. Six countries grew at only 2% yearly. The exceptions to the trend over 1980-2000 were Jamaica which stagnated in both decades, the Bahamas which stagnated in the 1990s, Guyana which contracted at 3.3% during the 1980s but expanded at 3.8% annually in the 1990s, and Trinidad and Tobago which declined by 0.7% yearly during the 1980s but achieved a 3.4% growth rate in the 1990s.

Macroeconomic performance changed substantially in 2001 and 2002. In 2001, the economy contracted in six countries: by 3% to 5% in Dominica, Grenada, and St. Lucia; by 2.8% in Barbados and by 0.5% to 0.7% in the Bahamas and in St. Vincent and the Grenadines. The slump in international tourism caused by 9/11, adverse weather conditions and decreased production of bananas caused by the change in the rules governing exports to Europe were the main causes of economic recession. There was a marginal recovery in 2002 evidenced by the slowing of economic recession in Barbados and Grenada, a slight turnaround in Dominica, St. Lucia and St. Vincent and the Grenadines. However, Guyana, Jamaica and St. Kitts and Nevis grew less rapidly in 2002 than in the preceding year.

III. SOCIAL DEVELOPMENT

CARICOM countries have serious social problems despite their successes in lifting aggregate economic welfare. Between 18% and 39% of the population of the countries live in poverty. Many are indigent. Youth unemployment and unemployment among females is high in absolute numbers. Crime associated mainly with narcotics abuse and trafficking is on the rise. Urbanisation has increased with less than commensurate increases in employment opportunities and social services. There is under-provision of public health services. Per Capita purchasing power parity expenditure on health in 2000 was at most USD612 (in the Bahamas) and as little as USD51 (in Guyana) compared with USD4,271 in the USA, USD1,939 in Canada and USD1,675 in the UK. Most CARICOM countries were in the USD150-USD210 range. Data on the number of physicians per 100,000 persons in the population reinforce the conclusion that health services are under-provided. In CARICOM, there are no more than 100 physicians per 100,000 persons in seven countries; in four countries, the number is between 114 and 152 per 100,000 persons. In the UK by contrast, it is 164. In the USA, it is 279 per 100,000.

These are a few illustrations which help to make the point that CARICOM countries must therefore persist in their efforts at socioeconomic development if they are not to reap the whirlwind of social discontent. Resuscitation of economic growth is an imperative of these troubled times.

IV. THE INTERNATIONAL CONTEXT

The international context for CARICOM development is not propitious. Adverse developments on the global scene contribute to the view that these times are troubling not only because of emerging social disorder domestically but also because of a world environment which attaches less significance to the peculiar circumstances of small CARICOM countries than it did in previous epochs.

CARICOM countries are extremely open economies, dependent on the rest of the world as markets for their goods and services and as hosts for their migrant population, and as sources for remittances of incomes earned by those migrants.

They depend upon the rest of the world as suppliers of much of their demand for producer goods and services and for final consumption of goods and services. Foreign capital whether in the form of official development assistance, private direct investment or private portfolio capital have been important supplements to domestic savings in financing economic activity. Some details may be in order.

Dealing first with foreign trade in goods and services, it is useful to note the extreme dependence on foreign trade shown by several indicators. In all countries, imports and exports sum to not less than 70% of GDP, and in some countries approximates all of their GDP. Taxes on foreign trade were historically a more important source of fiscal revenues than taxes on personal incomes and corporate incomes. Tourism has become the main industry in many countries, even in those like St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines and Dominica which had only fledgling tourism sectors in the 1970s. In 2000, total expenditure by tourists to CARICOM countries was estimated at USD6.3 billion (bn) of which the Bahamas received USD1.8 bn, Jamaica USD1.3 bn and Barbados USD0.7 bn.

A few agricultural commodities and mineral goods comprise most of the trade in goods: sugar, bananas, rice, rum, bauxite, petroleum and natural gas. The exports of most countries are comprised mainly of one or two commodities. Commodity concentration is acute. Most of the CARICOM sub-region's export trade is with a few highly industrialised and wealthy countries. The US is the leading country largely because of the dominance of Trinidad and Tobago's hydrocarbon exports and Jamaica's bauxite and alumina. The European Union is second in order of importance. The same pattern repeats itself for imports, except that the USA is even more predominant. In respect of tourism, the US, Europe (mainly the UK and Germany), and Canada are the main non-regional buyers of CARICOM's tourism services.

Commodity concentration and geographical concentration of trade plus the acute dependence on foreign trade for generation of domestic economic activity has made CARICOM economies very vulnerable to external shocks.

Two in very recent times have been of a political nature, namely the 9/11 terrorist attacks on the US and the war in Iraq. The slump in international tourism, particularly from the US, consequent upon the 9/11 terrorist attack on the US caused a major downturn in the economies of CARICOM as many hotels and restaurants were forced into closure or reduction of employment, fiscal revenues from taxes on room occupancy and other services decreased, and price discounting was adopted as a way of competing for a shrinking market. The 2001/2002 high season was virtually wiped out in many CARICOM destinations. A recovery began in 2002/2003.

Now, however, the war in Iraq has renewed fears that if they persist into the last quarter of 2003, may have further depressionary effects on Caribbean tourism. The war in Iraq has already affected the profitability of airline companies in CARICOM. Fuel costs have risen and payloads have fallen sending at least two of the region's airline companies into arrears on their financial obligations and raising the spectre of bankruptcy and closure. If, as is likely, the financial costs of the war to the US and the UK create relative capital scarcity in international financial markets, then CARICOM countries, like other debtor nations, must contend with higher interest rates and possibly less access to refinancing.

Troubles in the international environment are not confined to political matters. A very potent external shock would be the loss of trade preferences. In recognition of the structural economic disadvantages of CARICOM countries and partly out of ex-colonial relations and western hemispheric good neighbourliness, Europe and the US and Canada in the Americas have for many decades maintained schemes of preferential trade access to their markets. Sugar, bananas, rum, and rice in Europe; sugar and some light manufactures in North America. Agriculture and Industry in CARICOM countries have been built on those foundations. The foundations have been vigorously shaken under the new global trade rules. In 1997, WTO in response to challenges by the US and Latin American banana-producing countries declared the European Union's import arrangements for ACP bananas to be in violation of the new trade rules. This decision marked the end of decades of preferential access to the UK market by CARICOM producers. They must now compete with lower cost Latin American producers and their US business partners such as Dole and Chiquita. A shakedown (shake-out) has consequently begun in countries such as Dominica, St. Lucia and St. Vincent and the Grenadines where thousands of rural people and many urban ones depend upon this agricultural trade for their livelihood.

Similar adverse developments pertain to sugar, the other principle agricultural export commodity. The Cotonou Agreement negotiated between the EU and ACP partner countries in 2000 sought to guarantee the latter countries an indefinite period of continued preferential access to the EU market. In 2002, Brazil and Australia - two of the leading sugar-producing countries - requested panel rulings by the WTO. If the WTO panels rule on sugar as they did on bananas, European trade preferences for sugar will have to end. CARICOM producers will then be in the "no win" situation of price competition with countries the enormity of whose scale of production makes them unbeatable low-cost producers in the world sugar industry.

Globalisation poses serious challenges not only because the new rules with their formal objective of establishing level playing fields deny the continuation of trade preferences. There are other problematic aspects. Global liberalisation of foreign trade will open CARICOM domestic markets to competition from imports which are frequently produced under conditions of economies of scale and economies of scope not available to small CARICOM producers and often produced as well with extensive government subsidisation of production costs. Who could seriously argue that US agriculture and European agriculture are not heavily subsidised? The rules-based system for governing world trade operates asymmetrically with developed countries continuing to engage in import protectionism through subsidies and non-tariff barriers while developing countries are pressured into full and rapid liberalisation of their foreign trade sector.

V. THE CARIBBEAN MARKET

The Caribbean market can provide some growth stimulus. The trend already started in cross-border direct foreign investment within CARICOM is important. Such investments can provide capital to countries in need of resuscitate lagging industries. They can finance new ventures. They can bring about transfers of managerial "know-how" and improved technology. Furthermore, the CARICOM market is large enough to substantially substitute for the EU market losses caused by the end of trade preferences for sugar. In 1998 the CARICOM countries as group imported 63% of the 280,000 tonnes consumed regionally. If the CARICOM market is reserved for CARICOM producers, there would be an assured market for 35% of regional output. Sugar prices in CARICOM also exceed world market prices so that regional import substitution is also an incomes superior policy.

In the case of rice, approximately 50% of regional demand is supplied by imports. A combination of improvements in product quality and a deliberate policy of import substitution could increase the proportion of regional demand supplied by regional producers and generate substantial employment and incomes.

A similar argument could be made for the citrus industry in a situation where regional demand is supplied mainly by US producers of citrus and citrus-imitations while the Dominican industry has almost died and the Belizean industry struggles for a foothold in CARICOM markets.

VI. THE CARICOM SINGLE MARKET AND ECONOMY (CSME)

The creation of the CSME is a crucial component of the economic development strategy of CARICOM as a sub-regional group. Its predecessors are the Caribbean Free Trade Area which provided for a customs union and the Caribbean Community established by the Treaty of

Chaguaramus in 1973 which extended beyond intra-regional foreign trade to include a common external tariff on extra-regional imports, functional cooperation in major sectors and in international relations and envisaged the creation of a currency union. The Treaty of Chaguaramus was revised in 1998 to provide for the creation of the CSME.

One of the more important protocols from an economic development perspective is Protocol II which deals with rights of establishment, the right to provide services and the right to move capital across borders of CARICOM member states. The Protocol is intended to remove regulatory barriers to cross-border direct investment, trade in services requiring physical presence and movement of CARICOM nationals for purposes of work or residence. When Protocol II is fully effective there is likely to be much greater mobility of labour and capital than currently obtains. Its economic significance is the scope it gives for enterprise growth, technology improvement, productivity gains, and achievement of economies of scale and scope. In other words, its major potential contributions are the possible gains in economic efficiency. These are critical for improving the price competitiveness of CARICOM enterprises within the sub-region as well as globally.

Other components of the institutional framework under construction include the establishment of a regional stock exchange to facilitate and regulate trading in corporate equities and government securities. The present situation is one of separate national capital markets, relatively few listings, infrequent daily trades, few investors, and few enterprises providing capital markets support services such as stockbroking, stock market analysis and corporate and financial data. The hope is that regionalisation of the capital market would encourage companies to raise more of their financing through issue of corporate equity, would encourage greater savings in the form of corporate and government securities and would provide financial investors with wider choices.

Another important component is the Caribbean Court of Justice (CCJ) which is expected to become operational late in 2003. All economic integration schemes, whether in Europe, Africa or Latin America, have found it necessary to establish a judicial machinery for settling trade and investment related disputes that arise between countries, between enterprises or individuals and governments, and between private parties to cross-border transactions. The principal role of the CCJ would be to adjudicate such matters both as a court of original jurisdiction and as an appellate court, making and interpreting community law in the process. In exercising these functions, the CCJ will be free of political influence and be independent in its deliberations in keeping with a long-established tradition of judicial independence in the justice systems of CARICOM countries.

Progress towards the full implementation of the CSME has not been smooth or quick. It could not reasonably be expected to be harmonious and rapid for several reasons. **First**, many of the enabling provisions require parliamentary approval and often involves drafting and enacting new laws which is usually a slow process because of insufficiencies of legal personnel. **Second**, the budgetary resources required to fund new institutions inevitably cause delays since almost all CARICOM governments have fiscal problems. **Third**, although the CSME will ultimately confer benefits on all member countries, the distribution of benefits among them will not be equal in the early years and some countries, because they are less well-endowed with productive and human resources, will remain structurally disadvantaged unless there are arrangements for financing the accelerated development of the less advantaged member countries. Like the EU, CARICOM has identified the need for creation of such a special fund and committed to its establishment in one of the Protocols. **Fourth**, quite powerful or influential economic interests might be adversely affected in the short-term and they could be expected to resist implementation of the provisions which directly concern them. Trade unions, for instance, have a short-term vested interest in work permit restrictions and other regulatory barriers to the free movement of labour, while manufacturers are often opposed to import competition . **Fifth**, the concept of a Caribbean Community is not sufficiently deeply engrained as yet to prevent nationalist sentiments from clouding the economic issues which should be the principal focus of discussions about the various aspects of cross-border economic transactions. The CSME cannot happen overnight. The target may be 2005 or 2006 or even 2007, which would not be bad considering that it took Europe close to 50 years to achieve an economic union that is still not complete or satisfactorily consummated.

VII. HEMISPHERIC AND EUROPEAN ECONOMIC PARTNERSHIP

CARICOM countries are engaged in negotiations for entry into a hemispheric economic integration arrangement with Canada, the US and other countries of the Americas. The FTAA is expected to incorporate the geographical mass from Anchorage in Alaska to Tierra del Fuego in Argentina. Negotiations are also underway for a Regional Economic Partnership Agreement (REPA) with the European Union. The EU-CARICOM REPA would replace the transitional arrangements currently in force under the Cotonou Agreement which itself marked the end of four successive Lomé Agreements for uni-directional trade preferences and financial aid from Europe to ACP countries. Present indications are that both the FTAA and the REPA will have a strong element of trade reciprocity, if not full trade reciprocity as the developed country partners wish. A constraint is WTO compatibility which limits the scope and would define the form on non-reciprocity provisions.

Caribbean business interests, particularly manufacturers, are apprehensive about the import competition which will result from the accession in to the FTAA and into an EU-CARICOM REPA. It is sensible, however, not to lose sight of the opportunities presented by access to the large, high income markets of Europe, Canada and the USA and of the dynamic possibilities of access to the Latin and Central American market. Market access has to be more than formal, i.e., more than words in a treaty provision. Non-tariff barriers such as highly variegated country unique labelling and packaging requirements, sanitary and phyto-sanitary standards, and environmental standards have handicapped CARICOM products in search of markets in Europe and the USA. Furthermore, CARICOM countries have inherent disadvantages of small economic size and extreme vulnerability to external economic shocks and natural hazards. These countries are therefore arguing strenuously and persistently for special provisions that take account of their special situation.

The Barbados Prime Minister, the Rt. Honourable Owen Arthur, is fond of quoting the ancient Greek Philosopher Aristotle to the effect: “Between equals, equality; between unequals, proportionality. Nicolas Kaldor, the Hungarian-British economist of taxation and welfare economics fame in the 1948- 1980 period, gave us the welfare economics proposition that inequality is not lessened by treating unequals equally. Both maxims provide a philosophical and practical justification for the CARICOM countries insistence on special and differential treatment in the trade provisions of the FTAA and the EU-CARICOM REPA. This is a strong counterargument to the proposition that levelling the playing field for foreign trade would be to improve the welfare of all countries. Levelling the playing field would, in fact, give unfair advantage to the large, well-endowed, less vulnerable economies.

CARICOM countries understand that they must adjust to new global realities, that they must modernise and restructure their economies and that they must engender the productivity improvements that are essential for enhancing international competitiveness. These changes, however, will take much time even in the most propitious of circumstances. A reasonable transition period is required.

Financial capital is also required. CARICOM countries have maintained high rates of domestic investment on a global standard for the last two decades, despite the adversities of natural disasters and external economic shocks. Gross domestic investment as a percent of GDP averaged between 20% and 33% for the 1981-1990 period. OECD countries had gross domestic investment ratios of 20% in 1999. CARICOM countries cannot afford to slacken their investment efforts and their domestic savings effort now.

But there is no denying that foreign capital also remains an extremely valuable source of support for the economic development efforts within CARICOM. This is why so much importance is attached to building in sympathetic provisions relating to direct foreign investment and official development assistance in the FTAA and the EU-CARICOM REPA.

It is estimated that between 1990 and 2000, net foreign direct investment inflows were USD9.3 bn and comprised approximately 25% of gross domestic investment. The upward trend needs to be sustained. In contrast, official development assistance has trended downwards, largely because of the contraction of US aid flows to the CARICOM countries. Loans and grants from the USAID to the Caribbean, including the Dominican Republic and Haiti, decreased from USD92 mn in 1990 to USD30 mn in 2000.

To conclude on Caribbean development, I have sought to provide a broad overview of the challenges of Caribbean economic development and the approaches now being taken or being considered as the CARICOM seeks to adjust to the new global realities.

It is necessary that economic development strategies and policies put people at the centre of the development process not only by recognising human resource development as an instrumentality of general economic development but also by identifying enhancement of economic and social welfare and quality of life as the essential unifying goal of all development strategies. Also to be recognised is the fact that social development is a co-requisite of economic growth and development, a link affirmed by the Black Power Movement in the US in the 1960s, the failure of the Latin American Southern Cone experiment with despotic rule, the armed phase of the anti-apartheid struggle in South Africa, and the war for the Statehood of Palestine. These examples point to different causes but each makes the point that social instability is inimical to a wide-based commitment to the future.

It is my hope that CARICOM which prides itself on being a zone of peace will be ever mindful of the imperative of social development and economic justice as it pursues the no less important goal of economic growth. Now to the role of the Caribbean Development Bank

VIII. THE ROLE OF THE CARIBBEAN DEVELOPMENT BANK

Established in 1970, CDB is integral to socioeconomic development efforts in CARICOM. The 25 members of the Bank include 20 regional borrowing countries, three regional non-borrowing countries, viz., Colombia, Mexico and Venezuela, and 5 non-regional non-borrowing members, viz., Canada, the UK, Germany, Italy and China. Its total subscribed capital is USD705 mn of which USD156 mn is paid-up and USD549 mn is callable. The total value of new loans and grants approved in 2002 was USD129 mn.

The CDB, by virtue of its triple A rating in international capital markets, is able to mobilise financial resources for on-lending to its borrowing member countries. It has been a major source of funds for investments in the physical infrastructure, human resource development, improvement of public governance systems, directly productive economic sectors, and more recently in environment and targeted poverty reduction.

The Bank is also a source of economic policy advice and assists financially with the work programme of CARICOM Secretariat and the Caribbean regional Negotiation Machinery which is the entity established to spearhead CARICOM's external negotiations on the FTAA and the EU-CARICOM REPA.

It is the role of the CDB to assist in the financing of the economic restructuring and repositioning of the Caribbean. In its essential characteristic this is not a new or unaccustomed role. The Charter of the Bank from its inception in 1970 enjoins the Bank "to finance projects and programmes contributing to the development of the region or any of the regional members" and further specified as a central instrumentality the power "to mobilize within and outside the region the additional financial resources for the development of the region". In promoting Caribbean development, CDB has done more than mobilize and allocate funds. As permitted by its Charter, the Bank has fostered the development of financial market institutions and capital markets and has provided technical assistance. Variously, over the years, it played a substantial role in the formulation of public economic policy, including making governments more aware than they otherwise might have been of the importance of environmental considerations for sustainable economic development. The CDB has a strategy Paper on the environment, and subjects all projects which it finances to an environmental check list.

However, it is the financing role which I wish to emphasize. Between 1970 and 2000, the CDB has provided a cumulative total of USD1.9 billion of Caribbean countries as loans, contingent loans, grants or equity contributions to enterprises. Thirty-one percent of the allocations were for economic infrastructure, 18% for social infrastructure, 19% for agriculture, 9% for manufacturing industry, and 17% for a multisector category comprised of urban development (2%), disaster rehabilitation and mitigation (4%), structural adjustment (2%) and others (9%). There has been little direct lending to or involvement with the private sector.

The changed circumstances necessitate an enlarged and qualitatively different role for the CDB. According to the Report of the Caribbean Trade and Adjustment Group (of which I was privileged to the Vice-Chairman) – Improving Competitiveness for Caribbean Development – the CDB must now be transformed into the premier development financing institution of the region, with a substantially greater capitalization. In 2000, the CDB provided approximately USD187 mn on a capital base of USD546 million approximately compared with non-regional MDB lending to the Commonwealth Caribbean estimated at USD280 mn annually. In the words of CTAG, the CDB needs to become a billion dollar bank. It can only do so by embarking vigorously on the following lines of action: (1) Expansion of its membership of capital subscribing countries, especially those whose own international credit rating would maintain or improve the CDB's international credit rating; (2) Increase in its General Capital; (3) Expanded mobilisation of funds through existing partnership arrangements with MDBs and creation of new similar partnership arrangements; (4) Recourse to fund mobilization on the international capital market; and (5) Development of special bilateral funding windows with OECD countries. This is a process on which the Bank has started.

In respect to qualitative changes, it is advisable for the Bank to forge closer, direct relationships with the business sector. It is enterprises, after all, which are the main dynamic for economic restructuring, international competition, and economic growth. The CDB has signalled its intention to work together with the Caribbean private sector and has conducted a Private Sector Summit in March 2002. A concern in the past has been with the riskiness of private sector debt based presumably on the Bank's perception that considerations of scale, experience and limited international marketing capacity militated against business success by go-it-alone Caribbean firms. If this is the situation, then joint venturing between Caribbean and international firms becomes an opportunity to be encouraged and welcomed by CDB.

Finally, I wish to comment on the enhanced role that CDB should play in economic policy formulation and dissemination in the Caribbean. The Bank has done a great deal to shape official sectoral policies by its various strategy papers on the environment, human resource development, and poverty reduction. What it now needs to do is to stimulate public discourse and official policies on the macro-economic framework and on the economic restructuring and repositioning of Caribbean countries . It is well placed to do so by virtue of its now active participation in many regional and international forums. It is increasingly being called upon to do so by Caribbean governments and the Caribbean public. From my vantage point, the Bank has no option but to respond positively.

The future of the Caribbean Development Bank is intimately bound with future of Caribbean Economy and society. Its raison dêtre is Caribbean development. To that mission, it intends to remain faithful.

ADDRESS

by

DR. COMPTON BOURNE, O.E.

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

at the

CEREMONY FOR THE

OFFICIAL GROUND BREAKING OF THE
NATIONAL IRRIGATION DEVELOPMENT PILOT PROJECT
PEDRO PLAINS, ST. ELIZABETH
JAMAICA

January 26, 2005

OFFICIAL GROUND BREAKING CEREMONY
NATIONAL IRRIGATION DEVELOPMENT PILOT PROJECT
PEDRO PLAINS, ST. ELIZABETH, JAMAICA

The Most Honourable Percival J. Patterson, Prime Minister of Jamaica; Honourable Donald Buchanan, Minister of Water and Housing; His Worship Mayor Franklyn Witter; Rev. Canon Weeville Gordon; Mr. Master of Ceremonies, Dr. Garnett Brown, Chairman, National Irrigation Commission; Mr. Donovan Reid, Managing Director, National Irrigation Commission; other Dignitaries; Ladies and Gentlemen:

It gives me great pleasure to participate in the official Ground Breaking Ceremony of Jamaica's National Irrigation Development Pilot Project, also known as the Flagship Project.

The genesis of this project goes back to 1996 when, in order to address some of the issues facing the irrigation sub-sector, including ineffective beneficiary participation in irrigation system management, use of inefficient irrigation techniques, wastage of resources and difficulty in financing its own expansion, the National Irrigation Commission was commissioned by the Government of Jamaica to prepare a study for a National Irrigation Development Plan. The study, which was carried out with the financial assistance of another funding agency, recommended the implementation throughout Jamaica of a number of irrigation projects by the year 2015. The study further indicated that upon completion of implementation of these projects, the irrigated areas in Jamaica will increase substantially thereby creating direct benefits to farmers and indirect benefits to the rest of the society. Additional studies recommended that implementation should be undertaken beginning with an initial pilot project. In 1999, the Government of Jamaica requested that the Caribbean Development Bank (CDB) field an exploratory mission to Jamaica to initiate discussions in order to identify those elements of the Irrigation Study which could comprise a pilot project for CDB's financial assistance. The Pilot Project, which was agreed upon for funding consisted of:

> *the construction of a major new pressurized irrigation system in the Beacon and Little Park areas of Pedro Plains here in the parish of St. Elizabeth; rehabilitation of the existing pressurized irrigation system in Hounslow here in the parish of St. Elizabeth; and construction of a small-scale gravity fed irrigation system at Seven Rivers in the parish of St. James.*

The sites selected for the project and especially those in the parish of St. Elizabeth represent some of the major productive areas for a wide range of food crops. Farmers in these areas have traditionally employed soil moisture conservation practices. However, because of the dependence on rainfall, crop failures are common when rains are delayed and in periods of drought. I am sure that like us at CDB, all Jamaicans recognize that an inadequate water supply for agricultural crops is an undesirable situation, particularly in St. Elizabeth which is known as the bread basket of Jamaica. An irrigation service here in Pedro Plains will, therefore, be a major improvement in agricultural practices and should make a positive contribution to farm output, incomes and employment in St..

Elizabeth.

Having agreed to the appropriate elements of the Pilot Project, CDB responded quickly, appraising the project and approving a loan to the Government of Jamaica in the amount of USD8.1 mn, representing some 70% of the total estimated project cost. The speed and decisiveness of the Bank's approval process stemmed from the recognition that the Government of Jamaica accorded high priority to a project which had objectives that are consistent with the country's development strategies and with those of CDB. Some delays which related mainly to procurement of materials were experienced during the initial implementation of the Project. However, those problems have been solved and today's Ground Breaking Ceremony marks the beginning of construction work on the Pedro Plains contract which is the largest of the three contracts comprising the Pilot Project.

Jamaica is one of CDB's largest shareholders and, through its energetic membership on the Board of Directors, contributes substantially to the overall strategic direction and management of the Bank. CDB is always ready and willing to assist with the country's development projects through provision of technical assistance and financial resources. Since its inception, the Bank has approved loans totalling USD390 mn to Jamaica. Of this total, USD16 mn have been to the country's private sector, while USD374 mn have been provided for public sector projects. A total of USD318 mn of the loans has been disbursed on these projects to date.

The CDB/GOJ development partnership includes other projects which are currently on-going and under implementation in Jamaica:

(a) Emergency Works and Rehabilitation of Flood Damage – USD35 mn
(b) Citrus Replanting Project – USD10 mn
(c) Jamaica Social Investment Fund – USD14 mn
(d) Fifth Industrial Line of Credit Development Bank of Jamaica – USD25 mn
(e) Enhancement of Basic Schools Project – USD13.4 mn
(f) Technical Assistance for the University of Technology – USD1.26 mn

This National Irrigation Pilot Project is consistent with two of CDB's main strategic objectives. Firstly, construction of this irrigation system will help to foster more rapid economic growth in Jamaica by:

(a) improving competitiveness in the tourism industry when agricultural products from these areas supply the local hotel industry: and
(b) fostering the diversification of the country's agricultural base.

Secondly, the Pilot Project will help to reduce and improve the status of the most vulnerable by increasing economic opportunities for the poor through the capacity building opportunity which it provides.

We in the Bank are mindful of the fact that despite the country's standing as a middle-income developing country; there are significant segments of the population for whom poverty reduction and improvement in the quality of life are objectives to be pursued urgently and in a focused manner. The Bank is providing substantial assistance to many of its regional member countries in these regards and we are prepared to explore with the Government of Jamaica similar involvement in this country's efforts at poverty reduction.

Given my own previous involvement in higher education, I have noted with unqualified approval that expansion and improvement in the education and training infrastructure is also one of the Government's priorities. CDB has also been active in this field, having assisted in the financing of the University of the West Indies Distance Education Development Programme and is currently financing the development of Jamaica's University of Technology.

Mr. Chairman, returning to present matters, I have been advised by CDB Staff responsible for supervising the implementation of the project on behalf of the Bank that the management of the project by the National Irrigation Commission has been of a very high standard thus far.

On behalf of the Management and Staff of CDB, I wish to offer congratulations to the Government and People of Jamaica for this signal achievement. I also wish to take this opportunity to remind you that CDB will continue to partner its Borrowing Member Countries, including Jamaica, in finance and development programmes and projects which enhance their growth and economic stability.

Thank you very much.

LECTURE

POVERTY AND ITS ALLEVIATION IN THE CARIBBEAN

by

DR. COMPTON BOURNE, O.E.

PRESIDENT

CARIBBEAN DEVELOPMENT BANK

at the

ALFRED O. HEATH DISTINGUISHED SPEAKERS' FORUM
UNIVERSITY OF THE VIRGIN ISLANDS

March 14, 2005

POVERTY AND ITS ALLEVIATION IN THE CARIBBEAN

PREAMBLE

I am honoured to have been invited to deliver this year's Alfred O. Heath Distinguished Speaker's Lecture. Dr. Heath has distinguished himself in the field of medical surgery, academia and the arts and culture. He is a model of commitment to improving the welfare of the members of his society. It is my hope that the subject of my lecture, "Poverty and its Alleviation in the Caribbean" does justice to the tradition he has established.

I must also say that it is a real pleasure to be back at the University which I started visiting in the mid-1970s when it was quite young. I am very gratified to observe its growth into a vibrant centre for higher education and learning dedicated to widening access to education and expanding life opportunities of members of Caribbean society, especially the young. This is no doubt due to the excellence and dedication of its current and former Presidents and Faculty through the years, some of whom it has been my distinct privilege to know and to have worked with.

I. INTRODUCTION

Poverty reduction is an almost universal objective. It finds expression in the strategies and programmes of multilateral institutions, national governments, bilateral aid agencies and regional and sub-regional development banks. It is the first of the eight Millennium Development Goals for improving human welfare enunciated by the United Nations General Assembly in 2000. In the Caribbean, poverty reduction is the overarching objective in the Caribbean Development Bank's Strategic Plan 2000-2004 and will remain a central objective in the Strategic Plan for 2005-2009.

II. NATURE AND MEANING OF POVERTY

The poor are to be found everywhere in the world – in developing countries and in developed countries, but is the standard of measurement or identification the same? The Millennium Development Goal for poverty reduction sets the target of reducing by one-half, the number of people living on less than USD1 a day by the year 2015. Timothy Besley and Robin Burgess in a study entitled "***Halving Global Poverty***" published in 2003 correctly noted that while the dollar-a-day line is representative of domestic poverty lines in low income countries, "it does not correspond well with what is judged as poverty in the middle income countries…and would be unthinkable in developed countries". Since Caribbean countries with a few exceptions would be classified as middle income countries on the basis of their per capita income levels, dollar-a-day would seem to be of limited relevance to the Caribbean as a measure of absolute poverty. Furthermore, the poor may be better off, i.e. less poor, in some countries than in others – in the Bahamas, the Virgin Islands, and in Barbados than in Guyana, Haiti and Suriname. What then do we mean by "**poor**"?

One can of course proceed by way of declarative statements such as the one found in the World Development Report 2001: ***"Poverty is pronounced deprivation in well-being."*** But declarative statements while memorable do not usually illuminate. They require elaboration, as the World Development Report immediately acknowledges by posing and answering the question: "***what precisely is deprivation?***" The answer is a description of the state of poverty i.e, poverty in terms of living conditions: "***To be poor is to be hungry, to lack shelter and clothing, to be sick and not cared for, to be illiterate and not schooled.***" Influenced by the profound work of Amartya K. Sen on development and poverty, the status of being poor has been extended beyond income levels and income-associated conditions such as health and education to include what Sen terms "*unfreedoms*" such as tyranny or bad treatment by the State and exclusion from participation in decisions, particularly those directly affecting the poor themselves. In more recent work, the status definition of poverty also refers to acute vulnerability to economic shocks and natural hazards.

Generally, there are two main definitional approaches which find application in the measurement and analyses of poverty and in policies and programmes for poverty alleviation. The first and prevalent is the income or monetary approach which addresses the issue of resources available to the person or household to effect a standard of living. When the monetary or income situation of the person or household is set against an arbitrarily determined standard of living, one gets an absolute poverty line. When it is set against some average for the society, one gets a relative poverty line. Dollar-a-day is an absolute standard – it is what a person is estimated to need for provision of a defined level of basic necessities. The European Union standard of 60% of median income is a relative standard – a person is adjudged to be poor through comparison with the average for the society. As Laderchi, Saith and Stewart (2003) comment:

> *"From a political point of view, a relative standard makes sense as people's toleration of poverty and governments' willingness to take action against it is generally relative to average standards in that society. It's also true that the sense of deprivation or unhappiness caused by poverty is greatly influenced by average societal standards".*

They note that relative standards are adopted more in developed countries than in developing countries, and vice versa.

The second approach is the capabilities approach i.e. the ability to be and do a variety of things. This approach is linked to Sen's work, especially on the interpretation of development as *"a process of expanding the real freedom that people enjoy ….… the removal of major sources of unfreedom:: poverty as well as tyranny, poor economic opportunities as well as systematic deprivation, neglect of public facilities as well as intolerance or overactivity of oppressive states"* (Sen 1999). Poverty, then, is deprivation of basic capabilities. The capabilities approach not only changes the measurement focus in poverty assessments, it alters quite significantly policy approaches to poverty alleviation by directing attention to the need to strengthen the capabilities of individuals and households to take action for improvement of their own welfare. It directs attention to political and social constraints and to economic constraints external to the individual or household, and it emphasises the importance of participatory democracy. Poverty reduction programmes, such as the CDB's Basic Needs Trust Fund, now tend to have built-in provisions for community involvement in project identification project design, project implementation and project governance and include social and physical infrastructure in communities eg. health centres, water supply systems, and roads, as instruments of capabilities enhancement.

III. POVERTY IN THE CARIBBEAN

Surveys of living conditions conducted in many Caribbean countries between 1996 and 2002 provide a basis for assessing the incidence of poverty in the sub-region. The surveys measure both income or monetary poverty and non-income poverty. In terms of poverty measured by the ability to finance a basic consumption basket of food and non-food items such as education, housing and transportation, Haiti and Suriname are at the high end of the spectrum of poverty incidence with an estimated 65% and 63% respectively of the populations below the poverty line. Clustered in the 30% - 40% group are Belize, Dominica, Grenada, Guyana, St. Kitts and Nevis and St. Vincent and the Grenadines. Between 20% and 29% are Anguilla, British Virgin Islands, St. Lucia, Trinidad and Tobago and the Turks and Caicos Islands. Barbados had a poverty rate of 14% in 1997 and Jamaica a poverty rate of approximately 20% in 2002. The surveys do not include the US Virgin Islands but on a US relative standard measure there might be a socially unacceptable incidence of poverty.

Progress has been made with lowering poverty levels in some countries. Jamaica moved from 24% in 1993 to 20 % in 2002; Guyana from 43% in 1993 to 35% in 1999. In some other countries, the situation has deteriorated largely as a consequence of severe external economic shocks and natural hazard occurrences. An external economic shock is a discontinuous change in an economic factor that is of major significance to economic and social conditions in affected countries. The surge in global oil prices in the 1970s was a pervasive negative shock to most Caribbean countries. The current high level of energy prices if prolonged could become another major adverse shock. The removal of European preferences for ACP banana exports is a recent significant negative shock for the banana exporting countries in the Caribbean, particularly in St. Lucia and Dominica where employment and incomes decreased precipitously in the latter half of the 1990s. With respect to natural hazard occurrences, repeated hurricanes might account for the stationarity of the incidence of poverty in St. Kitts and Nevis during the 1990s. Hurricane Ivan in 2004 powerfully made the point in Grenada that decades of progress can be substantially reversed in hours.

There are other features of the poverty profile to which attention should be paid. First, poverty seems to be more extensive in rural areas than in urban areas even though urban poverty is more visible and perhaps more socially destabilizing. Rural poverty manifests itself in lack of access to physical and financial resources, production support facilities, and social and physical infrastructure services such as electricity, water, sanitation, and roads and transportation. Urban poverty is revealed in overcrowding, the emergence of squatter settlements, and poor sanitation and waste disposal practices. Criminal activity is a feature of both urban and rural poverty. **Second,** poor households have low educational attainment and more unstable participation in the education and training system. **Third,** the poor may be employed but nonetheless remain poor, i.e., they are the working poor – poor because of the volatility of their employment incomes as well as because of low rates of pay. **Fourth**, there may be a substantial incidence of poverty among the elderly. The Inter-American Development Bank estimates that in Jamaica, 7% of those in the bottom income quintile were 65 years or older and 17% of those older than 65 years were in the bottom income quintile. It may well be that many persons across the Caribbean age into poverty.

IV. THE EFFECTS OF POVERTY

Poverty has multiple negative effects, many of which have been referenced already. They include levels and standards of consumption inadequate for nutritional and physical health, for safe and healthy living, for accumulation of knowledge and skills, and for child care and protection or advancement of the welfare of future generations. The health problems and energy deficiency of the poor contribute to absenteeism in the workplace, and limited capability for extended spells of work, while education and training deficiencies directly constrain productivity. In these circumstances, our societies are not making fullest use of their human resources. The poverty of workers contributes to the underachievement of productivity and economic growth.

However, the economic growth connections are not limited to workers. Deteriorations in environmental quality are often associated with conditions of poverty. Examples are squatter settlements, poor waste disposal and sanitary practices, deforestation, each of which reduces quality of life for the society as a whole and through the resource costs of remedial action in the areas of health, security and law and order, to name a few, weaken the impetus for economic growth.

Poverty itself also contributes to social exclusion, loss of self-confidence, loss of psychological health, social alienation and absence of commitment to a communal future. Furthermore, even though poverty is not the only cause of crime, it is a cause.

The poor are also more vulnerable to natural hazard occurrences because they tend to reside in hazardous locations with greater exposure to floods, windstorms and landslides, because their quality of housing does not usually conform to codes for disaster-risk reduction, and because of the temporary or ‘casual’ nature of their employment make them usually the first to be laid off when production is disrupted especially in the tourism and agricultural sectors.

V. CAUSES OF POVERTY

Many factors underlie the high incidence of poverty in the Caribbean. Comments are made on the major ones. **First** is income and employment. Most of the employed labour are in low income jobs as labour force surveys readily show. The higher income occupations such as the professions, managerial positions, public administration account for small proportions of the employed labour force. Teachers, clerical workers and others in the middle income groups are a large segment but are closer to low income category, some analysts would assert. The unskilled, semi-skilled and barely skilled predominate. In addition to the low income characteristic, there is the fact of relatively high levels of unemployment – anywhere between 7% and 20% of the labour force – which means that many are without earned income. The inability of Caribbean economies to generate jobs, especially a greater proportion of higher paying jobs, is thus one of the underlying reasons for the persistence of poverty.

The **second** major reason is inequality of income and wealth within countries. Measures of income inequality done for thirteen Caribbean countries between 1996 and 2002 show significant income inequality, the extent of inequality being greater in St. Vincent and the Grenadines, St. Lucia, Grenada, Jamaica and Belize, all of which are countries with a substantial incidence of poverty. Income inequality generates social inequality and social exclusion. A less unequal income distribution would raise income levels among the poor, transiting some of them out of poverty, thereby reducing the extent of social exclusion and disaffection. Inequality of wealth implies unequal access to financial and physical resources as a basis for income generation. Similarly to income, therefore, a less unequal distribution of wealth would be consistent with a lower incidence of poverty.

Third, there is global inequality of income, access to resources, and in consumption. Evidence produced by a number of studies show conclusively that the distribution of income between rich and poor countries has become more unequal during the past decade and that income poverty is considerably lower in the wealthier than in the poorer countries. A less unequal distribution of global income could make a big difference to poverty in developing countries and reduce global poverty overall.

Fourth, the Caribbean economy is volatile and this volatility is a contributory factor to poverty. Economic volatility arises from several sources, all of which are not necessarily operative at the same time. The sources include economic dislocation caused by major adverse changes in international markets for Caribbean exports of goods and services; acute fiscal difficulties arising from changes in flows of foreign aid and international debt; natural hazard occurrences which disrupt productive activity, destroy assets, and temporarily depress demand. Economic volatility entails fluctuations in employment and incomes with particularly stronger influence on employment and incomes of less skilled and unskilled workers. It has been observed that poor people have weaker and less effective mechanisms for coping with income and employment shocks as well as asset loss due to natural hazard occurrences. They have no insurance or inadequate insurance; they have little financial assets or access to credit; and their supportive network of family and friends is probably subject to the same immediate problems as themselves.

Fifth, the absence of personal coping mechanisms is reinforced by the absence of government-financed safety nets in most Caribbean countries. Assistance to affected households in the aftermath of natural hazard occurrences depends mainly on the success of appeals for regional and international assistance rather than on contingency funds already in place for such eventualities. The national insurance schemes financed by levies on employment income function essentially as post-retirement income supplements rather than as mechanisms for transfer payments in times of temporary job loss. They are also typically inadequate providers of post-retirement incomes as a consequence of which a substantial proportion of the elderly are poor.

The absence of effective personal coping mechanisms and effective social safety nets could result in persons involuntarily reverting to poverty during economic downswings.

Sixth, the income prospects of persons are conditional upon their educational and skills training attainment irrespective of whether accreditation functions mainly as a screening device or as an indicator of knowledge and expertise. The health of persons also determines income prospects and outcomes through affecting the likelihood of employment, the regularity of employment and the type of job. Furthermore, childhood nutrition and education have long-run effects on cognitive ability and health status. In this context, education and training and health and nutrition are instrumental features of poverty as distinct from their role as associative features of poverty, meaning that improvements in health and education can reduce the incidence of poverty.

VI. ALLEVIATION OF POVERTY

The foregoing analysis of the nature and causes of poverty points us in the direction for policies and strategies for poverty alleviation. If poverty derives from inadequate income or lack of capabilities, then we must logically address the underlying determinants of income capacity and capabilities. Economic growth is one of the fundamental determinants affecting a country's capacity to generate employment and income, its capacity to provide greater access to resources, including the essential social services, and its ability to accumulate or save in good times to finance contra-cyclical expenditures in poor times, and its capacity to afford social insurance. Economic growth would reduce poverty as Besley and Burgess demonstrate with their estimate that Latin America and the Caribbean region requires a 3.8% annual growth rate to halve its poverty rate by 2015, noting that such an economic growth rate is almost 3 times the 1.3% growth rate achieved between 1960 and 1990. Caribbean countries typically grew at between 2% and 3% between 1980 and the mid-1990s, after which economic growth slackened, even turning negative in some countries. Evidently, the economic growth solution is not easy.

On the global level, it would be helped by greater access by poor counties to the markets of rich countries, expanded flows of foreign capital (both aid and private investment), and less expensive transfer of technology. The Monterray Consensus of 2003 promised much financial assistance from developed countries if developing countries reformed their governance structures and engaged in other structural reforms. In the main, developing countries have been making the adjustments, but the developed countries, with a few exceptions, have not kept their end of the bargain. For example, very few developed countries, notably not even the USA, are even close to the aid/GNP ratios agreed in Monterray.

At the national level, economic growth requires sustained higher levels of investment, more efficiency of invested capital, sustained improvements in aggregate productivity, greater outlays on education and training, and on health, etc. There are many contributors to economic growth.

Poverty can also be alleviated by reduction of income inequality. Besley and Burgess' work again provides some salient empirical findings in support of this proposition. They estimate that for Latin America and the Caribbean, one standard deviation change in income inequality would reduce poverty by 45%.

While economic growth and a less inequitable distribution of national income are general contributors to poverty alleviation their effects are not always certain or timely. Therefore, it is necessary to adopt policies and programmes for more direct targeting of the poor. Reference has been made already to the CDB's Basic Needs Trust Fund as one such focussed intervention which directly addresses the need for capabilities enhancement and income creation at the community level.

Caribbean countries can also seek to manage economic volatility better through several actions: catastrophe insurance; unemployed insurance and social benefits schemes; pension reforms and greater coverage of the population; improved access to credit facilities, and other elements of social safety nets. This entails more careful design of policies with regard to the major objective of poverty reduction and more effective implementation, including establishing appropriate regulations governing the financial solvency of pension funds and national insurance funds, geographical zoning of residential and business property, and enforcing building codes.

There must also be a public commitment, with fiscal resources to back that commitment, to ensuring decent livelihoods for those members of society who are chronically unable to lift themselves out of poverty. This is a welfare view of the State which is not really in vogue in some powerful countries in these times. There must also be a commitment by members of the society to advancing the collective good. This too may be at variance with the highly individualistic principles operable in today's market economies, but not in variance with the basic principle of social responsibility. When all is said and done, we must be our brothers' keepers if we ourselves are to prosper or even survive.

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THE CARICOM DEVELOPMENT FUND FOR DISADVANTAGED COUNTRIES, REGIONS AND SECTORS

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"The Integrationist"

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THE CARICOM DEVELOPMENT FUND FOR DISADVANTAGED COUNTRIES, REGIONS AND SECTORS

I. INTRODUCTION

The Caricom Single Market and Economy (CSME) as an institutional framework for economic integration of Caribbean countries is comprised of several, interlocked or mutually dependent and self-reinforcing components. The components include policies and institutional mechanisms for movement of goods, services and factors of production, policies and institutions for sectoral development as well as policies and institutions for human resource development, a legal mechanism for adjudication and dispute resolution, viz. the Caribbean Court of Justice, and policies and institutions for addressing problems of uneven development and economic disadvantage within the CSME. One particular institution within the overall framework is the proposed Development Fund for Disadvantaged Countries, Regions and Sectors, variously termed the Caricom Development Fund or the Regional Development Fund (RDF).

This short article focuses on some aspects of the RDF signalled by explicit and implicit considerations in the Revised Treaty of Chaguaramus. The discussion is situated in the context of the essential rationale for the CSME and the socio-economic heterogeneity of its Member States.

II. Economic Basis of the CSME

The creation of a CSME is a hugely ambitious but absolutely necessary undertaking. It is necessary because geographical unification of other countries in other regions and the creation of economic unions and regional trade blocs elsewhere exaggerate the disadvantages already inherent in the small economic size and populations of Caricom microstates and weaken the chances of successful interaction with the world economy by those Caricom countries that possess greater land mass, populations or natural endowments. Economic union provides the only feasible basis for economies of scale and scope and rationally ordered location of production in a sub-region where intra- regional trade competition on the fringe gets more attention than warranted by either trade volume or contribution to national income and employment. The plain fact of the matter is that except for petroleum products it is extra-regional trade rather than intra-regional trade which accounts for the overwhelming proportion of total trade and drives national income and employment. The Preamble to the Revised Treaty of Chaguaramus conceptualised the CSME as an economic framework for maximising the efficiency of production, enhancing international competitiveness, achieving food security and structural diversification of economies and improving standards of living. "Structured integration of production …..and particularly the unrestricted movement of labour, capital and technology" in the context of "a fully integrated and liberalised internal market" are critical components of that economic framework.

The CSME is therefore intended to optimise the use of production resources within the sub-region in addition to overcoming market size limitations placed by tariff and non-tariff barriers on trade in goods and services among members of the economic union. The framework is essentially static in the sense that it does not directly address issues of resource accumulation and investment except through reference to "a sound and stable macroeconomic environment that is conducive to investment". Nonetheless, as later discussed, the provision for an RDF must necessarily entail attention to matters of resource accumulation and investment.

III. Socio-Economic Diversity In The CSME

The CSME is ambitious because of its scope and the diversity of the countries comprising the single market and economy. There is heterogeneity of income levels and of economic growth performance. In 2000, per capita gross domestic in purchasing power parity US dollars ranged from a low of USD1467 to a high of USD17,012. The top for countries, namely Antigua and Barbuda, the Bahamas, Barbados, and St. Kitts and Nevis were between USD10,541 and USD17,012. The second five, namely Belize, Dominica, Grenada, St. Lucia, and Trinidad and Tobago were between USD5,606 and USD8,963. The next four countries, i.e., Guyana, Jamaica, St. Vincent and the Grenadines and Suriname were between USD3,639 and USD5,555. Haiti stood alone at USD1,467.

Economic growth rates are also quite disparate. For the 1990s average economic growth rates of real GDP in 3-4% range were experienced by only 3 countries (Guyana, St. Lucia and St. Kitts and Nevis); in the range of 2-2.9% by 4 countries (Antigua and Barbuda, Grenada, St. Vincent and the Grenadines and Trinidad and Tobago). Another 2 countries i.e., Belize and Dominica had average annual economic growth rates in the 1.0 – 1.9% range. Two countries exhibited no growth (Bahamas) or negligible growth (Barbados), while one country (Jamaica), experienced negative growth. No less significant than the heterogeneity of economic growth is the fact that the experience across countries is not temporarily consistent, meaning that the relative economic growth performances exhibits some instability with comparatively good performers in one decade or year becoming comparatively poor performers in another decade or year. Therefore, how a country or its citizens view themselves in relation to their geographical partners could very well fluctuate from year to year or decade to decade.

The Caribbean Community seems also diverse in terms of social indicators. In relation to health sector indicators, whereas in 2000, the Bahamas, Barbados and St. Kitts and Nevis were able to spend between USD408 and USD612 purchasing power parity dollars per capita on health, Antigua and Barbuda, Grenada, Belize, Guyana, St. Vincent and the Grenadines, St. Lucia and Jamaica could only manage between USD51 and USD193. For the 1990-1999 period, Antigua and Barbuda, Bahamas, Barbados, Jamaica and St. Kitts and Nevis had between 117-152 physicians per 100,000 persons, but Belize, Dominica, St. Lucia and St. Vincent and the Grenadines and Trinidad and Tobago had only between 49 and 88 physicians per 100,000 persons. The composite human development index compiled by the United Nations Development Programme (UNDP) in 2000, shows striking diversity in socio-economic circumstances as well, with some Caricom countries close to the high human development index average of .918 , i.e. Antigua and Barbuda (.880), Barbados (.871); others not so close (Bahamas .826, Belize .784, St. Kitts and Nevis .814); and some others a long distance away (Guyana .708, Grenada .747, Jamaica .742 and St. Vincent and the Grenadines .733).

Other areas of heterogeneity or diversity can be identified. They include natural resource endowments – mineral resources in Trinidad and Tobago, Guyana, Jamaica, Suriname and Haiti and beaches in the island countries but not especially evident in the mainland countries. There is also unevenness among Member States in terms of educational standing measured by tertiary enrolment ratios and the proportion of tertiary graduates in the labour force, in transportation and communication infrastructure and in the quality of governance. Vulnerability to natural hazards is another source of difference among the countries, with some members of CSME more prone to climate-induced catastrophes than others. Language too is a source of diversity, though less acute on a country basis (since most members are English-speaking) than on a population basis (where large proportions of the sub-region's population speak either French Creole or Dutch).

IV. The Role of a Regional Development Fund

A regional development fund within any economic union has its raison d'être in the economic diversity or economic circumstances of members of the union: both in terms of their initial conditions and in terms of the effects of the operations of a single market on the local economies. One purpose of a regional development fund is to assist countries in overcoming disadvantages in economic prospects stemming from their less favourable levels of income, economic growth performance or endowment of economic resources.

If some countries lag persistently behind partner countries in economic performance, disparities in socio-economic conditions may tend to become chronic or to worsen since economic resources in such circumstances are likely to move from the less dynamic countries to the more dynamic ones, thereby compounding the handicap of initial under-endowment. A RDF would therefore aim at improving the economic growth prospects of the less dynamic members of the union by providing resources for investment for targeted productive sectors or industries or social and physical infrastructure. Another purpose of an RDF is to facilitate adjustment to losses of markets, income and employment caused by the internal competitive processes of the union. Loss of markets, income and employment become problematic for the union if losses in one sector or industry are not compensated over some acceptable time period by gains in other sectors or industries. In other words, while losses can be accommodated as a transitional problem, they are likely to be disruptive of the economic union if they become permanent. What an RDF seeks to do in cases of market-induced losses is not to prop up sectors or industries which are uncompetitive, but to provide financial resources for improving productive efficiency and competitiveness in affected industries and for promoting the development of new competitive sectors and industries.

The central principle informing these roles of an RDF is cohesion of the members of the union. Cohesion or the desire to remain part of the union is weakened by perceptions of inequitable distribution of gains and losses as well as by any perception of being worse off as a consequence of membership in the union. The financial investment policies of an RDF seeks to prevent the emergence of those divisive perceptions or to minimise them by addressing the material conditions for economic growth and efficient sectoral and industrial adjustment.

V. The CARICOM RDF

The Revised Treaty of Chaguaramus (Chapter 7, Article 158) makes provision for the establishment of "a Development Fund for the purpose of providing financial assistance to disadvantaged countries, regions and sectors". It is clear from the Preamble to the Revised Treaty that economic diversity, transitional problems and cohesion are uppermost considerations. Thus it recognised that "differences in resource endowments and in levels of economic development of Member States may affect implementation of the Community Industrial Policy"; that "some Member States, particularly the Less Developed Countries (LDCs), are entering the CSME at a disadvantage by reason of the size, structure and vulnerability of their economies"; that persistence of disadvantage, however arising, may impact adversely on the economic and social cohesion of the Community"; and that "disadvantaged countries, regions and sectors will require a transitional period to facilitate adjustment to competition in the CSME".

The Preamble expresses the commitment "to establish effective measures, programmes and mechanisms to assist disadvantaged countries, regions and sectors of the Community".

In broad terms, the CARICOM RDF may seem to have a single clear motivating principle. However, matters are substantially complicated by the unique definition of "disadvantaged countries, regions and sectors". Article 1 states that disadvantaged countries mean (a) a particular subset of countries i.e. Antigua and Barbuda, Belize, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines; (b) countries that require special support measures of a transitional or temporary nature because of natural disasters, the adverse economic impact of the CSME, temporary low levels of economic development or HIPIC status. Disadvantaged regions mean regions experiencing economic dislocation for the CSME or natural disasters or experiencing temporary low levels of economic development. Disadvantaged sectors mean sectors subject to the same kinds of induced problems. The first element of definitional uniqueness is the quasi-permanence of disadvantage implied by the listing of LDCs rather than by articulation of a definitional reference to measurable economic variables. As a consequence, the question arises whether countries on the disadvantaged list are there sui generis or whether they are disadvantaged because of initial economic conditions which the RDF would seek actively to modify favourably to enable transit from the "disadvantaged" category. The rational presumption would be the latter in which case economic indicators rather than a country list would be potentially less contentious.

The second unique attribute of the CSME's definition of disadvantage is that it goes beyond the economic effects of the CSME on the economies of Member States or beyond considerations of initial economic conditions to accommodate future economic shocks which could materially affect the ability of a member country to participate meaningfully in Community trade or indeed even to function fully as part of the economic union (for example, to meet conditions for monetary and fiscal policy harmonization). These economic shocks include not only natural disasters to which explicit reference is made but also trade shocks which can derail a Member State's economic growth and weaken its international payments position to the detriment of the economic union. Third, the definition of disadvantage in terms of HIPIC debt status can encompass both initial conditions e.g. Guyana, which was HIPIC from the outset of the CSME and a change in status, e.g. Dominica which became HIPIC in 2004.

The extension of the definitional criteria beyond CSME induced economic effects on Member States of the economic union and beyond structural conditions to include trade shocks and natural disaster shocks effectively broadens the scope of the RDF to one of economic stabilisation and economic rehabilitation and reconstruction. This might seem to have implications for the operational criteria for the RDF, but it does not because the fundamental criterion for RDF financial programmes would still be how the current income situation (or period average situation) of a member country compares with some arbitrary standard set for the economic union. For instance, does it fall below 75% of the average per capita income of the economic union irrespective of what causes the variance, be it a natural disaster, an external economic shock or a debt crisis? Assistance from the RDF would be triggered by such a deviation in an effort to prevent the Member State dropping out of the constellation of States.

The really significant implication is for the scale of operation of the RDF. Stabilisation and reconstruction objectives add to the trade adjustment objective underpinning its financial resource requirements. Put simply, broadening the scope of the Caricom RDF substantially increases the financial requirements for its effective operations.

VI. Financing the CARICOM RDF

It is critically important that the Caricom RDF is adequately funded and that its funding be stable. The requisite level of funding would be demand-driven, that is to say, it would be dependent on the level of demand for investment geared to trade-induced adjustments, economic stabilisation and to economic reconstruction and economic restructuring requirements in member states "disadvantaged" in the CSME at various points in time. Evidently, any a priori depiction of financial resource requirements would be based on guess work so that one of the earliest challenges in operationalising the Caricom RDF would be to objectively estimate those requirements.

Another challenge is devising adequate mechanisms for obtaining the requisite finance on a dependable, stable basis. Many Caribbean institutions and facilities have been rendered ineffective by erratic and inadequate sources of funds. The RDF is so vital a piece of the CSME architecture that the entire edifice would be compromised if the funding of the RDF is precarious.

One approach to ensuring a stable, dependable flow of funds to the RDF would be to base it on mandatory contributions as fixed proportions (subject to revision) of the revenue bases of the countries. There are many possible candidates for appropriate revenue bases, such as imports, consumption taxes and value added taxes. Practical considerations such as the prevalence of the particular revenue bases within the economic union should influence the choice of revenue base.

Equity considerations are also typically paramount in the design of RDFs. Resource transfers via the RDF because they are intended to assist the less advantaged or the disadvantaged as stated in the Revised Treaty of Chaguaramus must obey the differential need principle while funding contributions obey the ability to pay principle. Equal absolute financial contributions to the RDF would not be consistent with the notion that member countries have different income capacities. However, equiproportionate levies on income (GDP) as is frequently recommended is not a trouble free formula because it too is a variant of treating unequals equally and also because the marginal utility of income diminishes as income increases so that surrender of a uniformly fixed proportion of say GDP implies a greater sacrifice by poor member states than by rich ones. Matters are further complicated if some member states adopt the stance that assets not income capacity should be the basis for financial contributions to the RDF. On this premise, member states which have smaller endowments of productive assets (whatever the agreed measure) would make smaller financial contributions than member states with larger endowments of productive assets even if their income situations are the opposite. Large poor countries could in such an example end up financing resource transfers to small, rich member states. For the kinds of reasons elucidated in this paragraph, the financial contribution formula may be an especially difficult problem to resolve.

VII. Sustainability of the RDF

The RDF would have to decide whether its financial assistance to disadvantaged countries, regions or sectors would be in the form of grants i.e. non-repayable transfers or loans or some combination of the two. Whereas, a pure grant financing modality requires a permanent stream of financial contributions from member states throughout the existence of the RDF, a pure loan financing modality holds out the prospect of self-sustainability because reflows (loan repayments) become available for future lending. However, this is realistically a quite distant prospect given the likelihood of slow accumulation of loanable funds from member states and the medium or long loan maturities of typical credits for investments in physical and social infrastructure, both of which imply small reflows in the first decade or more of the RDF's operations. Member states should therefore accept the likelihood that any financial contribution arrangement they conclude would be a long-term commitment. This is a requirement for the sustainability of the RDF

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