CARIBBEAN DEVELOPMENT BANK

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

DURING THE PERIOD

JULY 2005 TO DECEMBER 2005

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

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ABBREVIATIONS

bn	billion
CARICOM	Caribbean Community
CCAA	Caribbean Central American Action
CDB	Caribbean Development Bank
CSME	Caribbean Single Market and Economy
GDP	Gross Domestic Product
GNP	Gross National Product
HIPC	Heavily Indebted Poor Countries
LDCs	Less Developed Countries
MDGs	Millennium Development Goals
mn	million
ODA	Overseas Development Assistance
OECS	Organisation of Eastern Caribbean States
RDF	Regional Development Fund
UN	United Nations
UNDP	United Nations Development Programme
USD	United States Dollar
UWI	University of the West Indies

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FINANCIAL MANAGEMENT, FUND RAISING AND ACCOUNTABILITY IN CARIBBEAN HIGHER EDUCATION

by

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CARIBBEAN DEVELOPMENT BANK

at the

FIFTH ANNUAL CONFERENCE
of the

ASSOCIATION OF CARIBBEAN HIGHER EDUCATION ADMINISTRATORS

HILTON TOBAGO

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FINANCIAL MANAGEMENT, FUND RAISING AND ACCOUNTABILITY IN CARIBBEAN HIGHER EDUCATION

I. THE CONTEXT: PRESSURES ON UNIVERSITIES

It may not be unreasonable to address the topics of financial management, fund- raising and accountability in higher education by situating them in the context of the multiple pressures on higher education in the Caribbean.

Arguably the most encompassing pressure on the higher education system in the Caribbean is the expansion of access sought by students, encouraged by employers and directed by governments. At the aggregate level, tertiary education goals have been set in terms of doubling the proportion of the higher education age cohort enrolled in higher education institutions or in terms of substantially increasing the proportion of the labour force benefiting from tertiary education and training. Effectuating these goals entails large discrete or discontinuous changes in enrolment levels instead of the smooth adjustments at the margin characteristic of enrolment growth in previous decades. The changes in aggregate enrolment are themselves reflected in differential adjustments at the micro levels of faculties, academic departments, and academic units, altering the range of academic programmes and their relative sizes, i.e., altering the product range of higher education institutions.

The second kind of pressure is the demand for quality in higher education. Quality refers to relevance variously defined by social planners, employers and job-seekers. It is also defined as utility or usefulness variously revealed by employability, enhancement of intellectual capacity and transferability of knowledge across time and space. Furthermore, quality is posited in terms of academic standards, itself perhaps not ultimately susceptible to objective measurement or definition but often applied in an absolute sense by both those who bemoan falling standards and those who advocate higher standards and is often applied in a relational or comparative sense e.g., in academic benchmarking exercises.

Education quality is an elusive concept because of multidimensionality and because the ordering of preferences among the various dimensions is not socially consistent, that is to say, different individuals and groups ascribe different degrees of importance to one or more dimension. One can empathise with higher education administrators who like in R.M. Pirsig (1974): Zen and the Art of Motor Cycle Maintenance exclaims in exasperation: " What the hell is Quality? What is it?" Perhaps, as Vroeijenstijn (1988) concludes "Quality is like love. Everybody talks about it and everybody knows what he or she is talking about. Everybody knows when there is love. Everybody recognises it. But when we try to give a definition of it, we are left standing with empty hands." Despite the imprecision and slipperiness of the quality of education concept, positive responses are expected of higher education institutions. Expanded access and quality change are two demand-side pressures. A third is the pressure to generate and disseminate knowledge through research, publication, conferences, symposia, seminars and workshops. Here, too, there are relevance and quality considerations as stakeholders demand closer correspondence between research output and the knowledge needs of the wider society.

A fourth demand side pressure is the call for more outreach activities by tertiary education institutions. What is envisaged is the intensification of public service in its myriad forms, including consultations and advice, membership of committees and task forces, and public lectures, media contributions and other informal dissemination of knowledge and expertise. So far, the pressure has been mainly on universities but it is only a matter of time before community colleges will be expected to make similar contributions.

There are supply side pressures. Attention may be drawn to a few major ones. The first is the failure of fiscal resource provisioning to match demand side pressures or even in some cases to keep pace with inflation. Effectively addressing the goals of greatly expanded access and enhanced quality of higher education requires the provision of much greater financial resources to purchase the current inputs such as human resources (education is a quintessential labour intensive activity), energy, etc. and to make the capital investments requisite for the expanded and improved supply of non-human services such as information technology, laboratories, etc. In the political competition for fiscal resources in revenue constrained budgetary situations, higher education institutions have not been entirely successful.

The public institutions at the urging of governments have resorted to tuition fees and other user charges to partially finance their operations. Private universities and colleges have of course required no urging. User charges, especially tuition fees, in higher education have merit from the student perspective in which education and training are investments in future, higher earning capacity. They also have merit from the university perspective in which user charges finance the capacity to provide services. There is a tension which higher education institutions must manage between user charges as a means for providing an expanded and qualitatively improved service and user charges as a constraint on effective demand and effective access. Effective demand is to be distinguished from effective access. Effective demand refers to the willingness of potential purchasers of higher education services to pay for the services offered by particular institutions. In a non-competitive situation of sole supplier, it means the willingness to purchase or not to purchase at all. This has never quite characterized the situation in Caribbean higher education because although the University of the West Indies (UWI) and the University of Guyana (UG) as public institutions could be said to have been the sole suppliers during the 1948-1990 period, the geographical movement of students to North America and Europe is evidence of a multi-supplier environment perceived by demanders of higher education services. This is not to say that demand choices were made on the basis of price or price alone --- that is a matter for empirical study--- but merely to make the point that at the very least the Caribbean institutions were in a quasi-competitive situation. The current situation is one of revealed competition.

Potential buyers are confronted by more than one supplier located within their geographical borders or offering services through various distance education modalities. The institutional variegation of student enrolment within the Caribbean reveals the existence of competition in Caribbean higher education.

User charges are a constraint on effective access because they affect the capacity of potential students to afford enrolment. The willingness to demand is there; the means to make it effective is absent or compromised. The price sensitivity of the demand for tuition services is a subject of much social debate and inconclusive empirical investigations. However, the evidence does suggest that sharp discontinuous increases have negative impact effects, even though it is not certain whether those effects are prolonged or reversed in the future as other demand side variables such as student debt, parental income, etc, are adjusted. I am not aware of any study of effective demand in Caribbean higher education that can enhance our understanding and guide higher education administrators on this critical aspect of higher education planning and management.

An important consideration, moreover, is that as efforts are made to expand access to tertiary education and training in the Caribbean, the intended beneficiaries come from the ranks of the lower income groups whose capacity to afford tuition and non-tuition expenses is weaker. Put differently, greatly expanded access would mean, as it should, proportionately more poor persons gaining admission to higher education institutions but also proportionately more of higher education students being unable to finance the costs of education from current household incomes, from dissavings, and from de-accumulation from de-accumulation of wealth.

Student loan facilities can alleviate the financial pressures on higher education institutions and on students. To make a meaningful contribution, student loan facilities must finance both tuition and non-tuition expenses, must have interest rates, grace periods, and term to maturity structures which are realistic about the earnings capacity and debt service capacity of recent graduates and must not have loan security conditions which present insurmountable barriers to credit applicants.

Higher education institutions make their own small contribution to the resolution of the tension between access and cost recovery by their various schemes for student financial aid. In doing so, they rely on private benefactions. In the Caribbean, although there is not a well established tradition of philanthropy, there has undoubtedly been a growth in student bursaries and scholarships funded by well meaning individuals and corporate enterprises. These trends are expected to continue. The business sector also makes financial donations for the purpose of financing capital investment programmes. Here too, the beginnings are relatively modest in terms of the number of benefactors but there is a discernible upward trend.

Higher education managers are also expected to resolve a tension between resource allocation for teaching and resource allocation for research and dissemination. The tension is created by the failure of both governments and business sector financial provisioning for research and dissemination to match their expectations with respect to quantity, relevance and quality of output. Research and dissemination is woefully underfunded in Caribbean higher education. Government subventions pertain almost exclusively to teaching programmes. Yet the institutions cannot and should not contemplate a situation in which teaching exists without research or in which the higher education complex is devoid of a research function. John Slaughter is quoted as saying: “Research is to teaching as sin is to confession. If you don’t participate in the former, you have very little to say in the latter.”

II. <u>FINANCIAL MANAGEMENT</u>

The multiple pressures described place a premium on prudent and efficient management. Institutions have to manage their cash flows to ensure the availability of financial resources when required. They have to invest temporary liquid balances safely with maximum rates of return compatible with maintenance of value of financial assets. They have to be fully cognizant of current and future financial demands associated with existing and projected activities. They have to be alert to the possibilities of cost savings and waste avoidance.

Proper financial management is integral to the wellbeing of higher education institutions because their capacity to purchase inputs into the education, training and research processes and to do so efficiently is contingent upon the quality of financial management. The financiers of universities and colleges are reasonably concerned with the quality of financial management and are likely to curtail the flow of financial resources or intervene in other ways if they think that those resources are not being efficiently and prudently managed. This danger exists not only in relation to fiscal resources but also in respect of funds raised from private donations. This link is one aspect of the connection between financial management and fundraising. There would be no nexus if there were no expectations about the accountability of higher education institutions.

III. <u>ACCOUNTABILITY</u>

Martin Trow (1998) states that “the essence of accountability is the obligation to report to others about the activities of an institution, its parts and members, to explain, to justify and answer questions.” He goes on to note the distinctions between external and internal accountability and between legal and financial accountability and academic accountability. The purpose of accountability to external stakeholders is to "provide assurance of adherence to mission, honest and responsible use of resources, and satisfaction of legitimate expectations." Internal accountability is the reporting obligation of constituent parts of the university to each other. Legal and financial accountability is the obligation to report on how resources are used and academic accountability is the obligation to report on performance of the institution.

As Trow points out, accountability constrains higher education management from arbitrary behaviour and corrupt practices, may maintain or improve their performance by necessitating critical self-examination and external evaluation, and can be used as a regulatory influence. To the extent that they succeed in doing these things, the accountability stipulations in higher education can reinforce the traditional legitimacy of higher education institutions and maintain the basis for community support, particularly in respect of continued demand for their services and in terms of financial contributions to their operations.

Publicly owned universities and colleges in the Caribbean have a clear responsibility to report on all aspects of their operations. They report on their financial management, on student enrolment and performance, on academic resource mobilisation and use, on human resource management, on facilities management, and so on. Privately owned institutions have similar obligations

The formal structure for accountability varies across institutions. Typically, however, the management of institutions is required to report at least annually to a governing body comprised of government representatives and other stakeholders, including staff representatives and student representatives. In the formal structure for publicly owned universities and colleges, governments may be said to represent the public interest but specific provision for the inclusion of particular interest groups is expression of the conclusion that broad public interest representation in not sufficient or acceptable to particular categories of stakeholders. The expansion of governing bodies to accommodate disaggregated stakeholders if pushed too far, may unintentionally weaken accountability by reducing opportunities for effective participation by individual members. In such situations, the work of governing bodies may become not only formal but ritualistic and devoid of practical meaning.

The structure for external accountability frequently supplements governing bodies by several committees exercising delegated authority of the governing bodies. The most prevalent ones are finance and general purposes committees which replicate the composition of the governing bodies. These committees by virtue of their decision powers and involvement in the management of the institutions, transgress the boundaries between accountability as a reporting relationship and autonomous decision-making and management. They also cross the boundary between broad guidance and strategic direction and instructions and directives. By this intrusive means, governments as stakeholders or as embodiment of the public interest weaken the autonomy of higher education institutions.

Various stakeholders sometimes insist on separate accountability arrangements. A fairly common instance of this is the requirement for separate accounting and reporting on earmarked funds emanating from charitable foundations, corporate donors and multilateral institutions. These make a direct link between accountability and fund raising. Because they are cost-increasing, they also add to the difficulty of financial management.

Students as stakeholders also have their own mechanisms for accountability, uniquely in the informal instrumentality of protest demonstrations. There has always been a self-interested concern with curriculum and instructional quality which encompasses the quality and availability of academic staff and the quality and accessibility of the supporting infrastructure. Their concern extends to the quality of administrative services impinging upon student enrolment, examination and graduation. They include amenities and services unrelated to the education process. However, the sensitivity to higher education management performance by students has been accentuated by the adoption of substantial user charges. Tuition fees and other charges connote a seller-purchaser relationship (implicit contract) in which students as customers seek justification of the price of higher education services as well as require quality with an insistence not characteristic of zero- tuition situations. Higher education has in effect become a commodity and with this change has come accountability in market terms. Effective response would require a quite significant shift in the mindset of higher education managers. They must cease to see themselves as benefactors of students but instead as suppliers of services in a market which validates the quality of their management and institutional performance. They along with their counterparts in the academic departments must become much more responsive to student assessment and to the wider community's opinion of their academic products. This is not a soft challenge for especially in respect of their curriculum long- established universities and colleges are notoriously slow to change. Woodrow Wilson, former U.S President and President of Princeton University is reported to have said that it is easier to move a graveyard than to change the curriculum.

IV. TRUST

Accountability is an alternative to trust. Efforts to strengthen accountability usually are accompanied by efforts to weaken trust. Trust itself must be earned and can only be earned and maintained if the management of higher education institutions is scrupulous in its compliance with principles of sound and effective management, particularly manages its finances with probity and prudence, and is seen to be in faithful pursuit of the community's welfare.

Trust, once eroded by arbitrary behaviour, financial transgressions and waste, and by disregard for the public interest is extremely difficult to regain. The role of trust as an alternative to external accountability places a high premium on the adequacy and effectiveness of the higher education institutions' own internal systems of management, control and accountability. Failure or inadequacies of those systems may signal the need for strengthened external accountability, often of a more pervasive and intrusive nature. It is therefore critical to ideals of academic autonomy that higher education institutions keep their houses in order.

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SHARING THE BENEFITS OF ECONOMIC INTEGRATION

ADDRESS

by

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GUYANA MANUFACTURING AND SERVICES ASSOCIATION LIMITED

ANNUAL PRESENTATION AWARDS DINNER

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GEORGETOWN, GUYANA

SHARING THE BENEFITS OF ECONOMIC INTEGRATION

I. INTRODUCTION

On the eve of the inauguration of the Caricom Single Market and Economy (CSME) set for December 2005, great anxiety seems to have overtaken consenting parties. Doubts are being voiced or expressed in other other ways about the likelihood of mutual satisfaction from the union. A kind of pre-nuptial night jitters, it may seem. Reassurances seem necessary. It may be advisable to start by reflecting upon the reason or justification for the undertaking.

The 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 magnify the disadvantages already inherent in the small economy sizes and populations of Caribbean micro states and weaken the chances of successful interaction with the world economy by those Caricom countries that possess greater land mass, population or natural resource endowments. Economic union in most cases provides the only feasible basis for economies of scale and scope and rationally ordered location of production in this sub-region. The CSME is ambitious because of its scope and the diversity of the countries comprising the single market and economy. There are quite significant differences in economic situation and performance, in social development, in language and in culture. No country has decided to join the CSME for altruistic reasons. Each expects that membership in the economic union will make its economy and residents better off than they would be outside the union. But expectations are not limited to absolute progress, that is to measures of positive change in one's own economy over time. Expectations encompass relative progress, that is to say, the positive changes in one's own economy compared with positive changes in the economies of partner countries. Persistent wide and growing differences in economic situations and prospects could be a source of tension with ultimate disintegrative effects on the economic union. Members need to have a sense of shared benefits from being members of the union.

II. TRADE WITHIN THE CSME

Much of the anxiety about sharing of the benefits from economic integration pertain to trade. A likely consequence of the elimination of trade barriers is the displacement of higher cost domestic production by lower cost imports from partner countries. If a country is not cost-uncompetitive across all sectors, then production losses in some sectors are compensated by gains in others. It is important that in making a judgement about overall trade losses or gains that trade in services be included and not just trade in goods. Countries which lose out in trade in goods might gain or can seek to gain from trade in services. When there is inequality of resource endowments, including human resources among Community members, distribution of gains through trade will not be equal because differences in resource endowment will usually be mirrored by differences in competitive strength within the Community. This inequality of outcomes is not to be confused with fairness. The correct approach to achieving a more equal distribution of trade benefits is to enhance and augment the resource endowments of the less competitive countries and to create opportunities for export growth.

Export opportunities within the Community can be created or developed in several sectors. In agriculture, regional policy and practice which facilitate and encourage trade in rice, sugar, citrus products, food crops and fruits could substantially improve the trade performance of Belize, Guyana, Dominica, Grenada and St. Vincent and the Grenadines and strengthen their commitment to Caribbean economic integration. National policies and practices which favour third country exports to satisfy local consumer or producer lobbies or which utilize phyto-sanitary regulations as formidable non-tariff barriers do the opposite, i.e., harm trade performance and contribute to feelings of disunity. Tourism is another example of export opportunity. The primary market orientation of this industry is extra-regional. However, the regional market can have an important place. Indeed, Barbados already benefits from the regional market for tourism services. Other countries already well-established in the international segment of the industry could target the regional market. The onus would be on such countries to create a climate of receptivity to Caribbean visitors and to become affordable destinations. If it is planned for the regional segment of the industry to be serviced by small and medium-sized enterprises, the potential export benefits would be well within the reach of Caribbean micro states.

On the matter of resource endowments, the following considerations are important for Community policy. One, natural resources might be under-utilised because cooperant factors of capital and labour are not sufficiently available. Therefore, one way of achieving a more equitable distribution of competitive strength is to have a policy framework which provides for the movement of capital and labour within the economic union. The experience of other economic integration movements suggests that total reliance should not be placed on facilitatory instruments such as the removal of restrictions on capital and labour mobility. These may need to be supplemented by more active arrangements for transferring capital and for technical assistance on a planned basis by institutions and programmes created for those specific purposes. A further consideration is that member countries which are economically less strong may nonetheless have niche advantages in some segments of a regionalised labour market. Various kinds of artisans and craftsmen came to mind. This then allows for the possibility that member countries which in the initial stages of economic integration are not performing strongly in regional merchandise trade and in extra-regional merchandise trade, can nonetheless benefit by exporting labour services to other member countries.

Geographical mobility of labour is a critical equalizing force in economic communities. Caribbean Community member countries have been too overwhelmed by the immediate pressures of domestic unemployment to see the potential dynamic benefits of labour market integration. Unemployment rates have ranged between 9% and 17% in recent years. In these situations, it is easy for governments to succumb to defensive labour market tactics such as more stringent work permit restrictions, rather than to address the challenges of improving labour productivity and labour force quality without which there is unlikely to be any sustainable job creation in an open competitive economy.

Labour market integration can also help to relieve production bottle necks due to unavailability of local labour at economically feasible wage rates. Within the Community, the construction sector and also agriculture have experienced labour constraints to expanded output with consequential inflation of output prices and production delays as in the case of the sugar industry. Relaxation of the labour constraint through realisation of a Community labour market would confer benefits of lower prices, shorter production runs, and larger output on both labour-sending countries and labour-receiving member countries. Of course, some countries have received labour as "underground" workers ***i.e***., workers unrecognised by the authorities but having real presence in the work place. This is an economic injustice since it allows the host countries to benefit from imported labour services while denying the service providers the full due of their contribution to economic activity in those same host countries**.**

Throughout the Caribbean Community there are fears that unrestricted movement of Community residents would place severe burdens on social services beyond the capacity of Governments. It is difficult to give much credence to such fears because they ignore the fiscal contributions which such workers with proper legal migrant status will be required to make, and because arrangements for portability of pensions and social security benefits would reduce the dependence of new migrants on the accumulated monetary contributions of resident workers. Behind the seemingly intractable problem of restrictions on geographical mobility of labour in the Caribbean Community is refusal to accept the concept of a common economic space which must be the core of Community philosophy.

III. FINANCIAL CAPITAL IN THE COMMUNITY

Capital flows are another equalizing factor in geographically distributed economic communities. Through direct investment or through portfolio capital which is then converted into loans and equity investments, recipient countries may build productive capacity, enhance their physical and social infrastructure, and finance current economic activity to improve their current and future economic performance within the Community. The benefits to the sending countries are the income earned on financial capital and direct investment as well as the medium and long-term benefits to their own export sectors of having economically vibrant economic community partners.

Given the potential contribution of Community-origin direct investment in member countries it should come as a surprise that attitudes in recipient countries seem less than welcoming. Foreign exchange controls, work permit regulations and the clamour of protective nationalism constitute formidable obstacles to the potential transborder investor in the Caribbean Community.

The potential of portfolio capital flows for equalizing gains from economic integration should also not be underestimated. Several countries have fairly longstanding situations of excess liquidity in their financial systems co-existent with a shortage of investment opportunities. In others, the situation is opposite. Foreign exchange controls have served to rigidly segment financial markets into national enclaves thereby minimising the scope for productive employment of financial services in the Community as a whole, artificially depressing interest rates and frustrating competitive market pressures for improvement in the quality of financial services. One outcome is substantial variation across the Community in the quality of financial services, in the cost of capital and in returns to savings. It should not be thought that cross-border mergers and acquisitions in the financial sector will significantly reduce these variations. Cross-border firms would be free to integrate operating systems with some efficiency gains to customers but would still be constrained by national foreign exchange controls and regionally uncoordinated monetary policies.

The retention of foreign exchange controls within the Caribbean Community has been advocated on two grounds: domestic interest rate insulation and avoidance of capital flight. On the first, it is true that equilibrating market forces will drive up interest rates in the low interest rate economies and drive down interest rates in the high interest rate economies if portfolio capital is geographically mobile. In other words, there will be market convergence of interest rates which is not a bad tendency if one subscribes to the Community goal of a common financial space. Foreign exchange controls on the other hand institutionalise interest rate divergence, thereby effectively maintaining segmented financial markets. On the second count, the belief is that capital will move from the capital controls, fixed exchange rate jurisdiction to the no capital controls, flexible exchange rate jurisdictions en route to extra-regional financial markets. Caribbean reality has been somewhat at variance with this presumption. Foreign exchange controls in current fixed exchange rate jurisdiction have been wholly ineffective in stopping overseas portfolio investments by Caribbean residents as official data for the US readily show. What causes extra-regional capital outflows is not the absence of foreign exchange controls but the desire on the part of financial investors for economic and political risk management through portfolio diversification and the quest for higher rates of return than are possible in constricted domestic financial markets. Paradoxically, the widening of financial options and the availability of a more attractive portfolio of financial instruments through financial market integration are more likely to mitigate capital outflows than would foreign exchange controls on intra-Community flows.

IV. A REGIONAL DEVELOPMENT FUND

A regional development fund (RDF) 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. An 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 REGIONAL DEVELOPMENT FUND

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.

VI. FINANCING THE CARICOM REGIONAL DEVELOMENT FUND

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.

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 these kinds of reasons the financial contribution formula may be an especially difficult problem to resolve.

VII. CONCLUSION

None of the difficulties in the path of equitable sharing of the benefits from economic integration are insurmountable. While start-up costs in terms of both financial capital and political capital, they would tend to decrease as the idea of integration takes root and opportunities for beneficial participation increase and are utilised. The first steps are the essential ones in this dynamic process.

CREATING A SUSTAINABLE FRAMEWORK FOR THE MONITORING OF THE ACHIEVEMENT OF THE MILLENNIUM DEVELOPMENT GOALS IN THE CARIBBEAN

FEATURE ADDRESS

by

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at the

MILLENNIUM DEVELOPMENT GOALS REGIONAL WORKSHOP

CO-HOSTED

by

THE CARIBBEAN DEVELOPMENT BANK

and

THE UNITED NATIONS DEVELOPMENT PROGRAMME

at the

CARIBBEAN DEVELOPMENT BANK CONFERENCE CENTRE

BARBADOS

NOVEMBER 17, 2005

CREATING A SUSTAINABLE FRAMEWORK FOR THE MONITORING OF THE ACHIEVEMENT OF THE MILLENNIUM DEVELOPMENT GOALS IN THE CARIBBEAN

Chairman, Mr. Desmond Brunton, Vice-President of the Operations in the Caribbean Development Bank (CDB), Dr. Rosina Wiltshire United Nations Development Programme (UNDP) Resident Representative, Mrs. Rebecca Arias, Dr. Warren Smith, participants, specially invited guests. I am billed to give the feature address but when I saw the programme and realized that my good friend, Rosina Wiltshire, was speaking before me I realized that there was really no need for me to do such a thing. I was quite confident that she would cover a lot of the ground.

But I want to touch on a few matters which might inform your deliberations and may give you some reason for staying the course and doing what you will be doing. You will be dealing during the course of the meeting with the details of the Millennium Development Goals (MDGs) - the specifics of the goals and their indicators and about the importance of monitoring these goals and their achievements. But why are they important? Why should we bother with the MDGs and on what basis does one justify efforts at achieving the MDGs? The answer is a simple one even though people get to it in fairly complex ways. The answer is that the MDGs are an important step towards the achievement of social justice – that is why we want to do it, that is why they are important. Social justice is a fundamental of economic development and I want to say just a little on that.

This idea goes back a very long way. In fact one could find evidence of it in the beginning work on the Economics of Adam Smith and one could even go further back and find it in the writings of Plato on the Republic – and others in Greek philosophy. But in more modern times, philosophers have attempted to bring the matter again and more frontally to our attention. For instance, John Rawls in his 'A Theory of Justice' which was first published in 1971, proposed two principles of justice. One principle is extensive liberty for all. 'All' really means that extensive liberty must not be confined to only one group. It must also apply equally to others. The second principle is opportunities for all. Rawls included the rider that opportunities should be maximized for the least privileged group thereby obviously recognizing that if there is a group that is disadvantaged then special efforts might be required in order to bring that group into the position where they can benefit from the opportunities. In terms of the Greek philosopher Aristotle, one does not achieve equality by treating unequals equally – some discriminatory policy might be required. Later, John Roemer, another philosopher writing in a book entitled "Equality of Opportunity" advocated an equal opportunity policy which seeks to equalize "advantage" among people from groups whose circumstances are different. In other words, Roemer takes the matter to the operational level – to the policy level. Amartya K. Sen, in his "Development as Freedom", which was published in 1999 provides a framework which is particularly useful as we try to answer the question "why the MDGs and why we should pay attention to the MDGs?".

According to Sen, development is seen as a process of expanding the real freedoms that people enjoy. Expansion of freedom has both constitutive and instrumental roles. Expansion of freedom is both an end in itself – which is the constitutive role and is also a principal means by which one brings about development, which is the instrumental role. The constitutive role of freedom relates to the importance of what Sen calls substantive freedoms in enriching human lives and here one begins to approach the heart of the matter. These substantive freedoms include elementary capabilities such as avoidance of starvation through poverty, undernourishment, escapable mortality, and premature mortality, the freedoms associated with being literate and numerate, and the enjoyment of political participation – free speech or uncensored speech and so on. So that one is talking here about basic rights of human beings in the economic and social and political spheres as constituting the essential objective of development, not simply economic development but overall development. The instrumental freedoms contribute to the expansion of human freedoms and these instrumental freedoms include political freedom, economic facilities (Dr. Wiltshire referred to the idea that the MDGs do not ignore these things but that they are in the background so to speak), social opportunities, transparency guarantees and protective security because Sen also recognizes that in modern society an essential freedom is in fact freedom from worry about such things as crime, violence against your person, and so on. Now several of the substantive freedoms which Sen lists – the avoidance of starvation through poverty, under-nourishment, mortality, infant mortality, etc. – several of these are recognizable among the MDGs and these are also several of the instrumental freedoms particularly those focusing on provision of education and health services. As can be seen when you look at the various goals listed, the MDGs have evidently placed emphasis on social justice within countries.

It places emphasis on social justice in a global sense as well. Goal 8, which speaks to the matter of developing a global partnership for development and particularly identifies indicators in relation to official development assistance and market access, is speaking to a problem of tremendous global imbalance in wealth, living conditions, and economic opportunities. We have to be mindful of that. While we as statisticians and others in the Caribbean focus on the MDGs and what they promise for social justice within our countries, we also have to be mindful of the fact that there is a complementary set of activities which matter importantly to the realization of social justice in our own countries, namely those activities which address the question of injustice on the global scale. From that perspective one is of course disappointed at the limited progress achieved in relation to meeting the target for official development assistance.

It is true that only a few Nordic countries have come anywhere near the targets set in Monterrey for official development assistance. This is not to say that the sums of resources, i.e, financial resources have not increased, but the targets were set in relation to proportion of the GDP of the donor countries and in most cases the proportions achieved have been well below the target. In fact we might even wonder whether the main tendency in development assistance has not been in support of let us say geo-political considerations than in terms of the pursuit of the human development objectives so admirably set out in the Millennium Development Goals. I think we might also have the same degree of reservation about the issue of market access because, as is well known, in international trade negotiations, we (meaning the world) have made very little progress in respect of embodying developmental objectives in the trade provisions and that is where again there is in fact a stand-off between the developed countries and the developing countries. The developed countries are concerned essentially with the rules of the game as they pertain to a liberalization of our markets. Developing countries are asking that unequals be not treated equally and that special provisions be built in for improving their development prospects in a globalised economic, political and social environment.

I want to say as well that the MDGs are not a complete set of social justice goals and indicators. There is not explicit treatment in the eight goals of political freedoms or of economic facilities. The basic point about this observation about the incompleteness of the MDGs is not to criticize the MDGs but to ensure that our planners and statisticians – and this partly what Dr. Wiltshire is saying – do not lose sight of the need to take a more comprehensive approach in the totality of their own activities. In pursuing the goals as stated, one would necessarily have to look at the mechanisms and the various enabling factors. I think that we, in CDB, have to be totally concerned about these aspects in our own work. We have to be very mindful of the importance of political freedoms. Of course, Jean Jacques Rousseau in the nineteenth century turned France upside down by declaring that man was born free and everywhere is in chains. That was the clarion call that led to the French Revolution or certainly was one of the main contributors. We in the Caribbean of course are not in that situation but we have had a hard battle to achieve certain political freedoms especially the freedom of universal adult suffrage, as distinct from voting rights based on wealth or ethnicity or other such factors. One should also recall that in an earlier epoch, women notably the Suffragettes had to fight for voting rights which were denied them by virtue of their sex, so that human society has made a lot of progress in relation to basic political freedoms. However, I think that now one is raising the ante and is seeking not constitutional forms of political freedoms but is seeking as well political freedom in more meaningful ways such as participation in decision making. We hear phrases of participatory democracy. As we seek to see how we can make explicit or expand some of the MDGs to cover some of these areas I think we need to begin to think about what are the real ways in which we give expression to the political voice of people, to their involvement of public decision-making and then seek of course to measure those things.

I think as Caribbean statisticians approach the MDGs, they obviously need to analyse the underlying concepts that have formed the various goals and indicators, they have to analyse the methods and I think they have to be very conscious of the importance of evidenced-based knowledge. There is a popular story in the Bible of Jesus Christ on the day after the crucifixion encountering Thomas who wasn't sure whether it really was him, and demanded proof. Jesus said, "Well, here is the wound. Put your hand," which Thomas did. Now Thomas has been, I think, villified by the phrase 'Doubting Thomas' - he didn't have sufficient faith. I see Thomas as an empiricist. His method may have been a bit crude, these days he would have used DNA, but he was saying "Well, what's the evidence?" What's the evidence – evidence based knowledge. I think Statisticians are empiricists. Statisticians need to help us to understand what is the state of things now and what has been the progress? How do we know that we have progressed. These are all matters of evidence and fact in which your role is critical.

As you seek to do those things, to answer those questions from an empirical point of view, you need as well, I think, to consider the refinements of some of the goals in the MDGs. Not all the goals are applicable or meaningful to the Caribbean in their present form. For instance, is dollar a day totally meaningful to us or do we need to supplement 'dollar a day' with other indicators. Certainly 'dollar a day' is not applicable as a measure of poverty in all societies. We need to look at other indicators. The poverty measure is just one example. Some of the goals in relation to gender equality and empowerment for instance would need some refinement also. But we need to refine the indicators as well. To make sure that we are really measuring what we want to measure and what we think ought to be measured. I guess that if not the clearest example of this, the easiest at least, is in relation to the enrolment in primary schools What we are after there, especially if we think of Sen's concept of numeracy and literacy, is not simply how many people have actually gone to primary school – how many are enrolled, that is not what we are after. Our objective is the education to a certain level of the people in the society so that we would not be satisfied with a hundred percent enrolment which is a point estimate at a date if we knew that half the time the enrolled students were not there. So that if we are dealing with a rural society – a poor rural society, in which children of primary school age have to be at certain times of the year on the farm assisting their parents we need to be thinking of effective enrolment – actual days in school rather than simply enrolment. Dr. Rosina Wiltshire mentioned the question of quality so I wouldn't worry to go into that but that is obviously another important aspect of the education indicators where one has to look at not only the issue of how many days you spend in school but at what is the quality of the education experience in school. We also need to develop statistical bases for some of the indicators and I think that most persons around here would admit that whereas our statistical systems produce some of the data and some indicators, they are some of the other indicators on which we produce no information on a sustained basis. I think for instance in terms of indicator five of Goal 1 which calls for measure of the proportion of population below minimum levels of dietary energy consumption. I think where we collect that information we do it on a one-shot basis – may be at the time of censuses or irregular surveys. So we have to look at the various indicators and see where we have gaps in our existing statistical system and how do we close those gaps.

Basically, we are in a situation in the region in which our statistical offices are in need of capacity building. I don't think anybody would argue against that. We need especially to build capacity in the area of social statistics. I think in seeking to address the matter of the sustainability of monitoring the MDGs indicators, we must place the emphasis on building our capacity, building and maintaining capacity in the statistical offices rather than allocating large sums of money to one shot efforts. One-short efforts leave no capacity in place to continue the work. As a matter of strategy we need to focus on building the capacity of the countries and the region as the foundation of sustainability. In so doing, it is obvious that countries cannot do it on their own, that they need the help of many parties so that the various donor agencies and development banks need to collaborate with the statistical offices in that exercise at capacity building. I think if there is such a collaboration and if there is a clear understanding of what we are really going to do and how the building of that capacity contributes to the MDGs and contributes via the MDGs to the achievement of social justice and social stability then we would have advanced the cause of Caribbean development that we all espouse. I wish you all a very productive two days and may the fruits of your effort be bountiful.

PERSPECTIVES ON THE FINANCING OF TERTIARY EDUCATION IN THE CARIBBEAN COMMUNITY

OPENING STATEMENT

by

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PRESIDENT

CARIBBEAN DEVELOPMENT BANK

to

THE CONFERENCE ON FINANCING TERTIARY EDUCATION IN THE ANGLOPHONE CARIBBEAN

HELD AT THE UNIVERSITY OF THE WEST INDIES

CAVE HILL CAMPUS

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Perspectives on the Financing of Tertiary Education in the Caribbean Community

I. INTRODUCTION

I recall that about 14 years ago, Sir Alister McIntyre, then Vice-Chancellor of the University of the West Indies (UWI), perhaps conscious of an emerging financial crisis in tertiary education convened a conference in Kingston, Jamaica on Financing Education in the Commonwealth Caribbean. That conference ushered in a period of reform in university finances including the introduction of tuition fees and the establishment of development and endowment funds. In similar view, the Caribbean Development Bank (CDB) has combined forces with the UWI to sponsor a wide ranging conference on the financing of tertiary education to focus attention on problems now manifest in the sub-sector and hopefully to generate ideas for improvements in the financing of tertiary education.

There is a brief, quite illuminating conversation in Ernest Hemmingway's "The Sun Also Rises" which goes as follows:

> "How did you go bankrupt?" Bill asked.
> "Two ways," Mike said.
> "Gradually and then suddenly."

Tertiary education is a business which utilises inputs acquired at a cost and which defrays those costs by the sale of its services and by receipt of beneficial monetary donations. If the total of its costs continually exceed the total of its income, the tertiary education institution risks bankruptcy. As Mike discovered, tertiary education institutions might approach bankruptcy gradually. The gradual phase which can be quite protracted might be characterised by such a deterioration in the quality of educational services that the institution has no value. No Caribbean tertiary institution deserves such a fate which is why sober analysis of the financing of tertiary education is warranted, all the more so in this epoch of high growth in enrolment.

II. THE EXPANSION OF TERTIARY EDUCATION

The Caribbean has embarked on a transition from elitist tertiary education to mass tertiary education. The elitism which characterised the period from the start around 1948 to the end of the 1990s was not based on notions of social class or ethnic discrimination. It was a straight consequence of the meritocratic rationing of the very limited number of opportunities constrained by the small size of the capital and recurrent public expenditures in higher education. It was elitist in the sense that only a few – the intellectually best judged by the competitive secondary school leaving examinations – could be awarded places for tertiary education. The transition to mass higher education is partly the result of conscious government policy instanced by the commitment of the Conference of Caribbean Community Heads of Government and State in 1997 to a 15 per cent enrolment of the post secondary age cohort in tertiary education by 2005, the even more ambitious target of 20 per cent announced by the Government of the Republic of Trinidad and Tobago in December 2000, and by the establishment and expansion of public universities and colleges in practically all Caribbean Community countries. The transition is also the consequence of private educational providers aggressively responding to the large demand unsatisfied by the state-financed institutions. Foreign providers, operating independently or in partnership with local private entities, have a significant presence in the tertiary education sub-sector, particularly in professional education and training. One beneficial effect of their presence is the expansion of access, especially among potential part-time students.

There are several stimuli to the expansion of tertiary education. One is the realisation among individuals that there are substantial positive rates of return to be gained from their investment in tertiary education. A distinction may be made between private monetary rates of return and private non-market returns. The former refers to time discounted post-graduation stream of incomes relative to the sum of expenditures incurred on tuition fees, other expenditures on education and living expenses and income sacrificed by being a student instead of being gainfully employed. There are various theories of higher incomes accruing to tertiary education graduates vis-à-vis non-graduates. Some theories attribute it to the greater productivity contributions of graduates which are then reflected in higher pay. This productivity theory is challenged by theories which contest the existence of a direct relationship between tertiary education and individual productivity and instead argue that education is used as a device by employers to screen potential employees into those likely to be more productive or likely to be less productive (the screening hypothesis e.g. Rothschild and Stiglitz 1976; Stiglitz 1975) and also the theories which see education as a signalling device used by potential employees to signal to employers their potential contributions (the signalling hypothesis e.g. Arrow, 1973; Spence, 1973). Whatever the precise mechanisms of causal connection, there is evidence of substantial private monetary rates of return in the Caribbean. Bourne and Dass (2001;2003) for instance in a study of Trinidad and Tobago graduates from the St. Augustine campus of the UWI, estimated private monetary rates of return in a range of 11% - 20% depending on academic discipline for the period 1986 to 1999.

Private non-market rates of returns pertain to those non-market benefits individuals might derive as a consequence of their tertiary education. They include better individual and family health, better home conditions for cognitive development of children, greater efficiency in consumption as a result of greater informational and analytical capacity, more efficient financial investments, and greater job satisfaction. McMahon (2004) cites several studies which lead to the conclusion that the total value of private non-market returns may be as much as 80% of private market returns.

Another stimuli of expansion of tertiary education is the anticipated contribution to economic growth and development. In the opinion of Frederick Harbison and Charles Meyers (1964), “education is both the seed and flower of economic development.” It promotes development and is also the outcome of development. Earlier analysts identified the economic growth and development promoting role of education, including tertiary education. W. Arthur Lewis (1955) and Theodore Schultz (1961) in their intuitive theories of economic growth pointed to the role of education in enhancing human capital and strengthening institutions which positively contribute to economic growth. Later writings locate the role of human capital in the theory of endogenous growth. Lucas (1988) for instance has aggregate income per capita being determined by physical capital per capita <u>and</u> by human capital per capita. Human capital has both direct effects in production and external benefits associated with the average level of education. Romer (1986;1990) makes productivity growth dependent on the stock of ideas and on knowledge accumulation. Research and development is central to the dynamics of Romer’s model. Barro (1997) similarly introduces education (years of education) in his empirical growth accounting.

The contributions of tertiary education to economic growth and development are conveniently termed social returns distinguishing between returns which accrue to society as a whole and those which accrue to private individuals. Walter McMahon (2004) provides a useful disaggregation of the components of the social returns to investment in education.

1. Higher investment rates in physical capital through the improvements in stability engendered by education.
2. Non-market and new technology effects on economic growth.
3. The contribution of education to research and development and innovation.
4. Slower population growth.

5. Better public health
6. Stronger civic institutions
7. Stronger rule of law.
8. Beneficial effects on the environment
9. Reduction of poverty
10. Reduction of inequality.

As with private returns, a distinction can be made between monetary social rates which are usually computed and non-market social rates of return which are not usually computed. The non-market benefits are public health, stronger civic institutions, stronger rule of law, environmental effects, poverty reduction, and reduction of inequality in the list provided above.

Bourne and Dass (2001;2003) estimated monetary social rates of return to university education between 6% and 13% in Trinidad and Tobago. Computation of non-market social rates of return is likely to raise the overall rates of social return substantially. For instance, McMahon (2004) surveying several international studies estimated that non-market social rates of return approximately equal the monetary social returns thereby doubling the estimates of overall social rates of return.

On the role of tertiary education in social value formation, it is clear that elite education was an acculturation process. Common social values were formed even though by virtue of their elitism these values were not socially inclusive in their conceptualization or their application in the sphere of economics, politics and social relations. There is no certainty about the effect of the acculturation process in the move towards mass education. W. Arthur Lewis (1974, page 2207) in addressing the cultural role of universities in less developed countries (LDCs) was somewhat pessimistic. Dealing with social relations, he noted that the university students "are particularly bereft of signals because they are joining a new class, which has not previously existed in LDCs, and for which no traditional code exists within their own cultures." "Our graduates, however, much admired for their technical proficiency, tend to be scorned in their own countries for their lack of social conscience, their desire to get rich quick, and their lack of responsibility in dealing with their clients." Lewis blamed the university curriculum and there might still be some force to his arguments. The ascendancy of labour market functionalism taken to the extreme in the professional schools of engineering, law and medicine concentrates the tertiary education curriculum on technical skills and "tools of the trade" to the exclusion of ethical, sociological and philosophical principles which shape societies. The result is tertiary graduates minimally endowed with a sense of their society and of the elements that make it a community and ill-equipped to contribute to broad-based social development and social cohesion.

There are of course equity considerations for the expansion of tertiary education, the strength of which cannot and should not be denied. Equality of educational opportunity is a social justice principle which combines positively with the economistic human capital thesis as evident in the following quotation from Alfred Marshall's Principles of Economics reported in Barr (2001).

They, [the children of the working class] go to the grave carrying undeveloped abilities and faculties which if they could have borne full fruit would have added to the material wealth of the country.….to say nothing of higher considerations .…. many times as much as would have covered the expense of providing adequate opportunities for their development."

Improved educational opportunities for one generation also confer benefits on future generations through the effects of parental health, knowledge and incomes on child development and the provision of educational opportunities for progenitors. These intergenerational effects are quite strong.

Despite the cogency of the case for expansion of tertiary education, its finite size is indeterminate. One powerful reason for this is the overall public budget constraint which enforces allocative choice not only between the education sector and other sectors but also among the four education sub-sectors, namely primary, secondary, technical-vocational and tertiary. Eric Williams, then Prime Minister of Trinidad and Tobago and one-time Chancellor of the UWI in 1975 noted the compulsion on his government to examine the education deficits and give priority to primary and secondary education. Other governments, including later Trinidad and Tobago governments from time to time structured their priorities differently as the decision of the Caricom Heads of Government and States to greatly expand tertiary education enrolment implies.

Attempts have been made to use social rates of return to the different levels of education to guide resource allocation decisions among the sectors. For instance, the World Bank (2005) drawing attention to estimated higher social rates of return on primary and secondary education vis-à-vis tertiary education (and to the reverse pattern with respect to private rates of return) recommended proportionately less public expenditures on tertiary education and proportionately more private expenditures. This decision rule implicit in comparisons of social rates of return is vitiated by the interdependency of the education sub-sectors. The size and quality of the primary, secondary and tech-voc sub-sectors determine the quantity and quality of tertiary enrolment and, as noted by Salmi (1991) among others, the size and quality of the tertiary sub-sector determines the size and quality of the other sub-sectors since it is the primary source of its supply of teachers. Rates of return in the several sub-sectors are therefore not independent of each other.

III. PRODUCTION AND CONSUMPTION COSTS

Production and consumption costs on a unit basis are high in tertiary education. Production costs refer to the costs incurred by the providers of education services; consumption costs refer to the costs incurred by students. Production costs are high for several reasons. One reason is the intensity of highly educated and skilled labour inputs utilised in tertiary education and training. Average wage rates tend to be higher for these kinds of labour than the economy-wide average with the consequence of high labour costs as a proportion of total costs, given the general labour intensity of production in tertiary education. Secondly, tertiary education, particularly university education, utilises expensive capital equipment, moreso if science and technology is a strong feature of the institutions. Third, there is also a high rate of utilisation of consumables, including laboratory materials. Fourth, tertiary education, again, particularly university education, exhibits fairly rapid obsolescence of knowledge and technology. The correlate of this rapid obsolescence is the necessity of heavy replacement investment expenditures in physical capital and in human capital (through replenishment of library materials and sabbaticals, etc.). Given these cost characteristics, it would be expected that the expansion of tertiary education and training would be reflected in a rising trend in production costs.

Consumption costs are driven by production costs to the extent that there is a policy of cost recovery through tuition fees and other user charges. They are also influenced by price trends for living requirements and educational materials. Because education materials are mainly imported and because the cost of living is determined by national factors, e.g. wage rates, profit rates, and by import prices, students are price-takers in respect of living requirements and education materials. However, they are able to exert some influence on tuition fees and other user charges through political action such as demonstrations and through choice of study at foreign-based universities and colleges. The latter option is weakly exercised.

IV. THE FINANCING OF TERTIARY EDUCATION

The possible sources of finance for tertiary education are the financial resources of students, employers' contributions to university costs, fiscal contribution by governments, charitable donations, entrepreneurial income earned by the tertiary institutions themselves, and debt created by the institutions.

Gifts and donations by Caribbean enterprises and individuals have not been a significant source of financial resources until recently. Unlike the USA where there is a strong tradition of charitable donations by the business community and alumni support, the philanthropic tradition in the Caribbean is weak. Eric Williams (1975 page 94) remarked on the fact that "the West Indian territories cannot call on wealthy foundations for assistance and the entire tradition of Caribbean history has been an anti-intellectual one almost devoid of philanthropic denotations". Whatever the degree of validity one wishes to attach to the Williams explanation of the paucity of philanthropic denotations, a political factor seemed to have militated against corporate donations until the 1990s, namely the strength of the anti-capitalist and especially anti-foreign capital sentiments among many academics which created a barrier between university communities and the private sector. The situation has undoubtedly changed, as evident in the success of the universities in obtaining business sector financial support for endowed chairs, acquisition of capital equipment, construction of buildings and academic programmes.

The Commonwealth Caribbean university system has also sourced grants from foreign charitable foundations and from foreign governmental agencies for capital expenditures and for recurrent expenditures on teaching and research programmes. Until the 1990s, foreign donations were a substantial part of the financing for research and outweighed local donations in the overall financing of the UWI.

Theoretically, the business sector could be expected to part finance academic programmes on the basis of a benefit principle which sees it as reaping part of the social returns to investment in tertiary education. This expectation is confounded by the reality of a free-rider problem. Because the tertiary education sub-sector's output of graduates is a resource pool accessible to all enterprises, irrespective of financial contribution, i.e., there is no excludability, a free-rider situation exists in which any employer may benefit from the production of graduates without directly incurring any of the costs. Furthermore, enterprises would be disinclined to make a contribution because labour mobility may cause them to lose their investment in the training of graduates unless the mobility can be constrained by contractual arrangements. The latter is more workable on a scholarship basis of financing than through any attempt at generalised academic programme support.

Entrepreneurial activities are part of the tertiary education institutions' response to the need to develop new sources of finance. Success has been limited in the Caribbean, commercial operations contributing 6% of the UWI total income in 2001 and only 4.8% in 2004. There has been little involvement in research and development partnership with industry. The reasons for this state of affairs are many. They include the reluctance of academics to value profit-seeking behaviour highly, ignorance of business decision-making systems and business practices, problems of reconciling the conflict between an academic mission of knowledge production, knowledge dissemination and education with a business mission of profits based on exclusive property rights, and the limited funding allocated to research in Caribbean universities' budgets.

The benefit principle also implies acceptance of some financial responsibility by governments. The historical record is that until the institution of a new tuition fee regime at the UWI in 1993 under which user charges of 10% were introduced, governments financed all the costs of teaching programmes. Primary dependence on public funding remains very much the current situation for all Caribbean tertiary education institutions owned by government. Mass tertiary education puts a major strain on public finances. To the extent that public contributions are financed by higher levels of taxation, the economy runs the risks of disincentive effects on labour supply, brain drain and disincentive effects on capital investment. Higher levels of taxation also tend to be regressive. Furthermore, the resource competition of tertiary education is likely to intensify not only with other education sub-sectors but also with other major areas of economic activity. Williams had in fact warned in 1975, quoting Dr. Corry, one time Principal of Queen's University, Ontario, that given the limited financial capacity of West Indian governments and the social problem of unemployment, the universities were likely to join "the scramble at the public trough…….with other ravenous feeders there: health, welfare, highways, and so on, rousing envy, irritation and opposition".

The creation of debt is a substantive danger to tertiary education institutions in prolonged situations of rapidly rising production costs in response to enrolment expansion and education quality change when fiscal incapacity limits the actual versus promised financial contributions of governments. There is nothing intrinsically wrong with debt creation if it is part of a coherent financial plan which contains clear and reliable income generating arrangements for debt service and amortization. If, however, debt occurs as a result of unexpected shortfalls in government financial contributions and the tertiary education institutions are forced into large expensive commercial loans, their financial viability will be compromised. The recent financial history of the UWI has examples both of well planned loan financing of capital development programmes and expensive commercial loan financing of recurrent revenue shortfalls occasioned by the build up of government financial arrears.

Student contributions should occupy a prominent place in the financial arrangements. The fundamental reasons are the "beneficiary should pay principle" and the fact that in a mass education system free tertiary education is fiscally unaffordable. Graduates derive substantial pecuniary and non-pecuniary benefits from tertiary education. The empirical evidence is overwhelming on this point. Moreover, when access to tertiary education is restricted by public budgetary constraints, enrolment is implicitly rationed by admissions criteria which work to the advantage of those whose household economic circumstances afford them better secondary education. Free tertiary education unintentionally favours elitism. This is not to deny the important consideration that user charges may militate against potential students whose household incomes are insufficient to meet the costs of fulltime tertiary studies. Part-time studies which affords students the possibility of earned income to finance education expenses is not a satisfactory option since it works against the commitment of academic effort and also denies the part time student the non-tuition benefits of participation in tertiary education.

User charges on tertiary education might be reconciled with the equity objective of ensuring that household incomes are not a barrier to access to tertiary education by well-designed student loan schemes and by grants to those who do not satisfy eligibility conditions for loans. Those who rush to the conclusion that tuition fees and other user charges are opposite to equality of educational opportunity miss the role of student loans and grants in tertiary education. The literature is replete with discussions on the most effective design of student loan schemes. An essential feature is that they provide a direct link between the expected future earnings of graduates and the stream of loan repayments. It should be noted, however, that mortgage type schemes in which the repayment amount is fixed in absolute terms to defray a principal sum over a finite period is more burdensome than income contingent schemes in which repayment is fixed as a proportion of incomes after graduation.

The rise in the extent to which tertiary education is provided by private institutions signals a willingness of potential students to pay for tertiary education, confounding assertions about inability to pay and bringing into question the necessity of a policy of zero user charges. The growth of private education is testimony to the economic rationality of consumers of tertiary education services.

V. A VIEW ON HOW GOVERNMENT SHOULD FINANCE

Under the existent system in the Commonwealth Caribbean, governments finance tertiary education by approving the total budget of the institutions and determining the split between their financial contributions and tuition fees. They also through their definitive role in wage rate negotiations control the major component of tertiary education production costs, i.e. labour costs. Moreover, through their predominance in the governing councils of the institutions, governments determine student enrolment and tuition fees. In effect, therefore, governments determine input price, output levels, output price and the budget envelope. This means that all the principal management decisions are removed from the tertiary institutions.

Government decisions on these several components are not always internally consistent in the sense of producing mutually acceptable outcomes. Often the totality of the decisions leave the tertiary education with an unfinanced deficit and with no discretion to adjust output, output prices or input prices. The consequences are recourse to commercial debt or deterioration in output quality. It would be better if governments unfettered the management of the tertiary education institutions by confining itself to the determination of its fiscal contribution and leaving the other decisions i.e., overall budget, input prices and output prices to the decision-making organs of the institutions.

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NATIONAL PLANNING BY SMALL, NON STRATEGIC DEVELOPING STATES IN THE FACE OF DECLINING OVERSEAS DEVELOPMENT ASSISTANCE

PRESENTATION

by

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PLANNING INSTITUTE OF JAMAICA

FIFTIETH ANNIVERSARY CONFERENCE

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NATIONAL PLANNING BY SMALL, NON STRATEGIC DEVELOPING STATES IN THE FACE OF DECLINING OVERSEAS DEVELOPMENT ASSISTANCE

by

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

I. INTRODUCTION

This paper as a contribution to the Planning Institute of - Jamaica's 50th Anniversary Conference is written against the backdrop of the failure of the world's leading industrial countries to meet the targets for international development assistance set at the Monterrey Summit on Financing Development in March 2002 and the diversion of considerable proportions of what exists to theatres of war in the Middle East. In general, aid flows to Commonwealth Caribbean countries have contracted. Countries accustomed to significant inflows for implementation of their development plans now have to revise their strategies in the light of diminished overseas development assistance.

The paper explores various facets of this problem. The next section provides a perspective on planning. The notion of small, non-strategic states is then explored. The pattern of overseas development assistance and its relationship with economic growth and development is summarised before a specific discussion of Overseas Development Assistance (ODA) in the Commonwealth Caribbean. The penultimate section of the paper examines implications for national planning. A few broad conclusions are drawn in the final section.

II. A PERSPECTIVE ON PLANNING

The essence of planning is the determination of policies and actions to be taken in the future for achievement of predetermined goals. Individuals plan; enterprises plan; and nations plan. National planning vests the planning process and the supervising of its implementation in governments. Because the optimality conditions for resource allocation and inter-temporal maximisation in market economies are rarely, if ever, satisfied, governments intervene with the intention of influencing socio-economic objectives and achievements over time. These interventions may be situated in the context of industries (industrial planning), sectors (sectoral planning) or the overall economy (macroeconomic and development planning). At one extreme, national planning might be manifested in comprehensive goal determination and allocative decisions, that is, in central planning, while at the other extreme it may be limited to sign-posting or forecasting the desired future direction of the economy, i.e., indicative planning.

Newly ex-colonial countries took naturally to national planning. The operation of the market economy during colonial times had bequeathed them a legacy of qualified benefits such as economies narrowly specialised in tropical commodity exports, a host of economic and social problems such as low and unstable rates of economic growth, high rural unemployment, a minimalist entrepreneurial class experienced only in commerce, tremendous inequality of income and wealth, a history of social disaffection and protest, and the absence of a history of self-governance and self-determination. For nations in a hurry to establish stronger, more diversified economies and a sense of inclusive nationhood, planning seemed an imperative.

National planning has not been entirely successful. False starts have been made in various sectors with unsatisfactory outcomes such as prolonged dependence on fiscal subsidies by some industries, tax regime induced instability in the presence of foreign enterprises, urban drift and high urban unemployment with its correlates of poverty and socially dysfunctional behaviour, to mention just a few. However, the achievements are considerable. In the Caribbean, they would include Trinidad and Tobago's industrial development centred around its abundant energy resources, tourism development in most island economies, the development of the financial sector and its indigenisation, the widening of the class of financial wealth holders, and the active (although not entirely successful) promotion of broad-based social welfare.

III. THE NOTION OF SMALL, NON-STRATEGIC STATES

For the purposes of this paper, one need not be detained by the various ways of defining small states, for example, in terms of population size, land mass, resource endowments. What matters here are the implications of small size. Small states have a limited range of economic opportunities. Small geographical size limits the quantum and diversity of natural resource endowments and confines the scope for economic diversification. In some instances, the small size of states so limits their capacity to absorb citizens into economic life that emigration of labour becomes a permanent feature of those societies. Other implications of small size are the inability of small states to have major influence on world affairs and given their insufficiency of human resources the difficulties they face in effectively participating in a multiplicity of international forums. As is well known, small states are price takers in international markets for goods and services, except where they are niche players. More important, small states depend upon the international economy in the fundamental sense that their domestic market is insufficient to support the levels of living to which they aspire. No less important, small states are also vulnerable. They are economically vulnerable to changes in their trading environment and in global financial markets. They are physically and economically vulnerable to natural hazards. By virtue of their small economic size and small land mass, small states experience economy-wide repercussions of trade shocks and natural hazard occurrences.

In what sense could it be said that a state, more so a small state, is non-strategic. One interpretation is that they are of little global or even regional significance in the sphere of politics, economics or finance. Their political behaviour, domestic political stability and international relations are envisaged to have no practical bearing on global or regional politics and governance. This might be so because of the end to military rivalry between major industrial countries and because improvements in the technology of warfare has made obsolete many harbours, bases and shipping routes. Furthermore changes in their foreign trade and international financial transactions with the rest of the world are incapable of influencing world markets or regional markets. The clear implication of these kinds of statements is that the present and future conditions of small states is not a matter for enlightened self-interest by powerful nations.

This thesis about strategic non-importance should be moderated by several considerations. First of all, account has to be taken of the entry on to the global stage of large, increasingly economically strong countries not previously counted among the major players. The awakening of the "sleeping giant" Brazil in the Western Hemisphere, the rapid maturation of Chinese economic growth and the determined engagement of China in the world economy, and the emergence of India as an industrial leader, notably in information technology create a dynamic global environment in which small states might be seen by the new players as support to be garnered, especially in international forums where decision-making is democratically based. This strategy of emergent world powers is not dissimilar to the market entry strategy of new enterprises into markets controlled by a few large, well-established enterprises. In such markets, new entrants first establish a presence by earning market shares among smaller transactors, on the periphery in a manner of speaking. The inference to be drawn by small states is that strategic significance is dynamic, not necessarily maintained in relation to traditional global powers and issues but susceptible to shifting coalitions of interest.

Second, traditional global players may have niche interests, i.e. interests of concern to them only or mainly which they believe could be advanced by winning the support of small states. An example is Japan's courtship of some Caribbean States on the matter of international whaling. Third, small states have voice in international forums, that is to say, their numbers have equal weight in the determinations of those bodies. However, voice can be manipulated or bullied into compliance in which case small states could hardly be adjudged to have strategic influence. Fourth, some small states have influence on other developing countries, sometimes because of critical support provided during their struggles for national liberation, or because of common heritage such as the colonial experience, or because of their powers of advocacy. In the latter case, they become advocates for a larger constituency of states. Whichever reason prevails, the point is that the strategic significance of the small state is enlarged because of its potential role of intermediary or broker. Fifth, some small states command international attention because of their potential for igniting global disorder. World War 1 was triggered by a minor tribal dispute in Austria. Palestine is the tinderbox for conflagrations elsewhere in the Middle East, North America, Asia and Africa. Caribbean small states do not have such a capability and certainly would not aspire to it. Sixth, small states can be instrumental to the state of social order or disorder in the world's leading countries. Changes in the relationship between the United States and the former Soviet Union and in military technology have undoubtedly diminished the geo-political significance of the Caribbean. However, its geographical location still gives it an important position in efforts at combating international narcotics trade. To the extent that problems of unemployment, poverty and governance create a climate of receptivity to transhipment activities the situation of small Caribbean states is not without interest to at least its powerful and wealthy hemispheric neighbours.

IV. OVERSEAS DEVELOPMENT ASSISTANCE, ALSO KNOWN AS FOREIGN AID

Foreign aid is motivated in large measure by strategic interests of donor countries. Much of it serves geo-political purposes. Much of it is in pursuit of the economic interests of donors such as export markets and access to strategic raw materials and energy supplies. But foreign aid is also intended to foster economic growth and development. The lineage of the aid-growth relationship can be traced to the Harrod-Domar model in which capital accumulation results in economic growth and to the Chenery-Strout (1966) two-gap model in which the savings gap (which constrains investment) or the foreign exchange gap is relieved by an inflow of foreign capital. The literature debating this savings-aid-growth nexus has been admirably surveyed by White (1992). Earlier findings supportive of conclusions that aid retards rather than promotes economic growth because of its depressing effects on savings are rejected on grounds of methodological weaknesses such as faulty definitions of savings, failure to incorporate feedback effects of aid on domestic savings via higher levels of income and misspecification of the aid-savings model. The salient conclusion of numerous later empirical studies is that aid increases total savings. This is also a finding for Caribbean countries by Brunton and Kelsick (2001).

Bulir and Lane (2002) draw attention to other channels by which foreign aid might enhance economic growth. Within the framework of endogenous growth theory, aid could assist in generating increasing returns by enhancing the quality of human resources and institutions through investments in education and health and in the infrastructure of governance. However, foreign aid could also retard economic growth if it causes Dutch disease, i.e., by increasing the price of tradeables relative to non-tradeables cause a reduction in the production of tradeables, Foreign aid also has an unambiguous positive effect on consumption which improves welfare.

Foreign aid may also serve humanitarian purposes, directed towards the world's poorest countries, victims of natural disasters and countries severely affected by epidemic diseases. Bilateral aid for emergency and disaster relief comprised 8 percent of total ODA in 2003.

Net official overseas development assistance by the main donor countries averaged USD 53 billion (bn) annually between 1997 and 2002. The trend was quite flat. However, in 2003, the net flows increased substantially to USD 69 bn. Global Development Finance 2005 observes that "strategic factors continue to play a major role in the allocation of ODA across recipient countries. Aid to five areas – Afghanistan, Iraq, Jordan, Pakistan and the Palestinian Administrative Areas – increased by a total of almost USD 5 bn from 2000 -2003, accounting for one-third of the USD15 bn (nominal) increase in ODA. Reconstruction aid to Iraq alone totalled USD 2.2 bn in 2004." Bilateral ODA is the largest component, comprising USD 49.8 bn of the total USD 69 bn in 2003. In terms of the income status of recipients, about 16% of aid disbursed between 2000 and 2003 was to least developed countries, 11% to other low income countries and 16% to middle income countries. Larger countries receive more aid in absolute dollar terms but not on a per capita basis. The United States, Japan, France, Germany and the United Kingdom lead the aid-giving nations with net disbursements of USD 16.3 bn, USD 8.9 bn, USD 7.3 bn, USD 6.8 bn and USD 6.3 bn respectively in 2003. However, the efforts of these countries fall far below the United Nations (UN) target for aid as a percent of gross national income i.e., 0.7 per cent. The only countries which met or surpassed the UN target in 2003 were Denmark, Norway, the Netherlands, Sweden and Luxembourg.

V. ODA TRENDS IN THE COMMONWEALTH CARIBBEAN

Commonwealth Caribbean countries differ considerably in their aid-GDP profile. The Bahamas, Barbados and Jamaica had net ODA-GDP ratios of 0.1% to 0.2% between 1998 and 2002, Trinidad and Tobago was 0.4%. At the other extreme is Guyana with an average ratio of 12%. The OECS countries (other than Dominica) and Belize had ODA-GDP ratios of 3%. Dominica's was 7%. These ratios when related to ratios of public investment to GDP are indicative of the significance of aid to the countries of the Caribbean. In several countries, the implicit ratio of ODA to public sector investment expenditures exceed 20% between 1998 and 2002, and is as large as 86% in Guyana, 75% in St. Kitts-Nevis and 64% in Dominica.

ODA is on a declining trend in the Commonwealth Caribbean. The ratio of net ODA to GDP was smaller in 1998-2002 (a period of slower GDP growth) than in 1990-1997 in all Commonwealth Caribbean countries except Antigua and Barbuda and the Bahamas. The decrease was particularly sharp in the case of Guyana (from 27% to 12%), St. Vincent and the Grenadines (from 8% to 3%), and St. Lucia (from 6% to 3%). The time patterns of ODA net flows between 1989 and 2001 are depicted in Appendices 1 to 4 which deal with disbursements of bilateral concessional debt, multilateral concessional debt and grants. Gross disbursements of bilateral concessional debt were on a distinctly downward trend for Jamaica since 1991 when they peaked at USD 161 mn, dropping steeply to USD 3 mn in 1993, and after recovering to USD 31 mn in 1995 continuing a downward movement to USD 3 mn in 2001. Belize in 1996 experienced an increase in disbursements of bilateral concessional debt from the very low levels which prevailed between 1989 and 1995, but in 1997 reverted to low levels. Guyana's gross inflows of concessional bilateral debt was on a declining trend 1990 to 1994 and then again from 1997 to 2001. Gross disbursements of bilateral concessional ODA to the OECS countries fluctuated greatly between 1989 and 1998 when a noticeable downward trend started for St. Vincent and the Grenadines and St. Kitts and Nevis. In the case of St. Lucia, the decline began in 1996. In respect of multilateral concessional debt disbursements, Jamaica experienced a declining trend between 1995 and 1999, Belize between 1996 and 2000, St. Lucia between 1995 and 1999 and St. Vincent and the Grenadines between 1997 and 2000.

Disbursements of grants were also at a lower level during the second half of the 1990s than during the first half in several countries (Appendices 5 and 6). In Jamaica average annual disbursements of grants decreased from USD 195 mn to USD 90 mn. In Belize, the reduction was from USD 22 mn to USD 20 mn. Smaller proportionate decreases occurred in Grenada from USD 9 mn to USD 8 mn and in St. Kitts and Nevis from USD 4.4 mn to USD 3.5 mn. In the cases of Dominica, St. Lucia and St. Vincent and the Grenadines grant disbursements were larger during 1995-1999 than during 1990-1994, but in each of those three countries disbursements decreased in 2000. In fact, only in Jamaica's case did grant disbursements not decline in 2000.

Because repayments of loans reduce the availability of ODA, it is useful to examine net flows on bilateral concessional debt. These turned negative from Barbados and Guyana from 1993. In Jamaica's case, they were negative in 1991, 1992 and even more substantially negative from 1996 to 2001. Belize also experienced negative financial resource transfers in 1993, 1994, and 1997 to 2001, while St. Kitts and Nevis had negative net flows from 1992 to 1993 and 1999-2001. St. Lucia had positive net resource transfers until 1998.

The terms and conditions attached to ODA are germane to any assessment of the quality of foreign aid. Among the loan terms, the interest rate, the length of grace periods and the terms to maturity are of financial and budgetary significance. These are summarised in the variable named the "grant element". Appendices 7 and 8 show that the grant element while still substantial in all countries, has been trending downwards in the latter half of the 1990s which means that the recipients of bilateral concessional funds are being treated on a less concessional basis than previously. Emergency relief grants and loans to countries afflicted by hurricanes and floods in 2003 and 2004 would no doubt have caused the grant element as well as the total volume of concessional resource inflows to rise in the most recent years.

VI. IMPLICATIONS FOR NATIONAL PLANNING

National planners presumably do their macroeconomic and sector programming on the basis of project capital inflows and projected domestic savings. If the recent experience of declining ODA and a loss of strategic significance cause national planners to project lower levels of capital inflows with unchanged planned levels of expenditures, then part of an appropriate planning response must be the adoption of strategies and policies for raising the domestic savings rate. Savings rates are already moderately high in the Commonwealth Caribbean. Data shows that the ratio of domestic savings to GDP in 1990-1997 ranged between 16% and 30%. In 1998-2002, it ranged between 16% and 35%, except for Dominica where the savings ratio declined from 16% to 6%. Evidently, too, the savings effort weakened in some other countries, notably Barbados and Jamaica. Apart from these countries, there might not be much more scope for raising domestic savings ratios. However, some traction can be had through increasing efficiency of savings by ensuring that liquid balances at the level of the microeconomic unit (individuals, households and enterprises) are converted into investment balances and working capital rather than into debt-financed consumption. The development of capital market institutions and the requisite technical and legal infrastructure would therefore be part of the planning response.

Another financing option available to national planners is the substitution of other forms of external finance. These include commercial debt, direct foreign investment and loans from the sub-regional development bank. Countries have resorted to commercial debt with marked success when confronted with difficulties in accessing concessional funds. The spikes in the charts on disbursements from private creditors (Appendices 9 and 10) reflect years in which the private market was accessed. Trinidad and Tobago, Jamaica, Barbados and Belize among the Commonwealth Caribbean MDCs and St. Kitts and Nevis, Grenada, St. Lucia and St. Vincent and the Grenadines have exercised this option. However, commercial debt is a problematic option for the smaller countries especially. One reason is the high interest cost associated with the market perception of these countries as risky creditors reflected in their below investment quality rating by the leading credit rating agencies recent downgradings of some countries, and even by the absence of a rating in other instances. Another reason is high non-interest, transactions costs stemming from the small size of their typical debt issue. A third reason is the shortness of the term to maturity which creates a mismatch with investment cycles or requires negotiated rollovers with uncertainty about such rollovers and their conditions. The result is frequently an early bunching of debt repayment, substantial proportions of current revenue allocated to debt service and sometimes acute fiscal distress. Countries like St. Kitts and Nevis and Belize have found themselves in these kinds of perilous situations in the early years of the present decade.

Recourse to direct foreign investment would require national planners to focus on policies for the development of particular industries and sectors e.g. energy as Trinidad and Tobago has done or tourism as several other islands have done. National planners would also need to address deficiencies in social and physical infrastructure which reveal themselves primarily as human resource and communications impediments to productivity that reduce the attractiveness of countries as DFI destinations. Attention would also have to be paid to regulations and laws which have been identified by potential investors as regulatory and legal impediments to foreign investment.

The substitution of funds from the subregional development bank is a more realistic option for the smaller countries than for the larger ones. It is accurate to say that the sub-regional development because of its superior capital market rating can intermediate international funds for onlending on concessional terms to Commonwealth Caribbean countries. However, the scale of its market borrowings is limited by its relatively small capital base. Furthermore, prudential policies in relation to individual country exposure restrict the maximum financing afforded to countries. There will therefore be a closer correspondence between the financial offers of which the regional bank is capable and the financial capital substitution needs of the small countries than between its financial offers and the financial capital substitution needs of the large countries.

Within the framework of declining ODA, national planners, must also deal with its volatility. The charts on annual disbursements exhibit considerable yearly fluctuations. This is the general experience with ODA. Bulir and Hamann (2001) on the basis of a study of 47 countries for the period 1975-1977 note that aid is substantially more volatile than fiscal revenues and that the volatility of aid increases with aid dependence. They also observe that aid flows cannot be predicted reliably on the basis of donor commitments and that there is a substantial upward bias in projected disbursements. Volatility is a problem for more than one reason. First, contraction of aid or shortfalls in disbursements seem to be associated with subsequently lower levels of public expenditures. Second, aid volatility can make fiscal and monetary policy more difficult and exacerbate foreign exchange rate uncertainty. Economic planners faced with a situation of volatile aid flows might have to ensure greater flexibility in fiscal revenues and expenditure plans or draw down international reserves. Both options require planners to distinguish between "permanent" and "temporary" aid flows and consistent with that distinction to deliberately build flexibility into their fiscal systems or follow a policy of building reserves in good years. The reality seems to be that governments treat ODA flows as permanent flows which raise permanent expenditures. Moreover, they incur deficits when ODA declines. In respect of foreign reserves, hardly any Commonwealth Caribbean country has reserves in excess of 3-month imports. There is therefore not much scope for drawing down foreign reserves to manage variability in aid flows.

Finally, national planners can seek to manage aid resources more efficiently, that is, seek to increase the economic returns to aid. This would involve better programming and implementation of aid-financed projects and programmes. It could also involve seeking to reduce the resource costs of reporting to aid donors. These costs are very much costs imposed by donors, partly because of a multiplicity of reporting arrangements and formats. Birdsall (2004) writes of the deadly sin of envy among donors who manage their own projects to increase donor visibility and to maximise their leverage of diplomatic support of small countries for them in the various international organisations. In her opinion, donors collude and the proliferation of colluding donors contributes to donor fragmentation with resultant high transactions costs for aid recipients. By lending their active support to the global movement for aid harmonization, the economic and political authorities of small states could help to reduce human resource costs and increase aid efficiency.

VII. CONCLUSIONS

A few conclusions may be offered. First, small states need not be without strategic importance but because their continuing significance would not be based on geo-political considerations but on alliances of convenience for diplomatic objectives and on common bonds, small states have to carefully plan their international relations, allocating resources for the determination of their own strategic interests, for the identification of opportunities for mutually beneficial alliances, and for management of active foreign policy driven by considerations of national socio-economic development. Second, overseas development assistance remains a potentially positive factor in economic growth and development in small states. However, global aid has not shown much vibrancy. Furthermore, its recent revival has been dominated by geo-political considerations resulting in an extreme concentration of new flows on a relatively small region of the world. Third, overseas development assistance to Caribbean countries show unmistakable signs of decline. Fourth, the terms on which ODA is made available to Caribbean countries have tended to harden.

The implications for national planning are serious. Two of the major challenges confronting the small states are to raise domestic savings rates which are already moderately high and to improve the efficiency of savings. Recourse to commercial debt is a potential pitfall which Caribbean states should avoid by planning and managing debt accumulation carefully because of its transactions costs and fiscal consequences. Foreign direct investment offers some scope for substitution for ODA but the chances of success would depend upon how extensively the planning process addresses deficiences in economic and social infrastructure and in the institutional framework of the countries. In theory, recourse to the subregional development bank is an option for financial planners but in reality it is likely to be more an option for Caribbean Community micro-states than for the larger ones. The volatility of ODA itself is a complication with which national economic planners must deal as it challenges them to forecast more accurately and to seek to entrench fiscal flexibility in their fiscal systems. Lastly, the declining trend in ODA places a premium on managing aid more efficiently.

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ADJUSTMENT TO CHANGE IN THE CARIBBEAN COMMUNITY

PRESENTATION

by

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at the

CARIBBEAN CENTRAL AMERICAN ACTION

TWENTY-NINTH ANNUAL MIAMI CONFERENCE

at the

INTER-CONTINENTAL HOTEL
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ADJUSTMENT AND CHANGE IN THE CARIBBEAN COMMUNITY

I. INTRODUCTION

Madame Moderator, I thank you for your kind words of introduction. Ladies and Gentlemen, I would like to begin my remarks by expressing my appreciation to CCAA for this opportunity to address you this morning

These are difficult times for many Caribbean Community countries. Their economies are not achieving the targets of high economic growth, social problems are on the rise, natural hazards present serious obstacles, and the accustomed bases for growth have weakened. Adjustment and change have become imperatives. I wish to use the time available to me to pinpoint a few of the major issues and to suggest the broad outlines of the adjustment and change that are either discernible or advisable.

II. WORLD TRADE

The dominant change in the world trade environment from the perspective of Caribbean Community countries is the rapid erosion of trade preferences for agricultural and agro-base commodities which comprise significant proportions of exports, contribute considerably to national income, generate employment for many persons, are an important source of fiscal revenues, and mitigate the drift to urban underemployment and poverty. The most recent blow to the sugar industry has been the large cut in European prices with just one year transition and extremely modest compensation for imposed. The blow to sugar exports which affects several countries come after a previous severe loss of European preferences for bananas which all but crippled the industries in Dominica, and imposed major production losses in Grenada, St. Lucia, Jamaica and Belize. Difficulties have not been confined to commodity markets. The international financial services industry carefully developed by many countries as a way of diversifying their economic structure was fatally attacked by the "harmful tax competition" initiative taken by the OECD.

III. FOREIGN AID

The position with respect to foreign aid can be stated tersely: a declining trend in overseas development assistance resulting in negative net transfers in some cases (except for humanitarian aid prompted by natural disasters); hardening of the terms of foreign aid as evident in the decrease of the grant element during the past decade; volatility of aid flows which increase the difficulties of economic management; and substantial unit costs of administering aid financed projects and programmes given the diminishing gross flows and the multiplicity of detailed reporting requirements demanded by donors. Matters have not been helped by the failure of developed countries, with few exceptions, to meet the aid-GNP targets they agreed at the Monterrey Summit and the allocation of the preponderance of new flows to theatres of war.

IV. NATURAL HAZARDS

Natural hazards are a fact of life in the Caribbean Community. Earthquakes, floods, hurricanes and lesser tropical storms and volcanic eruptions are ever present dangers. The significant changes are the frequency of occurrence and the intensity of hurricanes. The countries seem insufficiently equipped to manage the effects of natural hazards for a variety of reasons including the fact that building codes, spatial planning and fiscal budgeting were modeled on experiences of weaker storms.

V. PUBLIC DEBT

After much progress in managing their public debt and reducing debt-GDP ratios for instance to tolerable levels, Caribbean Community countries are mainly in the danger zone of the spectrum. Debt service obligations weigh very heavily on current fiscal revenues, forcing reallocation of public expenditures in ways inimical to social progress and implementation of economic development programmes, and in extreme cases causing recourse to debt restructuring.

VI. CRIME AND VIOLENCE

There is not a Caribbean Community country that does now have to contend with upsurges in crime and violence. The association with international narcotics trade seems to be strong as is the United States practice of deporting convicted criminals to their country of origin, irrespective of their tutelage in crime in the United States itself and regardless of the long residence of those persons in that country.

VII. ECONOMIC RESTRUCTURING

Caribbean Community countries have to respond to these changes especially those affecting their traditional international trade by restructuring their economies. This entails substantial of diversification out of bananas and sugar, modernization of production and marketing systems, the development of new products based partly on the agricultural staples but embodying product transformation that addresses new demands, the creation of economic linkages between sectors and industry e.g. agriculture and tourism, agriculture and energy, agriculture and manufacturing, and the further development of the services industries, including tourism and cultural services. This process of restructuring has already started but has been handicapped by an insufficiency of capital and unpredictability of international trade rules and international development assistance. But the private sector itself must also be determinedly more innovative than it has been in the past; innovative in finding new markets; innovative in developing new products; innovative with respect too product methods, etc.

VIII. FISCAL RESTRUCTURING

Here the goal must be to replace fiscal regimes based on undynamic revenue sources such as trade taxes with regimes that rely more greatly on transaction based taxes such as value added taxes. The complication to be resolved is the regressive characteristic of expenditure taxes if they are imposed on a very wide range of goods and services and the need for such a broad application if they are to be an effective revenue mobiliser. This would ease the pressure for deficit creation.

IX. NATURAL HAZARD PLANNING AND RISK REDUCTION

It is time that a concerted effort be made to incorporate natural hazard risk reduction and mitigation into the yearly capital budgets of governments. This implies integration into the social, economic and physical planning processes as well. International donors and multilateral and regional regional development banks could play an important part in financing capital investment programmes directed towards natural hazard risk reduction and mitigation.

X. RECONSTRUCTION OF SOCIAL CAPITAL

The reconstruction of social capital is necessary for dealing with the problem of crime and violence. Critical components are the alleviation of poverty, achievement of more equitable distribution of social welfare (not necessarily a more equitable distribution of income and wealth), reduction of social alienation among youths and inculcation of positive values of citizenship. There is an important role for the public sector and the private sector acting in partnership in the promotion of social justice and reconstructing social capital.

XI. RESHAPING FOREIGN RELATIONS

There is frequent reference to political considerations and traditional friendships in the foreign relations of Caribbean Community countries. With few exceptions, these factors no longer elicit strong favourable responses from the international community to the special interests of Caribbean countries. Therefore it seems advisable to downplay them and to put foreign relations firmly on an economic basis. The approach should be to ascertain what the other country can do for the Caribbean country and let that be the underlying determinant of the nature and scope of foreign relations. It is also necessary for the Caribbean Community to broaden the geographic scope of its vision to incorporate new players of growing global significance from South America and Latin America, Asia and the Pacific.

XII. CARICOM SINGLE MARKET AND ECONOMY

An important part of the response to the challenges enumbrated is the creation of a CSME. One core objective of the CSME is the promotion of productive efficiency through facilitating the free movement of factors of production to their most productive uses. Another is facilitating the emergence of larger size enterprises capable of international competition. The CSME also seeks to put in place other institutional arrangements favourable to private sector development. These include uniformity of rules and regulations, dispute settlement mechanisms and organs such as the Caribbean Court of Justice to enshrine the rule of law. It would be necessary, nonetheless, for the private sector to actively seek out opportunities for cross-border investment and trade if it is to gain from the creation of the CSME.

XIII. THE CARIBBEAN DEVELOPMENT BANK

CDB is actively involved in every aspect of the adjustments identified previously. It has supported private sector development through lines of credit to national development banks and envisages a greater participation in direct lending to the private sector. CDB will continue efforts at strengthening the capacity of private sector organisations.

XIV. FINAL REMARKS

The challenges of socio-economic development are formidable. However, it is my belief that the goals of sustainable economic growth and a lasting improvement in socio-economic welfare for the peoples of the Caribbean Community are achievable through well planned, diligently implemented, sustained concerted actions by the public sector, the private sector and civil society acting in partnership.

NOTES