

CARIBBEAN DEVELOPMENT BANK



SPECIAL DEVELOPMENT FUND (UNIFIED)

**AN OPERATIONAL STRATEGY FOR SUPPORTING
REGIONAL COOPERATION AND INTEGRATION**

(SDF 7 Theme 3)

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CURRENCY

Dollars (\$) throughout refer to United States Dollars (USD) unless otherwise stated

ABBREVIATIONS

AsDB	-	Asian Development Bank
CAREC	-	Central Asian Region Economic Cooperation
CARICOM	-	Caribbean Community
CARTAC	-	Caribbean Regional Technical Assistance Centre
CCCCC	-	Caribbean Community Climate Change Centre
CCJ	-	Caribbean Court of Justice
CDB	-	Caribbean Development Bank
CIDA	-	Canadian International Development Agency
CMDG	-	Caribbean Millennium Development Goals
CRNM	-	Caribbean Regional Negotiation Machinery
CSME	-	Caribbean Single Market and Economy
DFID	-	Department for International Development of the United Kingdom
EC	-	European Community
EDF	-	European Development Fund
EPA	-	Economic Partnership Agreement
EU	-	European Union
GPGs	-	Global Public Goods
HIV/AIDS	-	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
ICT	-	Information and Communication Technology
IDB	-	Inter-American Development Bank
IFIs	-	International Financial Institutions
MDGs	-	Millennium Development Goals
mn	-	million
OECS	-	Organisation of Eastern Caribbean States
RCBs	-	Regional Commercial Banks
RCI	-	Regional Cooperation and Integration
RDBs	-	Regional Development Banks
RIP	-	Regional Indicative Programme
RPGs	-	Regional Public Goods
SDF	-	Special Development Fund
SDF (U)	-	Special Development Fund (Unified)
SIDS	-	Small Island Developing States
SME	-	Small and Medium Enterprises
SRDP	-	Strategic Regional Development Plan
TA	-	Technical Assistance
TPGs	-	Transnational Public Goods
US	-	United States
USAID	-	United States Agency for International Development
USD	-	United States Dollar
WB	-	World Bank

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EXECUTIVE SUMMARY

This is the fourth in a set of operationally focused papers addressing the core themes for SDF 7 as agreed by Contributors at previous meetings in the SDF 7 process. It addresses Theme 3: *Support for regional cooperation and integration*, and provides a basis for moving forward on Milestones 6 and 19 in the SDF 6 Action Plan,^{1/} the remaining key milestones for SDF 6. The paper is a further articulation of the policy framework presented to and endorsed by Contributors for SDF 6.^{2/}

2. The paper is intended to provide a framework for both a selective operational programme in support of regional cooperation and development, and establishment of the operational capacity to design and coordinate such a programme. It also provides a basis for developing a results framework for Theme 3 based on Caribbean Millennium Development Goals (CMDG) Goals and Targets, particularly Goal 8, with its emphasis on strengthening partnerships for development and responding to the special needs of least developed countries and Small Island Developing States (SIDS). The proposed operational framework recognises that the scope and level of operations under Theme 3 will depend on the level of the SDF 7 Replenishment and the resources that may be made available from other sources.

3. The Agreement establishing the Caribbean Development Bank (CDB) requires it, among other objectives, to promote economic cooperation and integration among its members, having special and urgent regard to the less developed members of the Region.^{3/}

4. From March 1990 to December 2007, the Bank supported 362 regional Technical Assistance (TA) projects. In recent years, it has been averaging 24 regional TA projects a year. The great majority of these projects are for less than \$150,000. A recently completed evaluation of the Bank's TA operations^{4/} recommended:

- (a) improved strategic focus for TA, including increased coherence of TA programming in support of key priorities;
- (b) improved linkages between successive or related TAs and with other programmes or projects, and where possible with supportive follow-up action;
- (c) increased attention and resources for quality at entry, and strengthening of supervision and monitoring; and
- (d) increased attention to results and lessons learned.

5. In development terms, the Region has performed below average for more than three decades, compared to countries with a similar level of development in Latin America, South East Asia and Southern Europe. Much of this underperformance is a consequence of the constraints of small market size, limited natural resource endowment, underdeveloped human resources, underdiversified production structures, external migration, and vulnerability to natural disasters and external economic shocks.

6. The Region has pursued economic integration through the creation of a Caribbean Single Market and Economy (CSME) as a means of overcoming these constraints. The Single Market is far advanced

^{1/} *Report of Contributors on SDF 6*, October 2005.

^{2/} *Supporting Regional Cooperation and Development*, Revised, April 2005 (SDF 6/1-RRN-1.Rev.1)

^{3/} A Caribbean Community (CARICOM) definition including the smallest and most vulnerable member states.

^{4/} *An Evaluation Study of the Technical Assistance Operations of the Caribbean Development Bank 2000 to 2004*, March 2007, with amendments as of July 2007.

but limited progress has been made so far on the single economy aspects. The Community Authorities presently focus on putting in place:

- (a) macroeconomic policy coordination/harmonisation;
- (b) institutional, legal, regulatory development and harmonisation;
- (c) sectoral development policies;
- (d) free movement of people, capital, and right of commercial establishment; and
- (e) functional cooperation in a number of non-economic areas.

7. To this end, Governments agreed in July 2007 to the preparation of a Strategic Regional Development Plan (SRDP) which would focus on a relatively small number of policies and measures, supported by public-private sector partnerships, where there is economic and political value-added for regional action, to facilitate regional production integration, development and economic transformation.

8. Regional Public Goods (RPGs) denote benefits that are shared among countries of a hemisphere, sub-region, or neighboring grouping. Among very small countries these benefits are not likely to materialise by autonomous action on the part of any individual member of the group. The benefits of public goods may also be realisable among less than the entire membership of the group.

9. Given that benefits of RPGs are not necessarily distributed symmetrically across countries, and that participating countries are not equally endowed with financial and human resources, Regional Development Banks (RDBs) like CDB can help to ease bottlenecks to the implementation of RPGs by providing resources on a differentiated basis to meet the varying needs of participating countries.

10. To take full advantage of RPG possibilities, the legal framework for the provision of collective grants and loans needs to be better developed, especially in respect of multilateral instruments such as joint and several guarantees, a regime for a Caribbean Company, and a framework for public-private partnerships involving consortium of private companies and/or the Bank and governments, individually or collectively. Innovative forms of multi-country, multi-company, public-private partnerships are being developed in other parts of the world and promoted by RDBs, especially in Central and East Asia.

11. CDB would need to take account of the programmes of other development partners in support of Regional Cooperation and Integration (RCI). Some of these programmes are endowed with much greater resources than are likely to be available to CDB. A number of themes are common to the programmes of most development partners (trade and competitiveness, public sector modernisation, public finance management, private sector development, HIV/AIDS, and natural disaster risk management). In many cases, these tend to be institution driven. Within these areas, development partners have areas of specialisation. However, development partners do not seem to make the most of opportunities for synergies, complementarities, joint ventures, and information sharing on programme design, execution and monitoring. Donor coordination mechanisms need to be improved.

12. Several considerations enter into the determination of a priority ranking for RCI projects. Among the more important of them are: urgency, development impact, transnational externalities, building block effect, transferability of practice, gaps in development partners' programmes, and potential for follow-up investment. While a precise quantitative ranking of priorities is unrealistic, these considerations can provide guidelines in selecting projects and other interventions

13. Strategic priorities for a programme of support for RCI should reflect a number of considerations, including:

- (a) size of resources available to the Bank, and possibilities for leveraging their resources with those of development partners;
- (b) the exercise of CDB's leadership and supporting roles in promoting RCI;
- (c) the use of outsourcing, where needed, to supplement the Bank's own resources;
- (d) the possibility of linking TA to investment lending;
- (e) shifting the Bank to an activity-driven form of support to RCI, with greater emphasis on selective strategic objectives;
- (f) the need to rationalise and strengthen the financing of regional institutions; and
- (g) the development of innovative legal regimes for doing business in a Single Economy.

14. The proposed strategic priorities for the Bank's programme of support to RCI during SDF 7 are as follows:

(a) **Regional Public Policy Goods**

- Support to the CARICOM Development Fund (TA);
- Economic policy harmonisation, and development of a legal framework for doing business in a Single Economy;
- Strengthening regional trade and economic policy negotiating capacity (support for economic analysis and civil society participation); and
- Climate Change (research support).

(b) **Transnational Public Goods (TPGs)**

- Infrastructure needs assessment and preparation (water, maritime transport);
- Agriculture and food security (selective needs assessment and operational arrangements);
- Energy (efficiency, conservation and renewable sources); and
- Health needs assessment and operational arrangements (for selective regional specialised common services).

(c) **National/Sub-regional [Organisation of Eastern Caribbean States (OECS)] Public Goods Linked to RPGs/TPGs**

- Support for the OECS Development Strategy (selective components);
- Modernisation of the public sector and debt management;
- Education/skills linked to the labor market; and
- Energy (efficient urban transport and renewable energy projects).

15. An operational programme would be developed within this priority framework according to the level of resources available under SDF 7 and such other resources as may be made available by Contributors or other governments and agencies.
16. The priority framework primarily addresses areas where TA should be focused. In addition, as discussed further in the paper, there may be complementary capital investment opportunities in areas such as RPGs, where the modalities of Bank support will need to be determined according to the circumstances, and according to resources available from both the Bank and other sources.
17. The Bank's programme of support for RCI should rely not only on expertise available within the Bank, but also on outsourcing to quality institutions, research centers, consulting firms and consortia, individual and group consultants.
18. A Focal Point should be designated within CDB, responsible for managing the RCI programme, inter-departmental coordination, and organising coordination among development partners. It should be placed directly under the responsibility of the President or the Vice-President (Operations). It would be composed of four staff members. It is proposed that the cost should be included in the SDF 7 budget.
19. CDB's President should take the initiative to launch a Development Partners Coordination Group. The organisation of the activities of this Group should be the responsibility of the Focal Point for RCI.
20. A results framework similar to those for SDF 7 Themes 1 and 2 will need to be developed, and an initial framework is provided in this paper, focused on the relevant CMDG Targets under MDG Goal 8 relating to partnerships for development, recognising that support for RCI will also contribute to other MDG Targets, such as those relating to eradicating poverty (MDG 1) and ensuring environmental sustainability (MDG 7).

1. INTRODUCTION

1.01 Contributors have so far considered papers on three of the four core themes for SDF 7. The present paper addresses the remaining theme, covering the operational priority to be given to support for regional cooperation and development.

1.02 A proposed approach and policy framework for supporting RCI were presented to Contributors during the SDF 6 Negotiations (CDB, April 2005). Contributors endorsed the conclusion that the Bank had a critically important role to play in supporting regional integration, as well as the proposed policy framework and programme objectives. They placed particular importance on developing an operational policy and programme planning capability for regional programmes and RPGs, and suggested that the planned evaluation of the Bank's TA operations should include examination of the focus and effectiveness of regional and sub-regional TA. The SDF 6 Action Plan included both the establishment of an operational policy and programme planning capability and the identification of a carefully selected priority programme for supporting regional and sub-regional integration and RPGs. (CDB, October 2005).

1.03 As reported to Contributors (CDB, March 2008), however, there is remaining work to be done during the balance of SDF 6 in meeting these Action Plan milestones. The evaluation referred to, however, has been completed and included the Bank's TA operations for regional projects. The Bank has also been guided by the approved regional policy framework.

1.04 In the discussions to date on SDF 7, Contributors have agreed that one of the core themes for SDF 7 will be support for RCI, including an appropriate operational framework to support priority needs of CARICOM and its members and the provision of RPGs. This paper outlines the Bank's proposed operational strategy for support for RCI, as well as the intended operational policy and programme planning capability for such a programme. In doing so, the paper addresses the remaining two milestones in the SDF 6 Action Plan, Milestones 6 and 19.

2. OVERVIEW OF CDB SUPPORT TO DATE FOR REGIONAL COOPERATION AND INTEGRATION, ESPECIALLY UNDER SDF 6

2.01 The Agreement establishing CDB stated in Article 1 that its Purpose "shall be to contribute to the harmonious economic growth and development of the member countries in the Caribbean and to promote economic cooperation and integration among them, having special and urgent regard to the needs of less developed members of the region." The Bank's support to RCI has had a number of objectives. "These include regional or sub-regional approaches to national programmes to strengthen policy development and programme execution, regional programmes for capacity development and institutional strengthening, support for the establishment, development and operation of regional research and analysis on regional issues such as sectoral policies and economic adjustment. The Bank has also supported functional cooperation of various types, been active in coordination and dialogue on a regional or sub-regional basis, and served as a regional partner in policy and programme development and in the delivery of programmes financed by other agencies, both bilateral and multilateral."

2.02 The programme instruments used have included TA grant funding, project lending for related national projects, research, conferences and other meetings, and regional training programmes. The first allocation from the Unified Special Development Fund [SDF (U)] was made for TA purposes in 1992. Regionally and sub-regionally focused activities have been undertaken with both grant and loan resources, as well as with funds provided by external development partners. CDB has tried in successive SDF cycles to rationalise the areas of support by setting priorities. For example, in SDF 6, Contributors endorsed a regional policy framework that focused on four overlapping perspectives - the Bank's role in

the evolving CARICOM; strengthening regional governance; the regional policy agenda; and the provision of public goods. Among the programme objectives endorsed were:

- (a) providing leadership in the policy dialogue on economic integration;
- (b) strengthening regional governance, including harmonisation of the regulatory and policy environment;
- (c) strengthening relevant education, vocational training and knowledge creation;
- (d) continued support of international trade and economic negotiations;
- (e) support for economic adjustment;
- (f) capacity strengthening in economic management;
- (g) support for the provision of RPGs, an increased priority for environmental and natural resource management; and
- (h) participation and, as appropriate, leadership in the harmonisation and alignment agenda among donor agencies and Borrowing Member Countries.

2.03 From March 1990 to December 2007, the Bank supported a total of 362 projects classified as regional. During the period reviewed (2000-04), the average size of regional/sub-regional projects declined (to \$105,000) while the number of yearly interventions increased (from an average of 16 to 22). Using the Bank's six performance criteria, about 50% of the interventions could be judged to have been satisfactory or better, 64% in respect of poverty relevance, and about 50% in respect of institutional development impact.

2.04 During the period 2005-07, the Bank supported a yearly average of 24 projects classified as regional/sub-regional, slightly more than the average for the TA Evaluation period 2000-04. Out of a total of 71 projects, 13 were for more than \$150,000.

2.05 The recommendations of the Evaluation of TA Operations that related, *inter alia*, to regional projects pointed to the need for:

- (a) improved strategic focus, including increased coherence of TA programming in support of key priorities;
- (b) improved linkages between successive or related TAs and with other programmes or projects, and with, where possible, supportive follow-up action;
- (c) increased attention and resources for quality at entry, and strengthening of supervision and monitoring; and
- (d) increased attention to results and lessons learned.

3. CONTEMPORARY CHALLENGES TO REGIONAL DEVELOPMENT, COOPERATION AND INTEGRATION IN THE CARIBBEAN

3.01 The contemporary challenges to RCI must be viewed against the background of the Region's economic underperformance, the constraints it faces, and the opportunities that may be available. In terms of the growth of income, employment, productivity, diversification and competitiveness, the Region has performed below average for more than three decades, with its performance decelerating with each succeeding decade, compared with countries of a similar level of development, such as Latin American, South East Asian, East Asian and Southern European countries. As would be expected, this situation, together with the economic liberalisation/globalisation accompanying it, has made for a worsening distribution of income within and among CARICOM countries. The very large increase in petroleum prices in recent years has of course magnified the income level of Trinidad and Tobago, though it too has not been immune from other aspects of economic underperformance, such as increasing disparities in the distribution of income, inflationary pressures and export concentration. For the Region as a whole, the impact of high and rising food and energy prices has greatly exacerbated the economic situation.

3.02 Much of this long trending underperformance is a consequence of the tight internal and external constraints to growth that the Region labors under, and its failure to address them effectively. Prominent among these constraints are small market size, a thin natural resource endowment, underdeveloped human resources, underdiversified production structures (even among the more prosperous petroleum and tourism-based States), external migration, vulnerability to natural disasters, and to external shocks [the United States Dollar/Euro exchange rate, commodity prices, United States (US)/European Union (EU) economic downturns], and heavy debt amortisation that has limited public sector investment).

3.03 At the same time, there are opportunities that are not being realised. For example, the World Bank (WB) has pointed to areas in which it considers there is a good potential. It states that, "while there are several areas of manufacturing and agriculture ... that are not competitive, and will find it hard to compete in a more open market regime, small economies can be competitive in many services sectors and, indeed, in niche manufacturing." It offers "illustrative case studies of information and communication technology (ICT)-enabled products and services, higher end tourism, off-shore education, and health services ... Success in moving to higher-end services (which is where the possibilities lie, given that high wages rule out competitiveness in lower-end areas such as call centers and telemarketing) requires high skill levels, and underscores the emphasis on ... improving the quality and cost-effectiveness of human resources."^{5/}

3.04 To these, opportunity areas must now be added food/agriculture, the dynamics of demand and production of which have drastically altered over the past two years or so, in response to several developments, such as the diversion of staple crops like corn, sugar, vegetable oils to the production of bio-fuels, soaring demand in some of the high growth populous developing countries, and the impact of global warming on land availability and use. These are unlikely to be short-lived phenomena.

3.05 Economic integration, through the progressive opening of markets combined with common external protection, was expected to be the means of overcoming the basic constraints of small size and small endowments of natural resources; that process has been more or less complete for some years now, but the results have been disappointing, in terms of the generation of new trade and more diversified patterns of production. Market integration has in effect led to the conclusion that cooperation in areas beyond commerce is a necessary prerequisite and challenge to be overcome, if the expected benefits of regional integration are to fully materialise. These forward-looking areas, beyond the commercial regime,

^{5/} WB, 2005

are in fact those that were added (in 1989) to the Community's responsibility in respect of the CSME, specifically those that might be said to constitute the Single Economy aspect of the agenda.^{6/}

3.06 While the creation of a Single Market is far advanced, not much has been accomplished in respect of the Single Economy. The reasons for this disappointing performance are complex and have been debated extensively. The critical obstacles identified have been the clash between national sovereignty and Community governance; inadequate popular understanding of the process; the perception of very uneven distribution of the benefits and costs of regional integration, ineffective cohesion mechanisms, the slow and complex process of inter-governmental decision-making and legislation, involving 15 Member States, and inadequate capacity at the Community and States level to transform policy-decisions into action.

3.07 These constraints to regional integration constitute very real risks to the success of regional ventures, especially those that aim to go beyond TA to regional investment projects. They caution that the design of such projects should be such that each participating State would reap acceptable benefits; that public goods (regional, transnational and national) which create costless, cross-country spill-over or externalities should be the preferred form of investment; that not all CARICOM Members States need to participate in any given project; and that the demands on collective decision-making should be kept within politically feasible limits. The challenge to RCI, as recognised by the Community Authorities, may be summarised as putting in place the following key policies and measures that are expected to underpin and drive an accelerated process of regional development:

- (a) Policy Coordination/Harmonisation
 - Macro-economic Policy
 - Fiscal Policy
 - Investment Policy and Incentives
 - Financial Infrastructure
 - Monetary Union/Single Currency

- (b) Institutional, Legal and Regulatory Development and Harmonisation
 - Harmonisation of Laws
 - Caribbean Court of Justice (CCJ)
 - CARICOM Regional Organisation for Standards and Quality
 - Competition Policy/Regional Competition Commission
 - Intellectual Property Rights
 - Government Procurement
 - Regional Development Fund for Disadvantaged Countries, Regions and Sectors

- (c) Policies for Sectoral Development
 - Agriculture/Natural Resources/Fisheries/Forests
 - Industry
 - Services
 - Air and Maritime Transport
 - The Environment
 - Sustainable Tourism
 - Telecommunications/ICT

^{6/} The Revised Treaty of Chaguaramas Establishing CARICOM Including the CSME, 2001

- (d) Market Access (other than trade)
 - Movement of Community Nationals
 - Capital Movement
 - Rights of Establishment

- (e) Functional Cooperation (other than those listed above)
 - Health and Medical Research
 - Education/Human Resource Development
 - Crime and Security
 - Natural Disaster Risk Management
 - Youth
 - Culture
 - Export Promotion
 - Research and Development

3.08 Additionally, earlier this year, the regime for Functional Cooperation was revamped. The priority areas identified in this instrument spill over from those listed above under sectoral development, with the concentration being on Health and Medical Research; Education; Security; Tourism; and Foreign and Community Relations.

3.09 Following consultations among stakeholders, a Report was prepared, entitled “Towards a Single Development Vision and the Role of the Single Economy.”^{7/} The final version of this Report was endorsed by Heads of Government in July 2007. This Single Development Vision sets out a broad framework for addressing the development needs of the Community. Heads of Government followed this up at the 28th Meeting of the Conference of Heads of Government convened in July 2007 with a mandate to the Secretariat for the preparation of a SRDP. Following Stakeholders’ consultation, it was agreed that the focus would be “on a small number of policies and measures, supported by public-private sector partnerships, where there is economic and political value-added for regional action, to facilitate regional production integration, development and economic transformation. These policies and measures will be known as the provision of RPGs”. (CARICOM, July 2007).

3.10 The resulting programme of work, to be undertaken under the responsibility of the CARICOM Secretariat, identified the policy areas aimed at what the Community Authorities considered to be the urgent challenges that have to be addressed. They are as follows:

- (a) macroeconomic stability;
- (b) energy;
- (c) human resources;
- (d) air and maritime transport;
- (e) agriculture/food production and trade;
- (f) quality, standards and innovation;
- (g) agri-tourism;
- (h) cross-border investment; and
- (i) private sector development.

^{7/} CARICOM/Girvan, 2007.

3.11 The WB also recently identified priority challenges that the Caribbean should address. They are essentially aimed at creating enabling conditions, and as such do not directly tackle the sectoral issues/production integration and functional cooperation.^{8/} They are: government finances and expenditure (including debt); private investment; the international environment; labour markets skills for knowledge-driven growth; and infrastructure.

3.12 Since the SRDP decision was taken by Governments, challenges posed by the international environment have become more prominent, specifically the implications for RCI of the recently concluded CARIFORUM-European Community Economic Partnership Agreement (EPA), and the prospect of similar agreements being concluded with Canada, and possibly with the US.

4. REGIONAL PUBLIC GOODS AS A MECHANISM FOR CDB SUPPORT FOR REGIONAL GROWTH AND DEVELOPMENT

4.01 Groupings of countries have pursued RCI in the expectation that these processes will generate gains for each of them over and above those attainable by autonomous individual country actions. Usually, they begin by gradually introducing intra-regional free trade and common external protection. This process soon begins to generate divisive forces, like the uneven distribution of the benefits and cost of free trade, revenue losses, and tendencies that inhibit diversification. At the same time, they also generate demands for special and differential measures to correct these divergent trends, as well as for measures that would deepen RCI and thereby permit greater benefits to be realised.

4.02 Yet it is the deeper forms of integration that give rise to politically difficult issues, and even more difficult problems of implementation. One reason for this is that different constituencies in the grouping value the benefits of RCI differently. This is so notwithstanding the fact that the strategic impulses for deepening RCI in all these areas beyond intra-regional trade have been bolstered by the supposition that RCI affords the opportunity of more controlled policy space and reform, and more predictable and self-determined structural development than might be possible if left only to integration into the multilateral system.

4.03 RPGs are offshoots of Global Public Goods (GPGs) which are benefits that are shared by all countries. Some of the best known examples of GPGs are policies, measures and actions aimed at global warming, destruction of the ozone layer, HIV/AIDS, polio, and other endemic communicable diseases. RPGs are more restrictive in geographical scope and denote benefits that are shared among countries of a hemispheric, regional, sub-regional or neighboring grouping. Apart from shared benefits, in groupings of very small countries, the benefits of RPGs are not likely to, or cannot, materialise by autonomous action on the part of any individual member of the group, or may be possible only under conditions of intolerable cost ineffectiveness.

4.04 The benefits of RPGs could include integrated production, transport and energy infrastructure, coordinated public policy, knowledge, research and development, the regimes, standards, rules and regulations required to address transnational problems or to engender transnational externalities, and the institutions that monitor and enforce these policies and regimes, rules and regulations. In some instances, national policies themselves may generate positive transnational externalities, and thus may take on the character of RPGs. An example of this is the Trinidad and Tobago Petroleum Fund.

4.05 RDBs can play a catalytic role in promoting RPGs. Given the problem of asymmetrical benefits and costs across participating countries, and the fact that these countries are not equally endowed with financial and human resources, RDBs, by providing resources in a differentiated manner to meet the

^{8/} WB, 2005.

varying needs of participating countries, can help to clear the bottlenecks to their realisation.^{9/} CDB can play such a role among the CARICOM Member States. It can facilitate the process, through its ability to convene meetings and negotiations among interested parties, through research and feasibility studies, the generation and transfer of knowledge, assistance in preparing regulatory frameworks, and by actually promoting and putting together investment schemes.

4.06 Part of the rationale for pursuing RPGs and the belief that they are attainable is that shared benefits are thought to be ‘non-rival’, i.e. one country’s consumption does not subtract from the amount available to other countries; and are “non-excludable”, i.e. no country can be excluded from benefiting, except at prohibitive cost. These benefits are often categorised as follows:

- (a) non-country-specific investments in knowledge, dialogue, basic research into technologies meant to be in the public domain (like vaccines), and negotiation of agreements on shared standards and policy regimes;
- (b) inter-country mechanisms for managing adverse transnational externalities or creating beneficial ones (e.g. coordinated public health measures to control the spread of disease, investment in transnational infrastructure to enhance the pre-conditions of growth through trade and integration, the creation of regional institutions to facilitate solutions in areas ranging from financial and banking stability to the sustainable management of shared environmental resources; and
- (c) country-specific actions to take advantage (or enable absorption) of the benefits created by the two previous means (creating national public goods) such as improved policy environments).^{10/}

4.07 While the Bank can play an important role in the promotion and provision of RPGs, and has indeed done so in the past, notably in organising the financing the Caribbean Court of Justice, there are certain constraints that must be taken account of in taking its work on RPGs to the point of investment in production, where such may be feasible and desired. To begin with, the legal framework for provision of collective grants and loans may need to be better developed to catalyze action, especially in terms of its use of multilateral instruments, such as joint and several guarantees, and public-private partnerships. For example, RDBs, especially Asian Development Bank (AsDB), have been developing innovative legal regimes for multi-country projects, including the use of consortium of private companies, combined with public investment, for infrastructure and power generation and distribution projects.^{11/}

4.08 A potentially important advantage of RPGs that is increasingly attracting attention among some development partners is the possibility that this form of investment could result in a significantly lower unit cost of achieving the objective of poverty reduction than the cost of achieving the same impact through the traditional form of aid to each small Caribbean country separately.^{12/} For these partners then, such a proposition raises important questions of aid allocation, such as: What proportion of aid resources should be earmarked for RPGs? What is the impact on aid to the poorest countries and on traditional aid projects if ODA is allocated towards deleting the underprovision of international public goods?^{13/}

^{9/} AsDB, April 2007.

^{10/} WB, 2000; Inter-American Development Bank (IDB), 2002.

^{11/} AsDB, April 2007; Central Asian Region Cooperation (CAREC), August 2006; IDB, February 2006.

^{12/} IDB, December 2006; Canadian International Development Agency (CIDA), June 2007; OECD, 2004.

^{13/} OECD, 2004.

5. PROGRAMMES IN SUPPORT OF REGIONAL COOPERATION AND INTEGRATIONS BY DEVELOPMENT PARTNERS

5.01 In developing a prioritised programme of support to RCI, the Bank has to take account of the activities of other development partners, of possibilities for joint operations, and of opportunities that may arise for deploying resources channeled by other multilateral and bilateral partners for support to RCI in areas in which the Bank may be better placed to design and execute the projects concerned. Presently, development partners' programmes in the field of RCI are not always available in detail, and sometimes they are expressed in general terms, intertwined with national development assistance. This situation may be improved through the operation of a more effective coordination mechanism, as discussed further below. In Appendix 1, a brief survey of the programmes of the main development partners is presented.

Comments on Development Partners' Regional Programmes

5.02 Certain features of the bilateral and multilateral RCI programmes surveyed should be borne in mind in designing a Bank programme of support to RCI.

- (a) The statistics available for regional (RCI) programmes are not necessarily accurate or comparable. The reason is that there is no uniform definition of a regional project. Development partners seem to have varying elasticity in their interpretations of a "regional" project. In some instances, virtually every national project may be so classified. A "Caribbean regional project" is sometimes interpreted to mean a "project for the Caribbean region". Also, in some instances it is difficult to determine the Caribbean regional component as it may be embedded in a wider geographic programme (e.g. environment and HIV/AIDS projects).
- (b) While unquestionably there needs to be a link of national to related regional projects (otherwise referred to as a balance between national and regional projects) to ensure coherence and effective operation of the whole initiative, this link could become so elastic that it deletes the real rationale for pursuing RCI. Almost any national project - whether it be governance, economic management, private sector capacity, support to disadvantaged countries, risk insurance, etc. - can be linked to the potential effective operability of a regional initiative. Some developing partners' regional programmes seem to be moving in this direction, at the expense of truly RCI projects that generate externalities.
- (c) The selection by development partners of priorities for regional projects, while usually well justified, seems rarely to be complemented by the use of explicit selection criteria, and evidence that could establish some sort of hierarchical priority ranking of projects. Thus, the tendency seems to have been to rationalise "overall objectives", "main areas of strategic focus" or "common thematic areas" into a small number, while permitting a fairly wide diversity of projects within these labels that are not tested in terms of their connection to regional integration and their salience to regional development.
- (d) Development partners' regional programmes typically tend to be institution-driven, rather than activity-driven. While this multi-country approach short-circuits the cumbersome, slow and cost-inefficient project/country-specific approach, it does have shortcomings. Institutions and activities are sometimes conterminous and support of an institution's programme may not represent the choice that might have been made on the merit of that activity as such. Sometimes they are not conterminous and preferences may emerge from their internal institutional dynamics that may not represent the choice that would

necessarily have been made in a freely competing activity evaluation. Institution-driven programmes also tend to prolong the survival of institutions that should be phased out or phased into more rationalised institutional structures, even when the willingness of Caribbean governments to fund such institutions is declining.

- (e) There is an absence in most development partner programmes of a results-based appraisal of the programmes and their design in terms of their contribution to the objectives of regional integration and development. This mirrors the absence of any systematic evidence-based selection criteria, and of the use of improved monitoring techniques. Given the expectation of substantially increased flows of development assistance for regional programmes by some of the main development partners, it would seem desirable to get to grip with these shortcomings.
- (f) There seems to be a tendency for development partners to cluster around certain predictable themes. These include trade and competitiveness, public sector modernisation, public finance management, private sector development, HIV/AIDS, and natural disaster risk management. Of course within these themes, there are similar as well as different areas of specialisation supported by different development partners. However, there seems to be only limited evidence of attempts to exploit synergies and complementarities, organise jointly financed projects, share information on project design, execution and monitoring, make greater coherence out of related interventions, seek economies of scale, or encourage and cooperate with beneficiaries to reduce the transaction cost of doing business with several partners.
- (g) Almost all support operations are intended, through various forms of technical cooperation, to ameliorate the enabling environment, to put in place improved policy and regulatory frameworks, and to develop skills. Few of these support projects are directly linked to or point the way to organising investments that would create new or more efficient production and service enterprises. Assessments of the positive difference that an improving enabling environment has made to regional development would be useful in the prioritisation and design of future support operations.

6. GUIDELINES FOR DETERMINING PRIORITY ACTIVITIES FOR CDB SUPPORT FOR REGIONAL COOPERATION AND INTEGRATION

6.01 CDB's Charter requires it to promote economic cooperation and integration among its regional member countries, and one of its functions is to assist regional members in the coordination of its development programmes with a view to achieving better utilisation of resources and making their economies more complementary, and promoting the orderly expansion of their international trade, in particular intra-regional trade.^{14/}

6.02 Among the larger projects supported over the years have been those in the fields of customs, tertiary and distance learning, regional institutional strengthening, air transport, shipping, regional food and nutrition, private sector development, tourism, common examinations system, development finance institutions, building standards, statistical capability, natural hazards risk management, health, HIV/AIDS, health insurance, fiscal policy, technical standards, environmental policy, catastrophic risk insurance, and regional governance, among others.

^{14/} CDB, 1990; 2000.

6.03 Given the multi-faceted nature of the activities that comprise RCI, and the choices that necessarily have to be made among them, the question arises as to whether the use of criteria or guidelines would not be helpful in determining priorities for Bank support in this area.

6.04 Recently a jointly sponsored CDB/CSME Experts Group meeting came up with a comprehensive prioritisation framework for undertaking research in the field of regional integration.^{15/} The conclusions of this Group were a useful input in assessing the various factors that influence the priority ranking of RCI activities. Account was also taken of the responses given to this question by interlocutors in the regional institutions, including the Bank and CARICOM, the regional offices of development partners, and a brief literature review on prioritising regional cooperation projects.^{16/}

6.05 The following were the conclusions:

- (a) the focus should be on a selective number of factors that influence the priority ranking of an activity;
- (b) ranking systems, ordinal or cardinal, are not likely to be precise enough for reliance to be placed wholly on them in determining priorities; nevertheless, informed responses to the questions on which the ranking is based would provide useful guidelines or screens in making final selections on the projects to be supported;
- (c) interlocutors expressed the view that projects should be organised in clusters of activity; and
- (d) that national/sub-regional projects which are complementary to the successful implementation of regional cooperation/integration initiatives should be included among those eligible for Bank support.

6.06 The resulting short-listed guidelines/considerations to be taken into account in a prioritisation exercise were as follows:

- urgency (importance attributed by Community Authorities);
- development impact (on competitiveness);
- transnational externalities (spill-over benefits to other Community countries);
- building block effect (bottleneck removal);
- transferability of practice;
- linkage effect [inter-sectoral (input-output) links];
- gap (identified in development partners' support programmes); and
- potential for CDB loan investment.

^{15/} CDB, January 2007.

^{16/} Gantsho, 2007; Tsamboulas, 2005.

6.07 It needs also to be borne in mind that, while all projects may not rank high in terms of priority guidelines such as those given above, it would be unrealistic, and probably undesirable, to eliminate them altogether. Apart from the fact they may be beneficial activities in their own way, the support of a wide community of interests is essential to the success of regional integration, and to the standing and goodwill accorded the Bank.

7. STRATEGIC PRIORITIES FOR A CDB PROGRAMME OF SUPPORT FOR REGIONAL COOPERATION AND INTEGRATION

Prioritisation Issues

7.01 The following general observations on the issue of prioritisation should be noted before considering the strategic priorities and proposed list of activities:

- (a) The resources available from SDF for specifically regional projects will be dependent on the level of the SDF 7 replenishment, but are likely to be limited in relation to the scale of the Region's needs. This will limit the size, number and type of Bank interventions, and suggests that to make the most of these limited resources:
 - (i) tighter rationalisation of support activities would be desirable, with a stronger resolution to remain steadfast to it;
 - (ii) stronger efforts should be made to seek and exploit synergies, in particular joint projects, with other development partners. To the extent feasible, CDB should seek to leverage some of its resources with those of other partners to create additional, larger, and more efficient interventions in this field. It could also encourage external development partners to use the Bank as a channel for some of their bilateral resources intended for RCI operations, where appropriate; and
 - (iii) with limited resources in support of RCI, it would be advantageous to mainstream regional integration, (including in particular the element of regional climate change) into the Bank's country investment projects (identification, design, preparation, appraisal, and supervision) and country TA interventions. CDB projects are already screened/mainstreamed for issues such as poverty reduction, the environment, and disaster risk management. The Bank should devise a similar sort of approach for the impact of projects on regional integration. While this may be applicable only to some of CDB's investment projects, there would also be an advantage in being able to assess more comprehensively the impact of the Bank's portfolio of country projects in contributing to the objective of regional integration.
- (b) The Bank is in a good position, by virtue of its reputation as the premier development institution of the region, to exercise greater leadership in setting the agenda for RCI, in using its resources to leverage those of other development partners, in exploiting synergies with them, in advancing innovative projects and filling important gaps, and generally in energising the process and removing bottlenecks to progress in regional integration. In other cases, particularly where other institutions have an established, substantial involvement, the Bank's role could be more a supportive one. In the absence of CDB exercising greater leadership of its own and support to other lead institutions, there is a danger that this role will be pre-empted by other Multilateral Development Banks and by the regional commercial banks (RCBs), and crowded out by the external development partners.

In fact, there are already tendencies in this direction. For example, Governments are resorting increasingly to RCBs, flushed with excess liquidity, to meet their needs, on terms and conditions that are more accommodating. While development partners like Canada and the EC now have available resources for RCI that are much greater than any prospective allocation of CDB for RCI. The EC has announced a five-year Regional Indicative Programme (RIP) equivalent to \$260 mn, and the Canadian Government has proposed a ten-year programme for \$600 mn. The Bank thus has no alternative, if it is to stay in the business of RCI in any meaningful way but to use its particular strengths to greater effect. The Bank's leadership in organising and managing an effective development partners coordination mechanism could be an effective means of reasserting its role in RCI.

- (c) While it is advantageous to exploit the Bank's comparative advantage, the Bank simply does not, and is unlikely in the future, to have the range of expertise that would be needed for expanded involvement in RCI. The Bank should therefore rely to a greater extent on outsourcing project formulation, design and execution, as appropriate, to quality institutions and consulting firms, in order to supplement its own internal capacity. This would mean a greater role for management, especially as it concerns promotion, monitoring progress, implementation, evaluation and follow-up activity.
- (d) The impact of the Bank's intervention in the field of RCI could be expanded if there were a direct link to potential investment projects, whether to be undertaken by the Bank alone or jointly with other financial institutions. To judge by the experience of other RDBs, such a link may be more the exception than the rule, but should be kept in mind when preparing RCI TAs, and organising cooperation with partners in such ventures.
- (e) The demands on CDB for support for institutional strengthening have been increasing over the years, for budgetary assistance, project funding, and even for financing capital endowments. The effect of this form of support has been that the Bank's priorities are tending to be influenced by the priorities represented by these institutions, rather than by its own independent assessment of the salience of the activities concerned. The regional support agenda is thus increasingly being driven by the needs of these institutions. It would seem more appropriate at this point in time that the Bank should begin to shift support from direct institutional support to a more activity-driven agenda determined by its own assessment of regional priorities.
- (f) There is now such a proliferation of regional institutions (over 40) that some rationalisation of them needs to be undertaken. In many of these organisations, there is a relatively high dependence on external support (reaching in the case of one organisation almost 75% of the budget).

Many of these regional organisations are eager to tap CDB for budgetary support, project support, the funding of *ad hoc* professional positions, and even for contributions to trust (capital endowment) funds. This is a development that would increasingly lock CDB into an institution-driven form of support to RCI. The Bank could try to deal with this problem, as well as perform a useful service to the Community, by supporting the CARICOM Secretariat in undertaking a comprehensive evaluation of regional institutions, with a view to rationalisation and improved efficiency, and developing a common approach to the sustainable funding of their budgets. A good start has recently been made with the rationalisation of several health organisations into a single Caribbean

Public Health Agency. Other clusters that were identified in the 2007 Meeting of the Secretary-General of CARICOM and Heads of Regional Institutions included water, agriculture, air transport, and security

- (g) RPGs in the field of infrastructure and the integrated production of goods and services would be facilitated by regimes for multi-country loans, for a Caribbean Enterprise (or Company) [similar to that of the European Company, known as “Societas Europaea”, (EU, 2001)], and for innovative forms of public-private partnerships involving a consortium of private companies and the Bank and/or the public sector. In the absence of such legal regimes, Bank support to such entities would be restricted by having to rely on either the cumbersome mechanism of each government separately entering into loan agreements with the Bank (e.g. as was done for the CCJ) to make up the total investment needed, or by each transnational enterprise incorporating itself separately in each host country (with differing, non-harmonised company laws), or by excessive caution on the part of potential private sector partners resulting from legal uncertainties.
- (h) Over the years, the Bank has funded a large number of regional projects, including financial help to various organisations for hosting region-wide conferences, meetings, seminars and workshops on a variety topics, such as small- and medium-sized enterprises, statistics, micro-finance, credit unions, housing, disaster mitigation, gender issues, youth issues, distance learning and greenhouse technology, to name only a few. These events address significant regional issues. While narrowing its focus to larger projects of greater direct importance to regional cooperation, the Bank should continue to help fund these events, not only because they are practically useful in themselves, but because they contribute to deepening the sense of regional community, and help to build up the Bank’s regional influence and goodwill. However, to moderate excessive spill-over in this direction, a limit should be applied of a certain percentage of the Bank’s RCI resources for such events. This could be combined with a more merit-based approach to selection, in place of a sequential first-come approach.
- (i) Given the growing number of candidate regional projects for support by the Bank, it has become increasingly necessary to put in place a more systematic approach to their evaluation, such as the use of guidelines of the kind mentioned above, to better gauge their overall salience to regional integration and development.

Strategic Priorities

7.02 Bearing in mind the views expressed by the development partners consulted on RCI, their ongoing and planned work programmes in this field, opportunities for collaboration between them and CDB, the need to avoid duplication, and to make the best use of CDB’s comparative advantages, and taking into account the prioritisation guidelines developed above, the following short-list of RCI programmes is proposed. The use of guidelines as proposed above would also be a means of responding to the recommendation made in the Evaluation Report on TA operations that there needs to be sharper focus in CDB’s approach to support for RCI. Explanatory notes on the selections are also provided below.

(a) Regional Public Policy Goods

- (i) Support to the CARICOM Development Fund (for disadvantaged countries):
 - (i) TA for start-up of operations;

- (ii) Economic Policy Harmonisation, and Legal Frameworks for doing business in a Single Economy:
 - (A) financial sector harmonisation and development;
 - (B) “Regional Company” law; and
 - (C) legal framework for public-private partnerships.
 - (iii) Strengthening Regional Trade and Economic Policy Negotiating Capacity:
 - (A) preparation of economic analyses on selected specific issues - e.g. trade liberalisation impact and adjustment, the competitiveness of exports; and
 - (B) strengthening the capacity of the private sector and civil society to contribute to trade and economic policy formulation and negotiations.
 - (iv) Climate Change - project support to selected areas of research:
 - (A) climate monitoring, modeling, forecasting;
 - (B) economic analysis of climate change impact and adaptation - low-lying and coastal areas, land-use and sea defences; and
 - (C) land-based sources of pollution of the Caribbean Sea, waste water management.
- (b) **Transnational Public Goods**
- (i) Infrastructure Needs Assessment and Preparation:
 - (A) water rehabilitation and management; and
 - (B) maritime transport.
 - (ii) Agriculture and Food Security:
 - (A) Needs assessment and options for implementation of regional integrated trade and production arrangements for major food imports.
 - (iii) Energy:
 - (A) Efficiency, conservation and renewable sources of energy - region-wide identification of commercially viable renewable energy sources with a view to the development of investment projects.
 - (iv) Health:
 - (A) Needs assessment and options for implementation of regional specialised common services for major complex diseases and for clinical and diagnostic services.

(c) **National/Sub-regional (OECS) Public Goods Linked to RPGs/TPGs**

- (i) Support for the OECS Development Strategy:
 - (A) Support to selected components - macroeconomic coordination, synergising national plans and sectoral development; promoting cross-border investment for small and medium enterprise (SME);
- (ii) Public sector strengthening:
 - (A) modernisation of the public service - non-financial departments; and
 - (B) support to debt management.
- (iii) Education/skills linked to the labour market.
- (iv) Energy/Climate:
 - (A) Needs assessment for energy efficient urban transport systems, and renewable energy projects.

Explanatory Notes

(a) Regional Public Policy Goods

7.03 These are interventions that generate region-wide benefits. The areas listed mostly represent gaps in the support programmes of development partners, areas that the CARICOM Secretariat is not currently working on, or new areas to advance regional integration (e.g. a “Regional Company” Law, Legal Framework for Public-Private partnerships). Other possible areas for development include a law for renewable energy operations, and a legal framework for the facilitation of SME cross-border investment.

7.04 Interventions in the area of trade and economic policy negotiations focus on those aspects that are now recognised as weak links (specific economic analysis, support to the private sector and civil society). They should be useful complements to other development partners’ support, e.g. the Caribbean Regional Negotiation Machinery, and should be coordinated with those other initiatives.

7.05 Climate change is an area that is closely integrated into the energy issue. A very large number of underdeveloped, non-prioritised proposals have been put forward, including the creation of a Trust (capital endowment) Fund for the Caribbean Community Climate Change Centre (CCCCC). Support to specific areas of basic scientific research and climate-related economic analysis seems to be a core need at the present time. The *raison d’être* of the institution rests on this. It is a programme that could also be useful to CDB in developing an approach to mainstreaming the issue into its investment portfolio generally, and to generating national or regional investment projects.

7.06 If a Trust Fund can be set up for this institution, either by way of grant contributions and/or loans in an operation similar to that used for the CCJ, it might be preferable for the income generated by the Fund to be used to meet all or part of the institution’s overheads/recurrent costs, rather than its project costs which are likely to be more variable and fundable than its overheads/recurrent costs. Given the CCCCC’s present annual recurrent (non-project) budget, a Trust Fund of about \$12 mn to \$15 mn would be needed to finance it.

(b) Transnational Public Goods

7.07 These are public goods benefits that it seems more feasible to pursue on a more limited geographic scale - involving two or more countries. The four areas identified – infrastructure, agriculture, energy, and common specialised health services – are critical bottlenecks to regional development and could generate large externalities. They are largely neglected in the programmes of development partners, while they offer a good potential for collaboration with some of them. An attractive feature of these infrastructure areas is that it offers substantial potential for new investments by CDB, especially as joint projects with other international financial institutions (IFIs) and the private sector.

7.08 All four areas are at the stage where region-wide needs assessments would have to be undertaken and operational plans for implementation put forward. Infrastructure here is focused on water and maritime transport. Presently, most of the water facilities are antiquated and inadequate in terms of supply-demand balance and distribution. They need new plant, rehabilitation, and modernised management. Maritime transport is generally considered a better bet than air transport which, though technically ranking high in priority, is considered to be a difficult political issue.

7.09 In the case of agriculture, a limited number of important product categories should be the initial focus of attention for implementation. The possibilities need not be pre-empted at this stage (e.g. the establishment of a specialised fund or regional food corporation), as there are different options and combinations of them that need to be investigated, including the engagement of the private sector.

7.10 In respect of energy, the focus is on renewable sources which offer a more diverse regional potential. Other sources of support can be mobilised for developing petroleum- natural gas-based energy, while large-scale hydro power (Guyana, Suriname) immediately raises issues that go far beyond the energy sector. Here, too, there could be a substantial spill-over into investment projects that CDB could pursue in collaboration with other regional and IFIs and the private sector.

7.11 The selection on health focuses on specialised common health services for major complex diseases, and on clinical and diagnostic services that cannot be efficiently operated in many individual CARICOM countries. Regional health insurance is omitted, as there is an ongoing project that needs to be expedited.

(c) National/Sub-regional (OECS) Public Goods Linked to RPGs/TPGs

7.12 The selections here focus on interventions that have a direct linkage to regional and TPGs and that have been relatively neglected. This linkage hopefully would limit spill-over into disconnected national projects. While public sector modernisation is a favorite area for development partners, the concentration has been on the financial departments - Treasury, Ministry of Finance, Audit and Customs, and on the justice sector. Other departments of the public sector have been neglected, such as the legislature, health, investment promotion offices, central administration, public works, education, agriculture, public utilities, etc., the quality of service delivery of which impacts strongly on economic performance and capacity to take advantage of regional initiatives.

7.13 The Bank's engagement in this area should proceed in close coordination with other development partners involved in public sector modernisation. While the development partners have also been keen on public finance/budgetary management, much remains to be done in respect of debt management, including internal debt, in most CARICOM countries, including the larger ones. Education is another popular area. However, the focus now needs to be on the largely neglected area of technical and practical skills needed in the marketplace, on vocational training. Another intervention of good potential concerns urban transport. Such projects would address not only the now critical and endemic problem of

collapsing urban transport systems, circulation gridlock and pollution, but would contribute positively to the inter-related energy-climate problem. Urban transport systems could also be a very promising area for CDB investment, in collaboration with other regional and IFIs and the private sector.

8. INSTITUTIONAL ARRANGEMENTS WITHIN CDB FOR EXECUTION OF A REGIONAL COOPERATION AND INTEGRATION PROGRAMME

8.01 The main shortcoming - the Bank's approach to RCI has been the absence of a prioritised thematic approach, resulting in diverse, relatively small TA projects. This situation reflects the relatively low ranking of RCI activities in CDB's work programmes, the absence of any focal point of responsibility for it, and the sparse professional resources devoted to it. In the new organisational restructuring proposals, there has also been no entity dedicated to this area of work.

8.02 A separate, self-contained establishment within the Bank devoted to work in this area may not be the best way to approach this issue. For one thing, the range and variability of technical expertise needed and the volume of work involved would make such a proposal unrealistic in terms of the likely available professional resources. For another, the work involved would necessarily straddle other work programmes, creating ambivalent responsibilities and conflicts. Equally, however, the resources that can be made available from other areas of the Bank's operations are necessarily limited and may not cover all areas of expertise necessary for the proposed programme in support of RCI.

8.03 It seems preferable that the RCI activity should rely heavily on outsourcing, where possible on a competitive basis, to quality institutions, research centers, consulting firms or a consortia of them, and individual or group consultants. This would have the added advantage of strengthening regional consulting and research institutions, and encouraging the habit of beneficial cross-border cooperation.

8.04 The Bank could designate a **Focal Point**, the essential function of which would be to develop and manage the RCI programme and to ensure that its assigned mandate was successfully executed. It would be the catalyst for RCI activities within the Bank, ensuring that the allocation of resources to this area of work was fully and cost-effectively utilised. It would be responsible, based on the use of outsourcing, for organising the design of projects, identifying and evaluating prospective consulting services, ongoing monitoring and final evaluation of the work performed. It would also have the responsibility for organising inter-departmental coordination where projects have a relation to the activities of other parts of the Bank (e.g. the Economics and Projects Departments), and especially so where RCI projects are designed to have some spill-over into capital investment (e.g. infrastructure projects). This Focal Point would also act as organiser and convener of a "Development Partners Coordinating Group" (see below).

8.05 The placement of such a RCI Focal Point within the Bank needs to be such that it would have the influence and authority required to give greater stature to this area of work, and to organise inter-departmental coordination. Such a service could be more effective if it were placed directly under the responsibility of the President or the Vice-President (Operations). It would be composed of a RCI Coordinator (at a senior level), two Economists, and one general service staff member.

9. COORDINATION

9.01 One of the weak points of development partner programmes in support of regional development is less than effective coordination. As noted above, while there are some differences among development partners in the kind of projects they support, several of them also gravitate to the same areas. Within those common areas, there is of course some specialisation. There is little evidence of outright duplication. Also, some of the areas of work are so large (e.g. public service modernisation) that no one development partner can satisfy all the regional needs.

9.02 However, where coordination fails most is in taking full advantage of synergies through integrated operations, joint projects, complementary projects, economies of scale, reducing transactions costs, especially of beneficiaries, rationalising and diversifying areas of intervention, sharing designs, methodologies, evaluations, etc. The objective of the Paris Declaration on Aid Effectiveness (March 2005) in respect of aid harmonisation to strengthen complementarity among donors and develop common approaches in order to reduce transactions' costs is not being adequately fulfilled. In fact, at the recently concluded (September 1-2, 2008) Accra High Level Forum on Aid Effectiveness, participants noted that progress towards the agreed targets for Aid Effectiveness had been limited, and that there was an urgent need to accelerate on the delivery of the Paris Declaration commitments.

9.03 More effective coordination could make for a significant improvement. The initiative for improvement should be taken by the beneficiaries themselves. This gives a good opportunity for CDB in effect to act on their behalf, by exerting a stronger leadership role in this arena, and by using its own relatively limited financial resources as a means of catalyzing, seeding, and pointing the way to cooperative approaches to RCI. It is proposed that the Bank's President should meet with the regional Heads of the development partners with a view to organising a "Development Partners' Coordination Group" that would be convened by CDB. Such a Group would be expected, under CDB leadership, to add value to the present Donors' Coordination Group, by giving greater voice to the Caribbean beneficiary development partners, and by stimulating a pro-active approach to putting together joint, complementary and cooperative projects. In this respect, the Bank should also explore the possibilities of a more systematic approach to the collection and dissemination of development partners' project data, including the use of WB Online.

10. RESULTS FRAMEWORK

10.01 An operational results framework will be developed for Theme 3 of SDF 7, similar to that for Theme 1 and Theme 2. This will focus on the relevant CMDG targets under MDG 8 relating to partnerships for development, including support for the special needs of the least developed countries and SIDS, recognising that support for RCI will also contribute to other MDG targets, such as those relating to eradicating poverty and ensuring environmental sustainability.

10.02 An outline for the proposed results framework is provided below. It will be developed and completed as the programme is further defined, and reported to Contributors at that time. It will also be available for the Mid-Term Review of SDF 7.

**BRIEF SURVEY OF DEVELOPMENT PARTNERS' PROGRAMMES
IN SUPPORT OF REGIONAL COOPERATION AND INTEGRATION**

THE EUROPEAN COMMISSION (EC)

The EC's programme of support to RCI is the largest of the development partners. It established a three-year programme with the CARICOM Secretariat, beginning May 2007. The total amount of grant resources committed by the EC was Euro 40.5 mn (now equivalent to about \$61 mn). The programme consisted of seven components:

- (a) support for a range of measures to implement the CSME;
- (b) external trade negotiations carried out by CARIFORUM;
- (c) establishment and operation of the Caribbean Information and Translation Institute to be located in Suriname;
- (d) improvement and harmonised production of economic statistical data at the regional and national levels in CARICOM;
- (e) development of the Caribbean Information and Communication Society;
- (f) reduction of supply and demand for illegal drugs; and
- (g) the CARICOM Secretariat.

The first component which relates more directly to regional integration included 15 sub-components (including the legal and institutional framework of the CSME, mechanism for national treatment and market access, macroeconomic framework and sectoral policy coordination). Each of these sub-components also contained numerous projects. Altogether, about 56 project activities are listed. In addition, the EC supported under the Ninth European Development Fund (EDF) activities in the area of natural and man-made disasters, including a contribution to the Caribbean Catastrophe Risk Insurance Facility, and the Caribbean Disaster Emergency Response Agency, and the creation of a Euro 22 mn standby facility on disaster preparedness and rehabilitation.

2. In May 2008, a CARIFORUM-EU Troika Summit (Lima, Peru, 17 May 2008) agreed that 85 to 90% of the EC Regional Indicative Programme allocation of Euro 165 mn under the Tenth EDF would be devoted to "Regional Integration/Cooperation and EPA priority areas, including capacity building". The programme components listed are:

- (a) **CARICOM Integration** (supporting the process of CARICOM integration including establishment of a Single Market Economy (CSME), an area of free circulation of goods, services, people and capital);
- (b) **OECS Economic Union** (supporting and deepening of OECS integration and support for OECS integration into the CSME);

- (c) **Strengthening Intra-CARIFORUM Regional Cooperation** (focusing on the Dominican Republic/Haiti cooperation, supporting closer cooperation between CARICOM and the Dominican Republic);
- (d) **Investing in Human Capital** (preparing the people and institutions of CARIFORUM to respond to the challenges posed by global trade and economic realities including the CARIFORUM - EU EPA, in partnership with Caribbean Centers of Excellence such as regional universities);
- (e) **EPA Implementation** (at the OECS, CARICOM and CARIFORUM levels); and
- (f) **Integration and Cooperation in the wider Caribbean** (CARIFORUM/DOM/OCT integration and cooperation, CARIFORUM - cooperation with Latin American countries and sub-regional institutions or integration processes).

CANADA- CIDA

3. Already Canada is involved in supporting a number of regional (multi-country) initiatives in CARICOM. They are mostly institution-driven. They include projects in the areas of disaster management, trade policy negotiations, and health and HIV/AIDS prevention. Canada is also the major contributor to the activities of the Caribbean Regional Technical Assistance Centre (CARTAC) in the fields of public finance management, tax and customs policy administration, financial sector regulation and supervision, economic and financial statistics, and financial programming. It also designed the “The Eastern Caribbean Economic Management Programme” to strengthen skills and technology for more effective public expenditure management and revenue generation. While these are country-based programmes, they are considered to contribute to building national capacities for more effective participation in regional integration.

4. Recently, the Canadian Government announced an intention to allocate CDN 600 mn over ten years to the Caribbean region. The details of this programme have not yet been determined. However, in view of the complexities of the prioritisation process of design and management of regional projects, there are likely to be a smaller number of projects, of a larger scale. It appears that the principle of bolstering resilience will guide Canadian interventions in this field, resulting in increased emphasis on coherent and coordinated action at both the regional and sub-regional level. Canada will thus maintain a balance between strengthening the regional institutions and strengthening counterpart ministries and organisations at the national level. The overall justification is that this kind of focus will in the longer run provide a better environment for poverty reduction and achievement of the MDGs.

5. In concrete terms, the sector priorities over the next ten years will focus on three themes of:

- (a) **Regional Democratic Governance** (CARTAC activities, economic management, including IT application, pension reform, anti-corruption measures, disaster risk reduction, catastrophic risk insurance);

- (b) **Economic Renewal** (regional trade and competitiveness programme, including strengthening public and private sector capacity for effective participation in trade liberalisation negotiations, support to the CARICOM Regional Development Fund intended to help the disadvantaged countries of the region put in place a more competitive environment via private sector development); and
- (c) **Regional Human Capital Formation** (Caribbean leadership, education for youth development, gender equality issues).

UNITED KINGDOM – DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)

6. DFID is presently engaged in a Caribbean Growth Scoping Study, the results of which will be an input into the formulation of the size and priorities of its support programme to the Caribbean region. In terms of total disbursements (regional and national projects) for the year 2006, DFID is the fifth ranking donor to the Caribbean region (after the EC, CDB, CIDA, United States Agency for International Development (USAID), and precedes the WB and IDB). DFID's main objective in its Caribbean programme has been sustainable poverty reduction and achievement of the MDGs. Its regional programme for RCI, 2004-07, has had three priority areas:

- (a) Economic and Fiscal Management of Public Service Delivery;
- (b) Trade, Competitiveness and Economic Integration (support to trade negotiations channeled to the Caribbean Regional Negotiating Machinery (CRNM) and CSME activities); and
- (c) Reduction of Vulnerabilities, particularly halting the spread of HIV/AIDS.

Like other development partners, its programme of support is institution-driven. DFID's regional programme over the period 2004-07 amounted to about \$26 mn, of which \$8.5 mn was allocated to building regional and bilateral trade-related policy and negotiating capacity. It seems likely that DFID's focus in its new cycle will remain on poverty reduction and regional integration, and that among new areas of emphasis will be implementation of the EPA, and support, on a competitive basis, for innovative projects in creative industries, tourism, agriculture, etc.

INTER-AMERICAN DEVELOPMENT BANK

7. Between January 1999 and October 2006, IDB funded 45 projects classified as regional, for a total of about \$16.3 mn - an average of about six projects per year and \$362,376 per project. The overall objective of IDB's 1999 programme was to support the development of a harmonised economic area in the Caribbean region contributing to:

- (a) a harmonised process of economic liberalisation aimed at fostering the region's competitiveness;
- (b) convergence towards modern, best-practice regulatory frameworks to encourage intra-regional and foreign investment; and
- (c) rationalisation and strengthening of regional institutions to enhance their capacity for leadership and joint decision-making.

Under these three broad themes, ten priority areas of action were identified.

8. As with other development partners, the projects were institution-driven. Among the largest recipients were IDB itself (Headquarters and Country Offices) \$2.2 mn, CROSQ \$2.7 mn, Caribbean Agri-business Association \$2.6 mn, CARICOM Secretariat \$3.6 mn, CDB \$2.0 mn, and CRNM \$1.7 mn. The projects themselves have been very diverse, including justice sector study, environmental websites, investment frameworks, government procurement, domestic violence, HIV/AIDS education, and port and maritime data base, water, private sector diagnosis, SMEs, sustainable tourism, disaster risk management, consumer protection, among others. IDB supported over the same period 55 conferences, meetings, workshops, and the preparation of 25 studies and reports.

9. In the Bank's 2007-2010 Regional Strategy, the overall objective is to help Caribbean countries transform their regional integration process into an effective instrument of global integration, competitiveness and economic growth. There are two specific objectives, embracing 14 main areas of strategic focus:

- (a) **Enhance the Benefits of the Single Market** (intra-regional trade and factor mobility, align regional and global integration agendas, adjustment support to manage distributional risks, private sector adjustment and development, competitiveness, private sector dialogue, SME development, skills development); and
- (b) **Cost-effective Provision of Social and Economic Infrastructure** (horizontal cooperation initiatives, ICT, energy, disaster risk management, statistics, managing integration – planning, monitoring, awareness-building). The level of resources to be devoted to the Regional Strategy is expected to be in the vicinity of \$15 mn over five years.

WORLD BANK/INTERNATIONAL FINANCE CORPORATION

10. The WB's regional Caribbean programme is focused on the OECS. Its Country Assistance Strategy for the period 2006-09 consists of two pillars:

- (a) **Stimulating Growth and Improving Competitiveness** (public sector modernisation, public utility reform, skills enhancement); and
- (b) **Reducing Vulnerability** through greater social inclusion and better disaster risk management (risk insurance, environmental management, dialogue on disaster risk mitigation initiatives).

According to WB records, the Bank funded \$23 mn of regional OECS projects 2004-08. The Bank's regionally focused programme also includes analytical studies on such issues as social protection and pension reform, crime, violence and social exclusion, financial sector regulation, health financing, and air transport.

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

11. USAID's Caribbean Regional Strategy supported for the period 2000-2004 four focus areas: economic competitiveness, environmental management, improved legal systems, and the fight against HIV/AIDS. Its current Regional Strategy 2005-2009 has two main strategic objectives:

- (a) **Trade and Competitiveness** (CARICOM legal drafting facility, CRNM services negotiations, private sector and trade negotiations; and
- (b) **Controlling HIV/AIDS** (CARICOM PANCAP, CAREC, Caribbean HIV/AIDS Regional Training Center. USAID's Caribbean Regional Strategy which is basically institution-driven runs to approximately \$65 mn to \$85 mn (depending on what is classified as regional) over five years.

ORGANISATIONS CONSULTED

Caribbean Development Bank

Caribbean Community Secretariat/ Caribbean Single Market and Economy

Caribbean Regional Negotiating Machinery

Caribbean Export Development Agency

Organisation of Eastern Caribbean States Secretariat

Caribbean Centre for Development Administration

Caribbean Agricultural Research and Development Institute

Caribbean Regional Technical Assistance Centre (Barbados)

Canadian International Development Agency (Barbados)

European Commission (Barbados)

Inter-American Development Bank (Barbados)

United Kingdom Department for International Development (Barbados)

World Bank (Washington DC)

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