

UNCLASSIFIED

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



CARIBBEAN REGIONAL

**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 82

January 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

UNCLASSIFIED

BEST AVAILABLE

This strategy statement has been prepared by the AID field mission. It is prepared annually and used for planning purposes in the field and in Washington but is neither officially approved nor disapproved by AID/Washington. It does not represent official Agency policy.

THIS STRATEGY STATEMENT HAS BEEN PREPARED BY THE
A.I.D. FIELD MISSION. IT IS PREPARED ANNUALLY AND
USED FOR PLANNING PURPOSES IN THE FIELD AND IN
WASHINGTON. IT DOES NOT REPRESENT OFFICIAL AGENCY
POLICY!

**

*



EMBASSY OF THE
UNITED STATES OF AMERICA
Bridgetown, Barbados

February 22, 1980

The Honorable Douglas J. Bennet, Jr
Administrator
Agency for International Development
Department of State
Washington, D. C. 20523

Dear Mr. Bennet: *Doug*

I have reviewed and participated in the development of the 1982-86 strategy statement of the Regional Development Office/Caribbean (RDO/C). I urgently recommend AID's approval of this strategy and the increased level of resources identified to carry it out.

The document is highly responsive to the Administration's interest in a stable, secure and democratic Caribbean, capable of renewed economic vitality and continued strong commitment to human rights and friendship with the United States. The lines of action proposed here give substance to the Presidential initiative begun in 1977 with the formation of the multilateral Caribbean Group for Cooperation in Economic Development (CGCED) and continuing up to the present with the inter-agency Special Task Force for the Caribbean.

The Eastern Caribbean, in particular, is experiencing severe strains in the present period of transition from British colonial rule to independence. A peaceful and successful transition depends to a substantial degree on how responsive and supportive the United States is to these close neighbors. The overall needs are much greater than the ability of one donor to manage but our leadership in mobilizing the formidable resources of the Caribbean Group requires a solid commitment of the kind recommended in this document.

Sincerely,

Sally A. Shelton
Sally A. Shelton
Ambassador

REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

CARIBBEAN REGIONAL DEVELOPMENT STRATEGY STATEMENT

FEBRUARY 1979

CARIBBEAN REGIONAL DEVELOPMENT STRATEGY STATEMENT

Regional Development Office/Caribbean

Table of Contents

	<u>Page</u>
INTRODUCTION	i
PART I. DESCRIPTION AND ANALYSIS	
A. <u>The Economic and Political Setting</u>	
1. General	1
2. Development implications of Recent Oil Price Escalation	4
3. A Closer Look at the Lesser Developed Countries	5
B. <u>The Target Group: Causes of Poverty</u>	6
1. Inadequate Job Creation and Productive Investment	7
a) Role of Agriculture	8
b) Role of Private Investment	9
2. Access to Relevant Education and Training	10
3. Access to Health Services	12
4. Population Growth	12
5. Difficulties in Meeting Recurrent Costs	13
C. <u>Regionalism and Regional Institutional Framework</u>	13
1. The Caribbean Community (CARICOM)	14
2. The Eastern Caribbean Common Services	15
3. Financial Institutions	
a) Caribbean Development Bank (CDB)	16
b) Caribbean Investment Corporation (CIC)	17
4. Educational Institutions	
a) University of the West Indies (UWI)	17
b) Caribbean Examinations Council (CXC)	17

Table of Contents

Page 2

Page

5. Agricultural Institutions	
a) Caribbean Agricultural Research and Development Institute (CARDI)	18
b) University of the West Indies (UWI)	18
c) Caribbean Food Corporation (CFC)	18
6. Health and Nutrition Institutions	18
a) Caribbean Food and Nutrition Institute (CFNI)	18
b) Caribbean Epidemiology Center (CAREC)	19

PART II. STRATEGY

A. <u>Overview of Regional Objectives and Strategy</u>	
1. The Long Range Regional Strategy	20
2. The Short Term Strategy	23
B. <u>The Caribbean Group</u>	24
C. <u>Economic Stabilization</u>	28
D. 1. Employment Generation and Productive Investment	30
2. Agriculture	34
a) Agricultural Planning	34
b) Research	34
c) Extension and Credit	35
d) Marketing, Agro-Industry and Infrastructure	35
e) Agricultural Education	35
f) Bilateral Initiatives In Agriculture	35
3. Education and Human Resources Development	36
4. Health	38

Table of Contents

Page 3

	Page
5. Population and Family Planning	39
6. Other Selected Development Activities: Energy/Environment	39
E. <u>IDCA Issues</u>	
1. Membership in Caribbean Development Bank	42
2. Special Trade/Investment Relationship	42
3. Agricultural and Trade Issues	43
4. Export/Import Bank	44
5. Overseas Private Investment Corporation (OPIC)	44
F. Opportunities to Increase Efficiency	44
1. Enhance the Use of Intermediaries and Exploit Host Country Capacity	44
2. Reduction of Management Units and Replication	45
3. Complementary Relationships with Other Donors	45
4. Sector Concentration	46
PART III. PROPOSED ASSISTANCE PLANNING LEVEL	47
- Staffing Implications	49
- Coordination With Other USAID Missions	50

CARIBBEAN REGIONAL DEVELOPMENT STRATEGY STATEMENT

Regional Development Office/Caribbean

INTRODUCTION

This paper sets forth a different development assistance strategy than that presented a year ago by this Mission. During the past year, political and economic instability in the Eastern Caribbean has accelerated. Moreover, recent oil price increases will have a major adverse impact on the small, open economies of most Caribbean countries, undermining their already limited prospects for economic growth and compounding problems such as unemployment.

A current IBRD study projects a more than doubling of the oil import bill between 1978 and 1980, and a \$122 million increase to \$317 million in the balance of payments current account deficit of the English speaking countries (excluding Trinidad), with little or no growth in 1980 by these countries. The outlook is that most of them will enter the planning period with curtailed economic activity and severe balance of payments and budgetary problems.

It has become increasingly evident that a program which focuses primarily on the long range development of regional institutions cannot adequately meet the immediate, short-term needs which are the source of growing frustration, unrest and instability among individual states. These immediate needs include productive employment, particularly among young job-seekers. They include human resources with the technical and management capacity to identify, design and implement development projects. They include the need to stimulate agricultural output and marketing opportunities and to increase private investment. These and other chronic economic problems have given rise to a tendency among the leadership of the region to seek radical alternative models.

Some are openly attracted to the Cuban model. Grenada represents the first non-democratic change of government in the Eastern Caribbean, and Cuba is investing intensively in the future of this island. Other countries are increasingly experiencing tensions, as a result of conflicting political and economic ideologies.

In order to focus more directly and selectively on the priority needs of individual countries, discrete bilateral programs are recommended for Barbados and the Lesser Developed Countries (LDCs) of the Eastern Caribbean. (Bilateral assistance programs already exist in Jamaica, Guyana, Haiti and the Dominican Republic). Closer collaboration with Peace Corps is envisaged, including joint programming; and U.S. and local private and voluntary organizations with development experience will be encouraged and supported.

The Mission does not mean, by seeking to initiate bilateral programs among the Eastern Caribbean islands, to erode or deemphasize the importance of regional development for long-term viability of these countries. The multilateral effort and expanded assistance for development of regional institutions that resulted from the Presidential initiative in September, 1977, must continue. That effort to promote closer integration among the English speaking Caribbean countries and closer collaboration between them and the non-English speaking countries of the region, with the objectives of addressing the common problems of the Caribbean in a coordinated way, still has merit. This strategy statement merely recognizes that long-term development of regional cooperation is in jeopardy without some corresponding attention to short-term stability and immediate requirements. The program being proposed therefore is a mixed or dual approach consisting of both bilateral and regional assistance.

It is significant that the only Caribbean countries that have shown substantial economic progress in recent years are those, such as Barbados, that have fostered development of their private sectors and their export markets (including tourism). Moreover, given constraints on government budgets, expansion of employment will depend largely on the private sector. This strategy recommends giving increased priority to support of the private sector, including investment and export promotion, facilitating joint ventures as well as indigenous small business development and examining the need for establishment of one or more private development banks for the English speaking Caribbean. This effort would be coordinated closely with the Overseas Private Investment Corporation, the International Financial Corporation and other appropriate USG and international agencies.

The problems that will confront the Caribbean in the 1980s are of such magnitude

that they demand the closest possible collaboration among donors within the framework of the Caribbean Group for Cooperation in Economic Development (CGCED). The Caribbean Group has focused increased attention on the development problems of the area, provided excellent economic analysis on a country and regional basis and increased assistance flows. If the Caribbean Group is to continue to play a vital role it will have to address seriously the crucial development problems created by oil price increases and policies affecting private investment. If economic conditions in the Caribbean are not to deteriorate dramatically, substantial balance of payments assistance will be required. Our strategy includes as an option the provision along with assistance from other donors, including oil producing countries, of Economic Support Funds in a new Caribbean Group initiative to facilitate an adjustment to the new conditions.

This program strategy is consistent with heightened U.S. interest in the Caribbean region exemplified by President Carter's special initiative beginning in 1977 leading to the creation of the CGCED and continuing up to the present with the Special Task Force for the Caribbean and the reprogramming of FY 1979 and 1980 Development Assistance Funds for the Caribbean.

Since the program of the Regional Development Office/Caribbean (RDO/C) encompasses many countries and includes a comprehensive regional approach, the material which follows in Part I necessarily deviates somewhat from the suggested format for country specific strategy statements. While the presentation discusses in some degree all Caribbean countries, emphasis is placed on the LDCs and regional institutions. The economic status and target populations in Jamaica, Guyana, Haiti and the Dominican Republic are being extensively treated in separate CDSS's and provide further background for this regional strategy statement. Essential national services in Haiti, the Dominican Republic, Jamaica and Guyana which do not lend themselves to regional approaches or are beyond the capacity of regional institutions within the timeframe of this CDSS, will be addressed directly through existing bilateral mechanisms. In Trinidad and Tobago, the Bahamas, The Netherlands Antilles, Surinam and The French Departments, these requirements can largely be met through self-financing or assistance from other donors.

PART I. DESCRIPTION AND ANALYSIS

A. The Economic and Political Setting

1. General: The Caribbean members of the CGCED include Antigua, Bahamas, Barbados, Belize, Dominica, Dominican Republic, Grenada, Guyana, Haiti, Jamaica, Montserrat, Netherlands Antilles, St. Kitts-Nevis, St. Lucia and St. Vincent. The Caribbean area exhibits a rich diversity of history, culture, language and development. With a total of about 15 million persons, the population varies from about 5 million each in Haiti and the Dominican Republic to 13 thousand in Montserrat. For the island territories, the average population density stands at over 320 persons per square mile and is projected to reach 500 by the year 2000. Per capita income ranges from \$260 in Haiti, an average of \$565 in the Commonwealth LDCs and about \$2,900 in Trinidad and Tobago. (See Annex I).

Yet a number of common features stand out. All of the Caribbean countries are characterized by small market size which denies them advantages of economies of scale. Fragmented and isolated, they suffer the added burden of high transportation and communication costs associated with geographic dispersion. This further narrows their opportunities for production based on export trade and makes their import costs especially onerous. Moreover, their narrow resource base, imposed by both geography and topography, seriously limits opportunities for productive investment, thus constraining growth and employment which is running over 20% in several countries.

The 1970s were a particularly disruptive decade in the economic life of the Caribbean countries. Two of the countries most seriously afflicted were Jamaica and Guyana; both of which embarked on ambitious programs to redistribute income and wealth. They nationalized selected activities and increased economic centralization. In attempting to carry out a number of structural changes at a time of world-wide economic recession, they strained the financial capability of their public sectors and created a climate that gave rise to private capital flight. Concern for the welfare of the people was expressed by allowing levels of consumption to increase

more rapidly than output. Domestic savings declined and investment became increasingly dependent on external borrowing. These factors, combined with rapid domestic credit expansion, resulted in serious balance of payment problems forcing restrictions on money supply and on their foreign trade and payments. These restrictions effectively curtailed new investment and denied needed raw materials to import-dependent industries. Import restrictions also curtailed regional trade with their partners in the Caribbean Common Market (CARICOM).

Essentially the same set of external conditions exacerbated by natural disasters had marked economic consequences for the Dominican Republic. After a decade when real GNP more than doubled, the growth rate declined dramatically after the mid 1970s and pressures developed in the balance of payments and government finances. While the government focused more on medium and longer term priorities, exercised fiscal restraint and maintained a strong emphasis on investment rather than consumption, these public policies exacted a high price in welfare terms further aggravating economic disparities. In 1979, Hurricane David caused extensive damages, estimated to exceed \$800 million and placed an unexpected stress on the economy.

Haiti escaped natural and economic disasters in 1979, and despite several drought emergencies in the seventies, has registered some economic growth. Starting from a very low base after the economic deterioration of the sixties, GNP per capita increased an average of 2.1% per annum between 1970 - 1977, but per capita income was still only \$260 in 1978. With the assistance of international and bilateral agencies, Haiti has mounted a development program that is restoring infrastructure and beginning to modernize the country and to bring hope of progress to the rural poor. While fiscal and foreign exchange crises have been avoided, savings and investment are still low, government efforts still often lack effectiveness, and an immense task lies ahead to raise the standard of living from what is now by far the worst in the hemisphere. Because its modern institutions are in most cases still undeveloped and in the incipient stage, Haiti has little to offer its fellow Caribbean nations, but may be able to

benefit from the development experiences of these other countries.

Lack of economic progress and opportunity have had serious political consequences in the Caribbean, and especially more recently in the newly independent English speaking Eastern Caribbean states where the British have taken steps to reduce their responsibilities. Declining output and falling standards of living, along with growing numbers of young people entering the labor force with expectations which cannot be met, have given rise to various leaders who espouse radical change. These leaders are openly willing to experiment with socialist and totalitarian solutions in the name of the disenfranchised and unemployed whose needs, they contend, cannot be met by the present economic and political system. They see the present system as a form of oppression, and their rhetoric shows clear signs of attracting increasing numbers of followers.

Making the left-leaning posture in Jamaica and Guyana seem mild by comparison, Grenada's revolutionary government has no immediate plans to legitimize its leadership with an election. The present regime in Grenada closed down the only independent newspaper, and while it participates in CARICOM and other regional fora, its ties to the communist government of Cuba continue to grow dramatically. Hundreds of Cuban technicians and large amounts of capital equipment have been provided, and a new international airport has been started.

In scope and magnitude, the Cuban involvement in Grenada has stunned pro-western governments of the region and encouraged those who call for a radical alternative to the status quo. The new government of St. Lucia, while vowing continued friendship and a strong desire to obtain U. S. development assistance, has publicly welcomed increased collaboration with Cuba. In St. Vincent although the long-standing moderate leadership of Milton Cato was reaffirmed (11 of 13 parliamentary seats) in national elections in December, 15% of the vote went to the newly formed United Peoples Movement (UPM), a socialist election coalition. Mr. Cato's party must produce solid evidence of economic improvement in relatively short time or further UPM gains appear inevitable. In Dominica the political instability, which resulted in the resignation

of the government before the Hurricane David disaster, smolders unabated beneath the relief and rehabilitation needs of a devastated country. In Antigua, political unrest has generated street violence and instances of oppressive behavior on the part of the ruling party, and some violence attended the recent election campaign in St. Kitts-Nevis.

Declining output and falling standards of living have occurred throughout most of the region since 1973-74. For the CARICOM countries (excluding oil producing Trinidad and Tobago), the weighted average of real GDP between 1974 and 1977 is estimated to have fallen by about 5% per year, reflecting hesitant tourism and adverse developments both in the mining sector (particularly bauxite and alumina) and in agricultural exports. Between 1970 and 1974, gross national savings averaged 20% of GDP and public sector savings 4% of GDP, but during 1974 - 1977, gross national savings averaged only about 10% of GDP and the public sector had negative savings equal to 5% of GDP. Unutilized capacity has increased significantly, employment rates have fallen off drastically and many new entrants into the labor markets are unable to find jobs. The human costs of these recent economic events have been staggering in both social and economic terms.

2. Developmental Implications of Recent Oil Price Escalation

Skyrocketing energy prices will continue to be a major impediment to development in the Caribbean. Due to their geographic dispersion and lack of their own natural energy resources, the island economies will experience serious stress as a result of continuing OPEC price hikes. The cost of moving their produce to world markets and more importantly to import the essentials they need to maintain their own faltering production is breaking the back of these economies. A recent IBRD study of the English speaking Caribbean countries projects that the value of oil imports will more than double from \$390 million in 1978 to \$850 million by 1980, with an increase in the current account deficit in their balance of payments from \$195 million in 1978 to \$317 million in 1980 with little or no economic growth in most countries. In most of the smaller LDCs, the projected current account deficit is in

excess of 20% of GDP (See Annex II). This has serious implications for the U. S. and other donors:

- development lending to the public sector will soon outstrip debt service capability;
- recipient financing of counterpart costs (the 25% rule) may prove unworkable, and projects with high recurrent costs will be counter-productive;
- there will be a steady deterioration in existing infrastructure due to lack of maintenance which in turn will raise production costs and serve as a disincentive to new investment;
- the quality of social services will decline further as facilities fall into disrepair and outlays for recurrent expenses decline.

3. A Closer Look At the Lesser Developed Countries (LDCs)*

The growth performance of the English speaking LDCs in recent years has been poor. As indicated in Annex III, real per capita growth rates were negative for the period 1970 - 1977 for all the LDCs except Belize, St. Kitts-Nevis and St. Lucia which were virtually static. In 1978, World Bank studies show real growth in GDP averaged about 6%. The growth was attributable to a large banana crop throughout the Windward Islands and a good tourist season. St. Kitts-Nevis, where sugar output and prices remained static, was the only exception to this pattern. In 1979, natural disasters in Dominica (Hurricane David) and St. Vincent (volcanic eruption), combined with the area's political uncertainties, have resulted in significant economic setbacks.

All the LDCs already had a significant negative trade balance before the recent oil price increases. Imports consist of a broad variety of goods and are equivalent to from 65% to over 100% of the GDP of the various countries. Exports consist largely of traditional agricultural products - bananas, sugar, spices and tropical fruit, and to a large extent depend upon subsidies or preferential access into the European Community (U.K.) market.

* Includes Belize and ECCM member countries: Antigua, Dominica, Grenada, St. Vincent, St. Lucia, St. Kitts-Nevis and Montserrat.

The LDCs historically have been dependent upon external grants, chiefly from the United Kingdom to cover a portion of their operating budgets and practically all capital outlays. U. K. assistance is now declining in real terms, and unfortunately for the LDCs, this restrictive process is occurring simultaneously with the oil crisis. The fiscal problems of the LDCs are not susceptible to easy solutions. No significant increase in domestic revenue collections can be anticipated and increasing export tax rates would clearly be counter-productive. The figures shown in Annex III suggest that increased government revenues to maintain and improve social services or finance needed public investment are not likely to be forthcoming unless the revenue base can be expanded through increased output in the productive sectors. Moreover, the LDCs' ability to contract and service external borrowing is close to zero.

On the positive side, the LDCs and MDCs have demonstrated an unusually high level of commitment to meeting the basic needs of their citizens. Government revenues from domestic sources average about 25% in the LDCs, and progressive income taxes account for about one-fourth of these revenues. Both rates are unusually high for countries at the LDCs' level of development. Performance on the expenditure side is also favorable. These countries devote little public expenditure on armaments, armies, or on "showpiece projects", e.g. super airports or highways, elaborate government offices. Conversely, one does see relatively large expenditures on essential social and economic services. As a result, the LDCs have at least primary education for virtually all children, modest but fairly extensive road systems, and weak but broadly based systems to provide health services. Concern for the public welfare partly explains the condition of per capita consumption in excess of levels justified by the output of their economies.

B. The Target Group: Causes of Poverty

The problems facing the AID target group in the Caribbean LDCs are not primarily those of access to government services nor of equity. They are not problems occasioned by repressive governments nor uncaring social oligarchies. The problems of the poor -- the AID target group -- are as one with the problems of the micro-nations

and micro-economies in which they live -- low productivity, unemployment, an inadequate fiscal base, poor natural resource endowment and now, a debilitating trade deficit due to ever escalating oil prices. Thus, if the U.S. is to help the poor in the Caribbean it must play an active and early role along with the other donors in helping the LDCs individually and collectively to save their existing economies and build new more resilient ones for the future. RDO/C's primary objective will be increasing employment opportunities in both urban and rural areas and raising productivity to reduce imports and expand exports.

1. Inadequate Job Creation and Productive Investment

The economic conditions already cited translate, in the first instance, to a limited level of demand for labor. There is simply not enough productive employment for all who want to work, let alone sufficient growth to keep pace with increasing numbers of entrants into the labor force.* The latest unemployment rates show the magnitude of the problem: Jamaica 26%, Guyana 17%, Barbados 12% and for the Eastern Caribbean Common Market (ECCM) states the estimates range from 13% to 23%. (See Annex) While these figures indicate the great extent to which human resources are underutilized, they reveal only a part of an employment situation which is further exacerbated by high levels of seasonal and structural underemployment. It is likely that seasonal fluctuations in the agricultural and tourism sectors increase these unemployment figures by as much as 50% during a three to four month period of the year.

Data also indicate that work rates are significantly lower among the younger age groups and females, thus adding important social dimensions to the already difficult economic problems caused by unemployment itself. Nearly half of the work-

* Of total World Bank estimates of labor force growth in the region during 1970 - 1980, 65% occurs among those age groups (14 - 24) where unemployment runs highest.

seeking population in the 14 to 19 years age category is unemployed, compared to 20% in the age 20 to 24 category and approximately 6% in the 25 and over category. Throughout the region, there are nearly two and one half times the number of males employed as females. The fact that the number of youth entering the labor force annually is increasing, both because of demographic variables and because fewer young workers are able to migrate to developed countries, suggests that the pressure for jobs will become more intense in the future.

The majority of the unemployed are unskilled laborers. Although an estimated 90% have completed primary education, a real gap exists between the formal education system, which emphasizes rote learning and literacy and the realities of the job market. Specialized skills training in trades and services is generally open only to secondary school graduates, so the new entrants to the job market, possessing only a primary school certificate, can find employment only as the lowest paid menial workers. As the unemployment problem grows more severe, even these jobs are increasingly difficult to obtain since there is competition from the better educated unemployed.

(a) Role of Agriculture

In spite of migration to urban areas, agriculture remains a critical sector for employment and investment. In the Eastern Caribbean, agriculture's share of employment ranges from 11 to 40% of the total work force. However, over the past several decades plantation agriculture, upon which countries historically relied, has become progressively unprofitable to the point where much of the land is underutilized and employment has fallen. The local food markets traditionally were relegated by default to thousands of small holders who produced local crops on the poorer lands. In general, these low productivity small farmers have been unable to meet the demand generated by population growth, diversified consumer preferences and tourism. As a result, food imports have grown rapidly.

The small farmer constitutes the major agricultural group in terms of both absolute numbers and of food production, and is assuming an increasingly important role in the

production of export crops. Of an estimated 73,000 farmers in the Eastern Caribbean islands, most have holdings of less than five acres. Substantial numbers of these farmers are women, an estimated two-thirds are over 45 years of age, and the vast majority have little formal education.

They are faced with a series of obstacles which inhibit their efforts to increase productivity and income. First, they generally lack knowledge of technologies to overcome problems of nature. Second, insecure land tenure, particularly under government settlement schemes, discourages investment in the land. Third, inputs are often unavailable or very highly priced. Fourth, uncertain marketing, storage and transportation, primarily for export crops, make increased production by itself risky. Fifth, credit is often not available to assist the small farmer to overcome these constraints.

Although the potential does exist in the agricultural sector to provide employment and higher productivity to greater numbers of small holders, to increase self-sufficiency in food production, and to earn foreign exchange, the aforementioned obstacles combine to make small holder agriculture laborious, uncertain and unprofitable as a fulltime occupation. At the present time, public sector institutions are too weak technically, managerially and financially to overcome these deficiencies. Until the technical, institutional and infrastructure constraints are addressed, efforts to expand small holder production for import replacement/substitution and for export will at best have limited success.

(b) Role of Private Investment

With public sector budgets overstrained, and given the limited amount of labor that can be absorbed in agriculture, a large proportion of additional job creation and production must come from commerce, manufacturing and tourism. Expansion of employment in these sectors will directly improve the well-being of the poor. Small scale manufacturing and service enterprises offer particular promise for employment generation as do traditional or informal activities such as workshops and household industries which are generally labor intensive and provide an outlet for independent

people able to organize employment for others.

A recent World Bank study concluded that industrial growth and employment in the Eastern Caribbean LDCs will have to rely significantly on foreign enclave operations. Like small scale firms, such industries often have the advantage of being labor intensive. In addition, they often supply their own capital, knowledge of external markets and technical expertise. If enclave industry is to be attracted, however, it is imperative to maintain the incentives of competitive wages and limit industrial disputes.

In addition, public policies have a strong influence on private sector performance. In recent years, while some countries have enthusiastically courted investors, nationalization and more subtle pressures on the private sector which have taken place in several countries have dampened investment in the region. Re-establishing an atmosphere conducive to private investment where it does not exist is essential to private sector employment creation. The level of labor intensivity of investment is also influenced by government policies on intra-regional trade, taxation, exchange rates, tariff exonerations and incomes.

Deficiencies in policy formulation result in part from a limited institutional capacity to analyze the economic environment. Also, particularly in the smaller countries, there is an absence of institutions capable of providing investors with information on technological alternatives and effectively mobilizing domestic savings and channelling it to smaller clients and labor intensive investments. Other important constraints include: (a) Lack of confidence in government economic management and lack of clarity about the rules governing foreign investment; (b) limited entrepreneurial skills and insufficient capacity in project preparation, financial management and marketing; (c) inadequate intra and extra regional transport including frequency, reliability and cost.

2. Access to Relevant Education and Training

In comparison with other developing countries, including many wealthier ones, quantitative achievements in education have been considerable. Almost all children

have access to at least six years of schooling, and a significant proportion continue their education beyond the basic level. Literacy rates are good.

From the perspective of the poor, however, the education system has significant qualitative deficiencies. Educational content and methodology reflect the high academic and elitist British grammar school model implanted during the colonial period. Instructional materials are in short supply and too often reflect non-Caribbean social, economic and physical environments. Facilities in poor areas are often noisy and overcrowded, in which up to eight classes are offered simultaneously in unpartitioned areas to as many as 300 children. Overall, the learning and techniques used (e.g. rote memorization) do not correspond to the economic opportunities available to the majority of the poor who are not able to enter the higher levels of education for which the system attempts to prepare them. Rather than helping the poor to become adaptive workers and responsible citizens, the education system appears to lead to unrealistic expectations, frustration and unemployment.

Training courses, most of which exist only in the MDCs, tend to be overly formalized and there are few opportunities for in-service training in either the public or private sectors in management, project development and related areas. This weakness in practical training has predictable adverse consequences in efficiency and adequacy of public services which play such an important role in meeting basic needs in all the countries of the region. Trained manpower is scarce at the policy, planning and budgetary levels in all countries.

Levels of trained manpower are low enough to adversely effect the capacity of Caribbean LDCs to utilize development assistance funds and even private investment. Lack of capacity to identify and implement projects is a constraint to timely disbursement of aid funds. In addition, while new investment in industry and tourism is taking place, some countries face the paradox of a shortage of skilled labor in the midst of growing unemployment, because new jobs require skills which the unemployed have no way of acquiring. In addition to emphasizing education and training programs, therefore, countries and donors also will need to focus on improved workforce

planning in order to quantify training gaps.

3. Access to Health Services

As in the education sector, quantitative achievements have been considerable. Although most people have access to minimal services, the poor have many serious health and nutrition problems. About half of the children under five in the LDCs are underweight by age. Infant mortality ranges from the high teens to the low forties per thousand live births for most of the LDCs and is considerably higher in Montserrat and St. Vincent. Gastroenteritis, respiratory diseases and malnutrition are the primary causes of death in children. The potential for severe disease outbreaks exists throughout the islands. The vectors for the transmission of dengue fever, malaria and other communicable diseases flourish. Typhoid fever is present and VD is prevalent.

Environmental sanitation presents a problem to all the islands and is particularly inadequate for the poor. There are insufficient supplies of potable water and untreated sewage often pollutes the shores. Inadequate disposal of solid waste provides breeding grounds for pests. In addition to its direct health effect, an esthetically pleasing healthy environment is vital to the economically important tourist industry. The anticipated decline in government expenditures to maintain existing water and sewage systems will unfortunately have its greatest impact on the poor.

4. Population Growth

The population density of the Caribbean islands is the highest in the hemisphere except El Salvador. In the Eastern Caribbean, the annual population growth rate currently ranges between .6 - 3.7 per cent, higher in some cases, than the rate which occurred during the 1960s when migration outlets were readily available. Governments of the region either openly espouse the importance of population limitation or tacitly permit the functioning of family planning programs. This policy has contributed to a marked decline in the birth rate since 1970. The unweighted average for the LDCs and Barbados dropped from 31.1 in 1970 to 27.0 in

1975. Nevertheless, considerable progress is needed if the decline is to impact favorably upon real growth and development.

5. Difficulties in Meeting Recurrent Costs

An overriding constraint to all development programs, and thus an obstacle to improvements in living standards, is the perennial shortage of local recurrent budgetary resources. This constraint often limits the operating funds available to utilize the investments already made, causing inadequate maintenance of past investments and partly explaining the delays in meeting targets and implementation schedules in development projects.

In the Eastern Caribbean this problem has meant gradual deterioration in public works and maintenance of basic economic infrastructure. Much of the islands' infrastructure - representing a significant initial capital investment is in such bad repair that present benefits are substantially less than originally planned. While it would be impossible to list all the maintenance and rehabilitation needs of the various countries, among the most common and serious deficiencies are: dilapidated schools, many of which are still in use despite being a hazard for the occupants; poorly maintained rural clinics and health centers; inadequate road drainage and surfacing which limits use during large parts of the year; and poorly maintained potable water systems.

C. Regionalism and Regional Institutional Framework

The many factors which limit the development potential of the individual Caribbean countries suggest that regional mechanisms and cooperation are necessary to overcome the problems of scale arising from the political and economic fragmentation of the region. There are strong historical and cultural ties in the English speaking West Indies and a broad, if somewhat shaky, regional institutional framework upon which to build. These ties and the institutional framework generally do not extend to the rest of the Caribbean where linkages are largely to traditional trading partners outside the Caribbean and to countries of cultural affinity. Broader Caribbean cooperation is still in the embryonic stage.

There is definite intellectual commitment among the English speaking countries to the concept that economic improvements are dependent upon regional approaches and common services, but there is also strong sentiment, particularly among the recently independent states, that political sovereignty must not be submerged by regional endeavors. Thus, integrative mechanisms designed to strengthen the regional bargaining position with the outside world and to overcome the handicaps of small size, economic fragmentation and dependence on extra-regional markets and suppliers must continually be squared with each individual country's perceived self interest.

In general, the English speaking countries have a good record of cooperation in functional areas such as public health, higher education and examinations, technical research, and transportation, as well as in developing common positions towards non-member countries on relevant trade policy matters. The record is less impressive in terms of economic integration. The movement toward regional integration suffered a serious loss of momentum mainly as a consequence of the severe economic difficulties faced by most of the CARICOM member countries during recent years. So long as the economic situation remains in such disarray, forward movement will be slow on issues such as further trade harmonization, easing of labor migration and agreement on industrial and agricultural specialization.

The origins, objectives and instruments of Caribbean regionalism were discussed at some length in the 1981 CDSS (PP 8-12). This year we have chosen to report on the status of the major institutions and their success or lack thereof in confronting the problems of the Caribbean.

1. The Caribbean Community (CARICOM): Established in 1974, CARICOM remains a key institution for regional development in the English speaking Caribbean. Although it is most frequently thought of in terms of its common market and trade functions, its Secretariat, located in Georgetown, Guyana, is charged with initiating, arranging and carrying out studies of economic, social and functional cooperation relating to the region as a whole. CARICOM helped in preparing a model health plan for the region and establishing the West Indies Shipping Company. Work on a Regional Food

and Nutrition Plan is underway. The Secretariat is also the implementing agent for a number of international grants including three funded by AID.

The Secretariat's overall effectiveness has been hampered to date by difficulty in attracting and retaining a quality staff, budgetary restrictions with member governments finding it increasingly difficult to make their annual subscriptions, and its relative physical isolation in Guyana. However, AID's experience on its only project with CARICOM, in existence for over a year (Basic Health Management Training), is that the Secretariat has performed in a thoroughly professional and competent manner. Moreover, the new Secretary General, Dr. Kurleigh King, recognizes the Secretariat's problems and is moving, thus far successfully, to resolve them. Budget short falls will persist, however, and continued support to CARICOM by the donor agencies will be required for the foreseeable future.

AID inputs to CARICOM are designed to respond to priority regional needs and at the same time to bolster the Secretariat's capacity to serve its member states, particularly the LDCs.

2. The Eastern Caribbean Common Services: Common Services currently function among the Windward and Leeward Islands in several areas: The Judiciary, the Eastern Caribbean Currency Authority (ECCA), the Directorate of Civil Aviation (DCA), the West Indies Associated States Council of Ministers Secretariat (WISA) and the Eastern Caribbean Common Market Secretariat (ECCM).

The ECCM provides economic coordination among the present and former Associated States and Montserrat. The Eastern Caribbean governments generally endorsed the establishment with ECCM of pools of experts for specialized technical services at the last Caribbean Group meeting. UNDP is providing assistance to ECCM in development of general statistics and has assisted in organizational planning. AID has entered into agreements with ECCM for projects in agricultural statistics, planning and project preparation, and public sector training. The European Community has agreed to support infrastructure project preparation. ECCM performance to date has been inhibited by the need to strengthen its management, by budgetary constraints and

by diverging political philosophies of member governments.

3. Financial Institutions

(a) Caribbean Development Bank (CDB): The CDB is the principal regional development financial institution in the Caribbean and the primary intermediary used to date by AID in support of the Caribbean Regional Program. The CDB possesses a qualified and experienced professional staff, of which 59 are permanent and 25 seconded or externally funded. CDB has been successful in mobilizing substantial resources for the region (total resources committed to the CDB including share capital, reserves, borrowings, grants and trust funds now exceed \$380 million of which \$194 million have been paid in). CDB in turn has approved loans and grants of \$272 million, two-thirds of which went to national and regional development projects in the LDCs. Fully one-third of all development assistance to CARICOM LDCs is administered by CDB.

CDB's policies and procedures are patterned after the World Bank and at times, its borrowing members have been critical of the delays and difficulties in securing funding for their projects. The Bank in turn, considers that special requirements of AID and other donors complicate its administration. The Bank has administered the FY 78 CDF loan successfully, but has had more difficulty with programs designed to respond to the AID mandate. In general, the CDB has been more effective in lending to the public sector than to the private sector. The Bank was reorganized in 1979 and additional staff added; it is expected that this will increase the Bank's capacity to process and administer projects.

During the past 18 months, the CDB has significantly expanded its role as a provider of technical assistance to member countries, particularly the LDCs, as a result of AID-supported initiatives to establish a Technical Assistance Fund, a Technology Information Unit, and advisory services to national development finance companies and small businesses. However, the CDB does not have the capacity to supply the entire project preparation and project administration needs of the LDCs. Moreover, some members of the CDB Board, particularly the Canadian representative, have expressed concern that the Bank is being extended into roles more appropriate for bilateral

donors than a development bank.

Given the urgency and complexity of addressing immediate unemployment and other priority development problems, and the extremely limited planning and absorptive capacity in the LDCs, it will be essential to supplement CDB efforts through other complementary approaches, including greater use of AID directly funded consultants on a regional and bilateral basis. Moreover, alternative mechanisms to the CDB will be necessary if the USG selectively wishes to support democratic governments in a highly visible manner. Such alternative approaches are discussed in the strategy section.

(b) Caribbean Investment Corporation (CIC): The CIC, established in 1973 in Castries, St. Lucia is a special financial institution to promote industrial development, including agro-industry and integrated agricultural and industrial complexes and to facilitate the flow of financial resources from the MDCs of the region to the LDCs. Unfortunately, the CIC reported losses for all years but one since it began operations, and the Corporation is now virtually without funds. The need for private sector industrial expansion in the region may call for a new financial institution. Further study of this requirement is planned in the coming year.

4. Educational Institutions

(a) University of the West Indies (UWI): Regarded as the clearest example of the economies of scale and quality which can result from regional collaboration, the UWI, founded over 30 years ago, is making a significant contribution to development in the region. It has accumulated an impressive array of talent in several development related fields and as faculties have become increasingly concerned with outreach programs, Extra Mural Centers have been opened in each country. Illustrative of this trend is the School of Education's extension program which provides regional technical advise to the states in support of primary curriculum revision programs, and research related to educational development.

(b) Caribbean Examinations Council (CXC): The CXC has been charged by the CARICOM Ministries of Education with developing and supervising the administration of

common exams at the secondary level. The new exams are to replace the Cambridge Ordinary Level exams with a system more appropriate to the Caribbean environment. The Council has also been charged with preparing new secondary syllabi consistent with the new examinations and eventually will develop the teacher and student material to implement the new curricula. We are most encouraged by this common effort and are supporting it.

5. Agricultural Institutions

(a) Caribbean Agricultural Research and Development Institute (CARDI):

CARDI is an autonomous institution established in 1974 to assist all the countries of the English speaking Caribbean in adaptive agricultural research. CARDI's focus has shifted from maintaining in Trinidad, a central core staff of highly trained researchers, to deploying this staff in all member countries. This has enhanced CARDI's ability to relate and respond more closely to the specific needs of the member countries. RDO/C is assisting CARDI develop agricultural production techniques especially adapted to the constraints facing the small farmer.

(b) University of the West Indies (UWI): The Department of Agriculture Extension has begun work on an outreach program paralleling that of CARDI, assisted by AID through a Title XII project with the Midwest Universities Consortium in International Activities (MUCIA). Its purpose will be to provide in-service training to extension agents in the islands on small farm cropping systems and information transfer techniques.

(c) Caribbean Food Corporation (CFC): Recently established to implement the CARICOM authored Regional Food and Nutrition Plan, CFC is charged with planning, financing and executing projects to spur the intra-regional trade of agricultural commodities. The CFC has yet to become operationally effective.

6. Health and Nutrition Institutions

(a) Caribbean Food and Nutrition Institute (CFNI): Founded in 1967, CFNI is responsible for, (1) direct service to the member governments; (2) education and training; (3) coordination and execution of research, and (4) information promulgation.

It is a sub-unit of PAHO and is located in Jamaica and Trinidad. CFNI has considerable technical expertise, but is "West Indianized" in the view of a number of its client states. It has been tasked by the member governments to come up with country specific work plans and to finalize the Nutritional Education Program for the Caribbean.

(b) Caribbean Epidemiology Center (CAREC): CAREC, also a PAHO affiliate, is responsible for communicable disease surveillance throughout much of the Caribbean. National surveillance units are now operational in eighteen countries back-stopped by CAREC in Trinidad which gives immediate aid in the case of an epidemic. It also routinely provides laboratory and diagnostic services and on-going in-service training. CAREC's budget comes from the region's governments, PAHO, the U. K., as well as specific grants for training being provided by AID and technical assistance from CDC/Atlanta. Although CAREC was formed to serve CARICOM countries it now includes the Dutch speaking countries and collaborates closely with the French territories and other non-English speaking states. Its performance is well regarded in the region.

PART II. STRATEGY

A. Overview of Regional Objectives and Strategy

1. The Long Range Regional Strategy

The long term goal of the Caribbean regional program is viable, progressive, democratic societies in which the basic human needs of all citizens are met. A commitment to this goal currently exists among most English-speaking countries and in many other Caribbean countries. However, the ability to achieve such development separately will continue to be severely constrained by the small size of these countries and their economic fragmentation. Consequently, consistent with Section 209 of the Foreign Assistance Act, fostering regional cooperation to achieve development is accorded high priority in the provision of U.S. assistance to the area.

AID's strategy is to encourage the formulation of complementary regional and national policies and selectively to aid programs essential to achieving them, strengthen regional development institutions, support appropriate common services for the mini-states of the Eastern Caribbean, foster increased cooperation among all English-speaking countries and promote collaboration over the longer term among the English and non English-speaking countries of the region.

Initially, this strategy focuses principally on the Commonwealth Caribbean with special emphasis on the Eastern Caribbean. This focus reflects the fact that currently local initiatives in regional cooperation are found predominantly among the English-speaking countries. Also, their historical, economic and cultural affinity provides a ready made framework for collaboration and enhances the chances for successful regional programs. Moreover, the smallness of the individual Commonwealth Caribbean countries demands priority in seeking economy of scale.

The proposed long range strategy continues to give priority to strengthening the role of the Caribbean Development Bank (CDB) as the principal regional development finance institution. The CDB will continue to be the channel for most of the development assistance lending to the public sector under the regional program during the planning period. Initially, emphasis will be given to working collaboratively

with the CDB and LDC host governments to facilitate the Bank playing an expanded and more effective role in the LDCs, including the rendering of more technical assistance to help alleviate local absorptive capacity constraints. Secondly, we propose to support a more extensive CDB role relative to the CARICOM MDCs as the capacity of the Bank permits. In this regard, we propose continued contributions to the Caribbean Development Facility through the CDB, encouraging other donors to do likewise, and more benefit to the MDCs through regional programs. Finally, as the Bank's capacity grows, we will encourage its participation in more comprehensive regional projects, including projects benefiting the Dominican Republic, Haiti and other Caribbean countries. However, an expanded role for the CDB will have to be phased over the planning period since, as noted in Part I, the capacity of the CDB is already strained in administering its current scope of activities.

The size and proportion of United States support of the CDB is one of such magnitude that the question of USG membership in the Bank once again should be re-examined. An alternative approach which should be considered is establishment of a Caribbean Development Fund, (similar to the African Development Fund) administered by the CDB. Such a Fund could have its own Governing Board, including a representative of the USG as a major contributor. It is believed that action on the foregoing will involve a period of years. In the meantime, consideration should be given to AID providing financial support to the CDB Special Development Fund rather than continuing a proliferation of special funds incorporating the multiple requirements of AID and other donors.

The strategy also involves maximizing Caribbean capabilities to address development problems through strengthening regional institutions that provide research, training or other technical services to member countries where availability of technical expertise or cost efficiency makes such pooling arrangement desirable. Development of pools of experts of additional common services among the smaller Eastern Caribbean countries will be supported. Specifically important will be economic and physical planning, specialized legal and engineering services, tax

administration, common bulk procurement, as well as strengthening of the Eastern Caribbean Currency Authority. Other common services such as continuation of a common judiciary and combined external representation will be encouraged but fall beyond the scope of AID programs.

Key among the institutions that will be supported are those listed in Part I. Although these are primarily Commonwealth Caribbean institutions, they will be encouraged to coordinate research and share results and expertise with the non English-speaking countries where appropriate. Moreover, the program will draw upon the institutions and expertise of Puerto Rico and the U.S. Virgin Islands where relevant.

In addition, broader collaboration among countries of the Caribbean archipelago and institutional ties to Central America and other basin countries will be supported where appropriate. Transport, communication, energy, fisheries and environment are important to the development of the broader Caribbean area and lend themselves to multinational solutions. We will look for ways to expand contacts via technical and policy level visits and regional conferences. Cooperation through educational exchanges, dissemination of research results, and information on appropriate technology will be supported. The nature of health, nutrition and disease control problems and the effective inter-island communication network already established by the Caribbean Epidemiology Center (CAREC) and Caribbean Food and Nutrition (CFNI) make the integration of activities in this sector highly desirable. To accomplish this cooperation, the Association of Caribbean University and Research Institutions will be further developed, Caribbean Agricultural Research and Development Institute's (CARDI) relationship to its Central American counterpart Centro Agronomico Tropical de Investigacion y Ensenanza (CATIE) will be intensified and the linkage between the Pan American Health Organization (PAHO) affiliates in the Caribbean (CFNI and CAREC) and those in Central America will be encouraged. The inclusion within CARICOM of current non-member states such as the Dominican Republic and Haiti on an observer or liaison basis will also be encouraged.

Increased cooperation between the Dominican Republic and Haiti also will be fostered through programs managed by AID bilateral missions in those countries. The chiefs of state of those two countries met twice during the past year, and issued joint declarations of intent to improve working relationships. Possible areas of collaboration that might be assisted in the early years of the planning cycle include watershed management and soil conservation along the border, malaria control, animal and plant disease control.

2. The Short Term Strategy

Attainment of our long term goal also requires a reversal of the economic deterioration of the 1970s and resumption of economic growth accompanied by expanding employment, particularly among politically volatile young adults in the 15-24 age range. This will require a developmental strategy emphasizing the productive sectors, stressing export performance as well as efficient import substitution. While longer term viability and growth will depend primarily upon private sector development, over the short run, special measures will be required to offset the consequences of new oil price increases.

The deterioration of economic and political stability in the Eastern Caribbean demands that we supplement our longer term regional development assistance activities with bilateral programs. An exclusively regional program will not allow us to assist selectively those countries that are most committed to democratic forms of government, human rights and equitable social and economic development. Other important limitations are: (1) regional institutions cannot and should not involve themselves in the full range of activities that governments must undertake; (2) the managerial and technical capability of regional institutions is still limited, and it will take time to strengthen this capacity; (3) existing regional institutions have limited capability to work with the private sector, and (4) the channelling of aid through regional intermediaries obscures the identity of the donor in the eyes of the recipient countries.

For these reasons, RDO/C proposes that U.S. assistance to the Eastern Caribbean

be expanded to include bilateral assistance where such an approach will speed the impact and delivery of services to the target population. Bilateral activities will be undertaken only when they are compatible with regional efforts and, if possible, supportive of regional efforts. The focus of the bilateral strategy is immediate, relatively quick disbursing assistance which hits high priority needs that must be addressed early, while longer-term (regional) solutions are given time to take hold. Thus, bilateral projects will frequently be undertaken to increase the capacity to absorb development resources which are or will be available through regional institutions such as the Caribbean Development Bank. Labor intensive development programs, while putting people to work are to be considered particularly where they increase productive capacity and stimulate growth. Encouragement and strengthening of the private sector, both commercial and PVO, will be given high priority.

In summary, the regional approach to Caribbean development continues to be the cornerstone of RDO/C's strategy, but urgent economic and political considerations dictate a mixed program of both regional and bilateral assistance. To offset in many cases rapidly deteriorating economic situations, and related political unrest, Economic Support Funds (ESF) are recommended for bilateral programs involving balance of payments and budgetary support as well as other quick disbursing impact projects where maximum grant funding and flexibility are needed and where requirements such as the 25% host country contribution under AID's Development Assistance program would be major obstacles.

B. The Caribbean Group

The multilateral Caribbean Group for Cooperation in Economic Development (CGCED) will continue to provide the framework for our Caribbean strategy. The Caribbean Group comprises some thirty-one donors and recipient countries and sixteen international and regional institutions. The CGCED involves both Caribbean countries and donor agencies in a consultative mechanism that serves as a forum to analyze development priorities and assistance requirements, support regional cooperation

initiatives, and coordinate external assistance in an efficient manner. It also facilitates maximum sharing of the assistance burden mobilizing additional resources from the international financial institutions as well as traditional and new bilateral donors.

One achievement of the CGCED has been the establishment for a period of up to five years of the Caribbean Development Facility (CDF). Country reviews of the recipients' development problems and performance are an essential part of the process to increase assistance flows, and these reviews are carried out on the basis of detailed country studies which have been prepared by the World Bank with assistance from the IMF, UNDP and CDB. The amount of high quality economic analysis which has been prepared over the short period of time is impressive.

As a result, the Caribbean Group has been successful in securing additional development resources for the region. Official external capital inflows for the year commencing July 1, 1978, amounted to \$530 million. The World Bank estimates for the year beginning July 1, 1979, official flow requirements of \$742 million, including \$276 million for the CDF. While it is too early to evaluate fully 1979-80 performance, it is significant that pledges for the CDF have reached \$275 million, up from \$186 million in the prior year.

The World Bank and the Inter-American Development Bank (IDB) have both been lending over \$100 million annually to the Caribbean and have indicated an intent to increase this level of assistance. Neither are providing assistance directly to the LDCs, but both do so indirectly through the CDB. The World Bank recently loaned the CDB \$23 million from IDA funds for the LDCs. The IDB is currently negotiating with the CDB a \$10 million multi-purpose loan as a follow-up to an earlier loan of two years ago. The UNDP has regional and bilateral technical assistance of \$14 million planned for the Eastern Caribbean for the period 1979-81. United Kingdom assistance has been running around \$40 million per year, largely for the LDCs and its colonies, but in 1978/79 the U.K. provided special assistance to Jamaica and Guyana bringing its total disbursements to about \$80 million. Canadian

official aid to the Commonwealth Caribbean is \$30-35 million annually. The European Economic Community (EEC) programmed approximately \$60 million in regional and bilateral assistance for the Commonwealth Caribbean for the period 1967-81 under the Lome Convention, and is currently negotiating future assistance. Venezuela, as a non-borrowing member of the CDB, has provided over \$35 million for on-lending to CDB member countries, in addition to CDF contributions and a major program for the Dominican Republic. Other important donors include the Organization of Petroleum Exporting Countries (OPEC) Fund and Trinidad and Tobago, which has tended to operated independently of the Caribbean Group. The Netherlands, France, Germany, Japan, Brazil and Colombia also have become contributors within the Caribbean Group.

The CGCED has begun to create a longer term regional policy framework for the Caribbean development effort. The June 1979 meeting saw the establishment of an Ad Hoc Steering Committee, chaired by Barbadian Foreign Minister Forde, to oversee the activities of the Group. Studies have been prepared or are now underway on many of the region's common problems. Energy, agriculture and transportation are receiving substantial emphasis. Discrete agricultural projects are being developed in areas such as: harmonization of agricultural research, improvement of intra-regional food marketing; feasibility of a regional purchasing/distribution system for agri-inputs; and use of EEC food sales to generate funds for agricultural projects. Transportation projects under development include, among others, a system to facilitate use of container shipping, improving the inter-island freighter system and airport safety modernization. The private sector is also receiving high priority with studies underway on strengthening the role of private enterprise, export promotion and tourism. RDO/C will continue to collaborate closely with CGCED working groups and will utilize information generated from the various studies in program design.

There are several areas which have been identified in consultation with other USAID Missions in the Caribbean as being appropriate for special consideration by the Caribbean Group. USAID/Jamaica has recommended a comprehensive assessment of

the capacity and potential of the various institutions in the region to meet development objectives of the area. This survey would examine national as well as regional institutions to identify the firmest base for developing outreach capacity and to avoid unnecessary duplication of facilities. For example, the Dominican Republic Institute of Technology (INDOTEC) and the Jamaica College of Arts and Sciences are potential regional resources in science and technology areas. The survey would include not only all important educational, training and research institutions, but also significant developmental initiatives underway in one or more countries which could be more widely applied in the region. Following the survey, AID and other donor agencies could develop more integrated sectoral strategies using both bilateral and regional projects to achieve common objectives. RDO/C supports this recommendation, as does USAID/Guyana.

Other possible Caribbean Group initiatives have implications for the non English-speaking members of the region. Haiti and the Dominican Republic have entered into discussions concerning possible joint efforts. The Caribbean Group should be the forum for seeking financing for reconstruction of the Azua-Port au Prince highway. Joint project possibilities also exist, in watershed management, energy, environmental protection, and human and animal disease control. Both Haiti and the Dominican Republic maintain representation in the Caribbean Group, and as joint efforts are encouraged and supported by the United States and the Group, further opportunities for cooperation are expected.

The Caribbean Group is also an important catalyst in the critical field of energy policy development and planning and serves as a coordinating mechanism for energy projects. USAID/Guyana has recommended that the Caribbean Group consider the establishment of an energy sub-committee, for improved exchange of information in relation to plans of Guyana, Surinam, Venezuela and Brazil to develop hydro-power facilities with potential capacity to serve requirements in that particular sub-region.

C. Economic Stabilization

Before dealing with the strategy for essential project assistance to critical development sectors and problem areas, it must be recognized that the success of all proposed programs is dependent upon arresting the financial deterioration of the region, caused by escalating oil prices and world inflationary conditions. The most prominent feature of the first two years of cooperation under the umbrella of the Caribbean Group has been the CDF, mentioned above, which was designed to offset some of the severe balance of payments consequences of the 1973-74 oil price increases. The CDF has linked at least the English-speaking CARICOM countries to announced policies (reinforced in the case of Guyana and Jamaica by agreements with the IMF) designed to achieve stability while sustaining priority development programs. Austerity and self-help measures have included reduction in government deficits, steps to decrease consumption and increased savings, and action to stimulate private sector production.

The World Bank and other members of the CDF Working Group determined that recipient countries were making the necessary adjustments and self-help efforts to justify continued Caribbean Group support to the CDF in 1979. At the second Caribbean Group meeting in June 1979, CDF requirements for the ensuing twelve months for CARICOM countries, Haiti and the Dominican Republic were estimated at \$276 million, and donors have now made pledges for virtually this entire amount. However, it is clear that the magnitude of recent oil price increases as discussed in Part I will have serious adverse effects on all countries of the region, despite available stabilization funds and the austerity and self-help efforts presently conceived.

Clearly, there should be a major new initiative by the Caribbean countries to seek special assistance (or subsidized prices) from the oil producing countries. This initiative should be supported by the U.S., U.K., Canada and the international financial institutions. However, it is highly unlikely that any response from the oil producing countries will fully cover the increase in the current account deficit.

Consequently, we propose that the U.S. back a Caribbean Group stabilization program, predicated on appropriate self-help measures by the recipient countries and participation by other donors, including the oil producing countries. In the past, the U.S. has contributed 30-35 percent of estimated total CDF requirements. We believe that the U.S. should continue our present level of CDF contributions, including \$20 million channelled through the CDB, and be willing to consider selectively increasing our contribution. We tentatively estimate the annual need for \$20 million in additional special U.S. assistance for the Eastern Caribbean based on a U.S. contribution of 25 percent of total increased requirements for Barbados, Belize and the English-speaking Windward and Leeward Islands. (The balance of payment current account deficit for these countries in 1980 is projected by the IBRD to increase \$78 million over 1978 to a total of \$153 million). Support of the Eastern Caribbean stabilization program and continuation of the CDF would be contingent upon IBRD and IMF approval and Caribbean Group endorsement of country investment plans and fiscal programs, as well as commitments from other donors necessary for success of the program. The program would require self-help measures as appropriate to reduce consumption and increase national savings and investment in the productive sectors, reduction of government deficits, stimulation of the private sector and support from common services providing economies of scale at the regional and subregional level. Particular attention would be given to the development of key policy packages, such as fiscal policy, agricultural policy, energy policy and policies to stimulate private investment.

Within this framework, it is tentatively proposed that approximately \$10 million annually be provided for up to three years for a commodity import program for the LDCs involving essential inputs necessary to sustain private sector production and employment. Counterpart generation from these imports would become part of government budgetary resources and would be jointly programmed for development purposes, with priority to support of the productive sectors. It is proposed that up to an additional \$10 million be made available annually throughout the planning

period bilaterally to the Eastern Caribbean countries in support of priority sector programs where additional resources are required for activities that can best be carried out at the national or community level. (Such activities are discussed in more depth in the subsequent sector programs).

We recommend that financing be from Economic Support Funds (ESF) since the primary purpose of this program is to promote economic and political stability. Moreover, grant funding is required for the LDCs, and they cannot meet the 25 percent contribution required under Development Assistance. The continuance of the CDF and the provision of ESF support are essential if economic and political deterioration in the region is to be dealt with effectively.

The doubling of oil prices will also severely damage the prospects of development of other Caribbean economies. However, we consider it beyond the purview of RDO/C to unilaterally make recommendations concerning assistance to those countries additional to the previously planned CDF loan through the CDB, and consequently have made no provision for increases in the budget submitted.

D. Employment Generation and Productive Investment

The main theme of RDO/C's program, both long and short term, is directed at increasing employment and output in the productive sectors. In the short term, the program concentrates on maintaining to the extent possible the current levels of employment and production while the economies adjust to the higher cost of energy. For the longer term, the program is designed to promote the development of the private sector and to support those public sector activities essential to a viable private sector.

Interim Measures: The continuation of CDF and the recommended ESF program will enable the region's governments to maintain vital expenditure, both for capital and operating budgets as well as ensuring the flow of imports needed by the productive sector. While solving the employment problem will depend upon creating additional permanent jobs over the longer term, we propose a continuation and expansion of

the Basic Human Needs/Employment Sector project in the interim period. Under this project funds will be directed to labor intensive community development projects which protect, and in some cases extend, previous investments in primary and secondary roads, hospitals and clinics, and school and community buildings. Attention will also be given to the repair and expansion of water supplies and environmental sanitation facilities, small scale irrigation, drainage, reforestation, and land reclamation. The object would be two-fold: (1) the generation of jobs, and (2) the preservation of existing physical and social infrastructure in an attempt to insure at a minimum that social unrest does not grow and production is not inhibited by decaying physical infrastructure.

Longer Term Program: The Caribbean Group has created a special task force under the chairmanship of Arthur Brown, Deputy Administrator of UNDP, to review the role and structure of the private sector in the Caribbean and the contribution national and regional institutions can make to stimulating private sector development. RDO/C expects the task force recommendations will assist in defining a variety of initiatives which donors can support. RDO/C has also agreed to assist in financing a study of Caribbean women by the Institute of Social and Economic Research (ISER) University of the West Indies. Employment and skills requirements will be better understood as a result of this study.

Policy Analysis: Policymakers too often do not have the information nor the expertise to weigh clearly the employment impact of public investment much less the impact of public sector decisions (taxes, subsidies, interest rates, etc.) on the employment/capital mix in private sector investment planning. A grant project is now underway in the ECCM countries and Barbados to improve planning and analysis in the agricultural sector. RDO/C, working through the CARICOM Secretariat, plans to undertake employment surveys in member countries. We also propose to supply senior planners under contract to develop public policy recommendations for each Eastern Caribbean country aimed at boosting productive sector investment and employment.

Human Resource Development and Skills Training: In concert with other donors, we propose to provide assistance in organizing and financing of training programs for managers, technical personnel and skilled workers. This would include university level programs in management at UWI, vocational education in the secondary school system, and skills training programs for unemployed labor. Particular emphasis would be given to organization of youth and women in development in an attempt to bring an increasing number of these unemployed in the LDCs into the commercial/industrial society. The program will provide job placement service in coordination with national industry and commerce associations. A skills training program for unemployed youth in St. Lucia is expected to begin in FY 80 using Operational Program Grant (OPG) funds for a project designed and run by the National Organization for Social Responsibility, a U.S. PVO.

Use of Appropriate Technology: Several activities being assisted will encourage the utilization of technology appropriate to the region's labor supply and natural resources. The CDB is being assisted under an existing grant to establish a Technology Information Unit (TIU). The TIU will provide information on alternative technologies to public and private sector investors and will review loan requests to the Bank for the appropriateness of the technology to be employed. An AID grant to the CDB has also financed establishment of a Technology Research Fund (TRF) to finance pilot research and demonstration projects to test appropriate technologies. Funding for both of these projects will continue through the planning period.

Export Promotion: Although the public sector has an important facilitating role, we believe the private entrepreneurs of the region must take the lead in export promotion. Technical assistance training and other support will be considered for private sector groups (such as the Caribbean Association of Industry and Commerce) to identify and develop export markets for regionally produced goods. This assistance will be coordinated with the Caribbean Group which also has this area under active study.

Investment Promotion: While we have yet to explore all alternatives, we are contemplating a regional investment promotion body for the Eastern Caribbean modeled on successful experiences of the Industrial Development Corporation of Barbados. This organization would concentrate on promoting labor-intensive industries, joint ventures incorporating technology transfer and industries with significant backward and forward linkages in the region. An important part of its promotion effort would focus on assembly industries currently located in the Far East but wishing to relocate due to rising transportation and other costs and because of preferential import treatment afforded by CARICOM countries by the EEC. As part of the promotion effort, AID would support in-depth identification studies for product and service opportunities for the domestic and regional markets and product identification and cost comparison studies for foreign firms producing for the export market.

Private Financial Institutions: Public institutions have thus far been slow to meet the private sector requirement for loans and equity investment. We plan to work with other donors to provide a source of new non-public financing to serve the private sector financial needs, possibly by establishing an investment bank ("financiera") owned by the private sector, that would provide technical assistance and seed capital to create a stable and assured source of investment capital and financial services free from politics and government involvement. At the margin, this institution should strengthen the position and leverage of the private sector in seeking to bring about practical development policies and strategies in the LDCs.

Small Business and Informal Sector: To reach this sector, we plan to provide technical and seed capital assistance to the credit union and/or PVO movement in the Eastern Caribbean for an expanded credit program to small entrepreneurs including the many small sellers and producers who are employed in the informal sector, whose access to credit is restricted by lack of collateral. One such project for low-income women is being initiated in FY 80 on a pilot basis with OPG funds.

Infrastructure: There will be a continuing requirement for financing via the CDB for physical infrastructure in support of the private sector. Requirements have

already been identified for roads, port cargo handling facilities, storage capacity, factory shells and utilities needed to attract investors. Support of such requirements can best be handled by a contribution to the CDB Special Development Fund.

2. Agriculture

An agricultural development strategy based upon the provision of common technical services, shared pools of experts and investment capital through regional institutions has been initiated to reduce the decline in agricultural production, employment, rural incomes and at the same time alleviate the constraint on economic growth caused by increasing food imports. Bilateral projects will be initiated for the Eastern Caribbean to help countries draw on regional resources and to deal with country specific issues such as land reform and cooperative institutions. During FY 80, AID plans to participate in sponsoring a survey by U.S. private sector experts looking at agricultural problems in the Caribbean. Opportunities for promoting private sector development in agriculture through bilateral as well as regional projects will be carefully considered.

Problem areas in agriculture to be addressed by RDO/C in a phased multi-year program are as follows:

(a) Agricultural Planning: National and regional expertise in agricultural statistics, planning, project design and appraisal will be improved through a four-year project initiated in FY 79. The ECCM Secretariat, with assistance from Title XII institutions, will provide coordination and specialized technical services in planning and data collection, while national level agricultural planning offices will be established or strengthened to perform sector wide planning and project analysis.

(b) Research: An on-going RDO/C project assists the Caribbean Agricultural Research and Development Institute (CARDI) to strengthen its applied research capacity directed towards small farmers. CARDI has established country teams in the LDCs and begun adaptive on-farm research directed toward the development of economical multiple cropping systems. During FY 82-86, additional research initiatives will be considered to further strengthen CARDI's work on small farm

systems.

(c) Extension and Credit: An FY 80 Title XII project involving MUCIA will assist the development of national agricultural extension services as well as the regional extension outreach capacity of the University of the West Indies. This project, which will be undertaken in close cooperation with the Peace Corps, is linked to the CARDI Multiple Cropping Systems Research Project through national and regional coordinating committees. During the FY 82-86 planning period, efforts will be concentrated on improved delivery systems for providing information on farm credit, improved farming techniques, new crops, and marketing opportunities for small farmers. In addition, delivery systems and agricultural input requirements will be integrated with further credit assistance through follow-on lending in integrated agricultural development.

(d) Marketing, Agro-Industry and Infrastructure: The difficult and persistent problems associated with the disorderly and unreliable marketing systems for most agricultural commodities grown in the region will be addressed by programs with the CDB and the Caribbean Food Corporation (CFC). Priority will be given to investments, that will: (1) establish reliable access to regional sea transport services, (2) improve the physical handling and storage of agricultural products, (3) expand the food processing industry, and (4) create an efficient regional marketing information network. An area of special attention during the planning period is expected to be artisan fisheries. Programs in mariculture and inland fisheries, where technically feasible, may prove to be appropriate project activities, and experiences with projects in Jamaica, the U.S. Virgin Islands and elsewhere will be considered for replication.

(e) Agricultural Education: Throughout the Caribbean the early heritage of plantation farming based on slavery still negatively affects the perceptions of today's youth toward opportunities in agriculture. As a result, many young people leave the rural areas early, often with extremely limited opportunities in the urban areas. RDO/C will examine ways to develop constructive agricultural education institutions and programs.

(f) Bilateral Initiatives in Agriculture: National capacities to implement

projects are of particular concern. Poor planning, management and low skill levels at the individual country level seriously constrain implementation. It is likely that this weak absorptive capacity at the national level will continue to be a major problem during the planning period. To help ease this constraint, RDO/C will seek, through PVO grants as well as through contracts, technical assistance needed to move resources to the target group. All initiatives will be closely coordinated with the Peace Corps and where possible, Peace Corps Volunteers will be used.

During FY 80, the University of Wisconsin, Land Tenure Center, is scheduled to conduct a major regional seminar under CDB auspices dealing with land tenure in relation to agriculture and rural development. Individual country studies may ensue as a follow-up. Should credit be required to implement reforms, regional financial mechanisms are likely to be utilized. One approach under consideration is AID's Production Loan Guarantee Scheme.

Finally, bilateral assistance will be considered to strengthen farmers' associations, cooperatives, credit unions, women's groups and other grass roots organizations to help energize self-help and community efforts and stimulate private initiative.

3. Education and Human Resources Development

In FY 79, RDO/C initiated two major regional programs with the University of the West Indies School of Education and the Caribbean Examinations Council (CXC). Support to the UWI Faculty of Education will allow that institution to increase its technical assistance to the Ministries of Education and to develop more effective regional collaboration in educational planning, teacher education, curriculum revision and instructional materials development at the primary and secondary level. Assistance to the CXC will help it to administer regional exams efficiently and develop teaching materials, and will place a heavy emphasis on practical subject areas such as agricultural, technical and business education as well as home economics. Eleven Commonwealth Caribbean countries are participating in the primary education program and fourteen in the secondary. A third program element --

assistance with the construction and refurbishing of primary schools -- is open only to the LDCs. The CDB will continue to administer this component.

The second program, also initiated in FY 79, is in-service training directed at public and private sector employees to improve their managerial and technical expertise. Both short and long term individual training grants in the U.S. and the Caribbean will be administered by the CARICOM Secretariat. The project will also develop a capacity in the ECCM to provide technical assistance and training to its member governments so that they in turn can provide public sector training. Both ECCM and CARICOM will also provide Special Focus Seminars on important development topics. If the participating institution perform reasonably well in achieving the objectives of the newly initiated projects, logical follow ons during the planning period include; (1) curriculum development and school building construction and equipment procurement for the junior secondary schools, which for the majority of youth is the highest level of education attained prior to leaving school, with a focus on practical, pre-vocational training, and (2) equipment procurement and room renovation to accomodate vocational education programs at comprehensive senior secondary schools. Within the field of vocational education, an analysis and rationalization of agricultural education at all levels of the education system, including the preparation of agricultural teachers, will be conducted.

To supplement these long term regional efforts, RDO/C plans to initiate programs in non-formal education, particularly for out-of-school youth and young adults, on a bilateral basis in selected countries of the region. These will be geared to the specific and expressed needs of these countries and emphasize occupational skill training leading to income generating activities, and other types of skill training programs.

Under the Caribbean Education Development Project funds have been provided to UWI to assist the LDCs and Barbados in updating and refining their educational plans. It is anticipated that as a result of this educational planning exercise national needs and priorities will be identified. At the same time further

experience with regional institutions and increased knowledge about national institutions capable of carrying out regional activities will be acquired. It is in this context that the mix of RDO/C educational assistance -- formal/non-formal, bilateral/regional -- will be determined.

4. Health

Health transcends both geographic and geopolitical boundaries as does no other sector. Given the extent of tourism in the area, it is in the interest of the United States as well as the Caribbean countries to cooperate to effectively combat the spread of communicable disease. The health sector lends itself to common services. A cogent example is the Caribbean Epidemiology Center (CAREC) in Trinidad which provides back up support to any country when it encounters an outbreak of disease. By the time AID assistance to CAREC terminates in 1982, a fully functioning network of laboratory support, epidemiological surveillance and training should relieve individual national budgets of some health sector costs with no reduction in standards of service. Working to improve health care in the face of growing financial constraints, AID's Basic Health Management Training Project with CARICOM is responding in nine countries to the number one need expressed by the CARICOM Health Ministers, "the need for more dynamic and creative management of health services".

RDO/C will continue to support health management and services at the regional and national level and will draw upon the considerable experience of the PVO community in doing so. An OPG with the National Council for International Health is being considered which would identify the most urgent vacancies of technical personnel and provide operational personnel (with a training role) to ease serious shortages on an interim basis. The same OPG will strengthen CARICOM's capacity to play an increased role in regional health manpower planning. In addition, regional training of health workers will be a necessary requirement in the foreseeable future, and an initial effort with Project HOPE is planned for FY 80.

Finally, environmental health, particularly safe water and solid waste disposal,

remains a top priority of the CARICOM Health Ministers. AID assisted in the development of the Caribbean Environmental Health Strategy. Much remains to be done to put the strategy into operation. CARICOM hopes to open an Environmental Health Institute early in the 1980's which would focus on the needs of the LDCs. Environmental health is a likely area for future RDO/C involvement.

5. Population and Family Planning

RDO/C will proceed during the 1982-86 period to develop a program of support both in demographic analysis for development planning and in delivery of family services through existing channels, e.i. national affiliates of the International Planned Parenthood Federation (IPPF).

AID plans to assist regional and national development planners to be able to better utilize the information generated by 1980 censuses and other sources, to be able to project population trends from 1980-2000, and to engage in more realistic planning for the demand for energy, employment, education, housing, health and other areas. Neither CARICOM nor CDB have the capacity to fully analyze demographic variables. They must turn to regional research groups such as the Institute for Social and Economic Research at UWI for such expertise. There is a growing interest in population in the Caribbean by such groups as the UNFPA, UN-ECLA, and the ILO and close cooperation with these organizations will continue to insure that duplication of efforts is avoided. In the meantime, through OPG support to such private sector groups as the Caribbean Family Planning Affiliation, family planning services as well as information and education will be promoted at the regional and country levels. The large and successful Jamaica family planning program will be examined to identify activities warranting replication.

6. Other Selected Development Activities: Energy/Environment

High priority must be accorded to energy programs that will reduce dependence on imported hydrocarbons through conservation and development of alternative sources. The high cost of energy continues to be a major obstacle to economic progress in the region. Most of the countries rely almost exclusively on conventional fossil

fuel based systems for electricity generation and transport. As a result, Caribbean producers and consumers have suffered the full impact of fuel price increases. The direct and indirect impact on the poor has been substantial. Not only have they had to absorb increased energy prices in a higher cost of living, but they also have faced curtailed employment opportunities. Yet the region is endowed with a number of alternative and renewable sources of energy (solar, wind, biomass, geothermal, ocean, etc.) which hold potential for exploitation and productive use.

Assistance in the energy sector is being closely coordinated under the Caribbean Group and it is anticipated that the international financial institutions will play the major role in financing of conventional power systems.

An RDO/C regional project now underway with CDB and CARICOM in alternative energy systems is designed to help national and regional bodies assess alternative energy resources available to the Caribbean. The project will also assist in policy planning and energy conservation. Technical assistance and training will be provided to expand local capacity for energy analysis and management and to conduct field testing of renewable energy technologies. Based on such pilot efforts, loan funds will be provided in future years to finance adoption of these alternative systems on a broader and economically significant scale. Jamaica, Dominican Republic, and Guyana also anticipate energy projects in the near future which will supplement activities of the regional program. By the end of the planning period it is expected that a formal network of information and technical assistance exchange will be in place which will permit collaboration among Spanish, French and Dutch-speaking Caribbean countries as well as CARICOM members.

As an important secondary area of emphasis, RDO/C plans to initiate an activity in natural resource management and environmental protection by the beginning of the planning period. A growing awareness and concern exists in the region of the need to incorporate environmental policies and planning into overall development goals, but adequate institutional structures, legislation and technical expertise to deal

with the problem are generally non-existent. UNDP has conducted a variety of studies of Caribbean environmental needs and in 1978 developed a draft action plan. However, currently no environmental program is underway. RDO/C expects to initiate during FY 1981 a program leading to development of regional strategy guidelines, policy and project identification in such areas as industrial and solid waste and water and beach pollution. Management of natural resources such as forests and soils will also be treated as areas of 1982-86 project development.

Because of the persistent threat of hurricanes and seismic disasters in the Caribbean, preparedness and reaction to natural disasters reflect another important area for regional collaboration. Cooperation in disaster preparedness is on the increase. The AID sponsored Caribbean Disaster Preparedness Seminar last June was attended by most Caribbean countries and resulted in dialogue which continues with a committee promoting national disaster preparedness plans. Another regional conference is scheduled for 1980 in the Dominican Republic and further follow-up activities are expected during the planning period.

Assistance to the American Institute of Free Labor Development in support of initiatives of the Caribbean Congress of Labor also is anticipated. For example, consideration will be given to USAID/Jamaica's proposal for a regional impact housing project through the Caribbean Congress of Labor.

E. IDCA Issues

The success of the development program proposed in the CDSS will be affected by a number of factors which help define the relationship of the U.S. Government with the Caribbean. RDO/C believes a number of issues warrant review:

1. Membership in Caribbean Development Bank: AID has authorized about \$128 million in loan and grant assistance to the Caribbean Development Bank since its inception in 1970, roughly one-third of total Bank resources. The other major bilateral donors to the Bank - the U.K., Canada and Venezuela - are members of the CDB. Given the magnitude of U.S. support of the CDB and the expected continuing involvement, RDO/C recommends that the issue of USG membership in the Bank be reexamined. In doing so, possible reservations on the part of member countries and members of Congress should be taken into account. An alternative that could avoid a major change of the capitalization and voting structure of the CDB would be the establishment of a CDB administered Caribbean Development Fund with USG representation on the Board of the Fund.

2. Special Trade/Investment Relationship: It has long been apparent that expansion of trade is essential to economic growth and increased employment opportunities in the Caribbean. To assist development seriously, trade and aid policies must be complementary and mutually reinforcing. It is recommended that consideration be given to establishing special trade, aid and investment agreements with Caribbean countries similar to the Canadian - CARICOM agreements. Such agreements could establish a structure for mutually expanding trade opportunities, industrial cooperation and related private investment as well as technical and capital assistance. They could provide a structure for discussing, on a manageable bilateral or sub-regional basis, issues relating to trade preferences, import controls, foreign investment codes, sharing of technology, etc. As part of this consideration, the United States should carefully study the possibility of special arrangements that would expand access to the U.S. market for such items as winter vegetables and small manufactured goods. With respect to the latter, there could

be consideration of liberal textile quotas and other actions such as reduction or elimination of tariffs on products made from U.S. components assembled in Caribbean countries. The following paragraphs outline other areas of special interest to Caribbean countries.

3. Agricultural and Trade Issues: Certain USG policies are effecting agricultural development in the region. These issues are raised in other Caribbean Mission CDSS's as well. Sugar is a common concern. Most sugar exporters in the Caribbean are critical of U.S. policy with regard to the high level of duties and fees imposed on sugar imports. The Barbados and St. Kitts/Nevis economies depend heavily on the production of raw sugar for export. Twenty-five percent of the labor force in St. Kitts/Nevis is employed directly in the sugar industry and a considerable portion of Barbados's unskilled labor force is employed by the sugar industry during the harvesting season. Both countries sell sugar to the U.S. and each receives some concessions through the Generalized System of Preference (GSP). The preference prices, however, have been lowered over the past two years, reducing the net prices paid to these countries for raw sugar. RDO/C recommends reviewing the status of GSP in relation to Caribbean sugar exports in an effort to further integrate U.S. assistance policies. A reexamination of USG policy not to assist the sugar industry is also recommended as it pertains to the Eastern Caribbean. St. Kitts, in particular wants assistance in overcoming the effects of sugar smut disease.

Rum is another product which earns foreign exchange in the Caribbean. It is taxed at a level greater than that of scotch whiskey coming from developed countries, thus concessions here would also lead to better economic performance.

Faced with increased prices for imported foodstuffs, the countries of the Eastern Caribbean must seek to increase production of locally consumed food and expand agricultural export opportunities. Peanut oil, coconut oil, other palm oils and citrus all have potential in the region as products for import substitution and intra-regional trade. RDO/C would like to assist the development of these

industries but is constrained by the reluctance of the USG to support production potentially competitive with the U.S. Assistance efforts would concentrate on building up production to substitute for costly imports. Development of an extra-regional export industry especially in edible oils is not a prospect in the foreseeable future.

4. Export/Import Bank: Currently there appears to be little interest on the part of Ex-Im to provide financing in the Eastern Caribbean and there have been no recent transactions. An important factor in the Bank's reticence toward the region is the the economic outlook and poor experience in at least one LDC. Ex-Im Bank terms are not likely to be appropriate for most of the development finance requirements of the LDCs, but may be suitable for some productive sector imports, particularly in Barbados. The Mission recommends a review of Ex-Im criteria for lending as they pertain to Barbados and other countries of the region.

5. Overseas Private Investment Corporation (OPIC): Although Barbados and the other islands of the Eastern Caribbean have active investment guarantee agreements with OPIC, there has been very little activity in the last three years. The total program for the Eastern Caribbean is \$1,109,121 and represents only .03 percent of the OPIC world-wide total. There has been no recent review of program possibilities or opportunities for more active OPIC involvement in promoting U.S. investment in the region. The Mission recommends early exploratory visits by appropriate OPIC officials.

F. Opportunities to Increase Efficiency

The Administrator's CDSS guidance requested specific discussion of a number of measures intended to increase AID's efficiency. Various of these measures are already in operation in RDO/C and will be increasingly evident by 1982. Measures applicable to this Mission are discussed below.

1. Enhance the Use of Intermediaries and Exploit Host Country Capacity:

RDO/C's long range strategy is predicated on the use of regional intermediaries

as the main vehicle for delivering the program. These institutions are staffed almost entirely by West Indian professionals. Continued development of these institutions will be complemented by bilateral efforts to promote their involvement. Even in the short term, a strong PVO program is planned which will permit country specific activities of significant scale without permanent AID staff resident in the country. In the out years of the planning period the regional intermediaries are expected to achieve sufficient strength so that these institutions will be able to serve additional development requirements in such countries as Jamaica and Guyana, thus achieving further efficiency in the delivery of overall AID assistance in the Caribbean.

2. Reduction of Management Units and Replication: Initiation of bilateral programs for the small states of the Eastern Caribbean will involve a multiplication of management units, and the management burden will increase. The strategy for keeping project proliferation to a minimum in the circumstances, is to replicate individual programs wherever feasible, in some cases having contract or PVO project staff serve more than one island under a specific project. In addition, economic stabilization programs are not personnel intensive in comparison to their size as management units. Support to the Special Development Fund of the CDB rather than "projectizing" aid through the CDB would also reduce management units.

3. Complementary Relationships with Other Donors: Considerable progress has been made in coordinating donor programs through the Caribbean Group. All the resources committed to the CDF have supported, and will continue to support, projects of various key donors. Joint programming is planned or being discussed with Peace Corps, EEC, CIDA, BDD and UNDP. Consensus has been reached between AID, CIDA and the Caribbean Confederation of Credit Unions (CCCU) to finance jointly a regional credit union development program; discussions have been initiated to explore joint or complementary projects with EEC, BDD and UNDP; and Peace Corps has begun to assign and program volunteers to AID-assisted projects. Success in these initiatives should result in additional joint efforts throughout the 1980's.

4. Sector Concentration: RDO/C's emphasis on employment generation and rural development constitutes a strongly concentrated program. Attention to basic health, population and education services in the context of economic recovery and productive investment is intended to achieve greater efficiencies, sustain basic health services to the poor, reduce population growth in light of already high levels of unemployment, and strengthen programs of training and education which are basic to employment and to improved management. RDO/C programs in the health and education sectors constitute roughly 3 percent and 5 percent respectively of the five-year PAPL. In addition they are being, and will continue to be, implemented through intermediaries. Productive employment and agriculture, along with the economic recovery program account for nearly two-thirds of the five-year program. Energy and environmental programs account for the rest.

PART III. PROPOSED ASSISTANCE PLANNING LEVEL

The Proposed Assistance Planning Level (PAPL) of \$299.2 million for the period 1982-1986 represents a strong commitment to a continued U.S. leadership role in the Caribbean Group, with both a magnitude and a structure which is intended to impact on the most critical development problems of Caribbean countries during the 1980s. The AID program proposed is a vital element in promoting continued Caribbean commitment to human rights and democratic institutions, which are being threatened in the wake of growing frustration arising from economic stagnation and expanding unemployment. While attacking some of the most urgent economic and social development needs with relatively quick impact, bilateral programs, the emphasis on fostering regional approaches to common problems, remains the cornerstone of the long range strategy.

The proposed program includes three major interrelated components: (1) an economic stabilization/recovery component; (2) a longer term regional institutional development component; and (3) a short to medium term complementary bilateral program for the Eastern Caribbean countries.

Ample resources to support a Caribbean Group stabilization program are necessary if the effects of inexorable oil price increases and worldwide inflation on extremely vulnerable island economies are to be mitigated and a downward spiral averted. Support of the Eastern Caribbean stabilization program and continuation of the CDF would be tied to IBRD and IMF approval and Caribbean Group endorsement of country investment and fiscal programs, as well as commitments from other donors, particularly oil producing countries, necessary for success of the program. Our resources would be directed primarily toward maintaining the activity of productive sectors to sustain employment and provide the base for economic recovery and growth.

Parallel with CDF and ESF stabilization programs, the regional program will focus on productive employment and growth by supporting private sector development in both agricultural and small and medium scale industry. Export development and marketing programs are planned to include joint efforts among all CARICOM members. Priority will also be given to energy planning and conservation as well as development of

alternatives to oil dependency. The program of human resource development is designed along with regional economic planning and public administration services activities, to feed these important sectors or problem areas with the necessary technical workforce and management capacity needed to sustain growing programs on a regional scale.

The flow of PAPL resources in which levels of CDF and ESF support are eventually taken over by project assistance in key sectors, reflects the anticipated increase in the absorptive capacity of important regional institutions, with increased project opportunities in the agricultural and employment generating sectors as economic stability is achieved and new initiatives take shape within the framework of the Caribbean Group. Development Assistance levels reflect increasing involvement of the MDC's as they regain financial strength and, as the CDB and other regional institutions increase their capacity to serve the needs of the region more broadly. This increase will be concurrent with the projected phase down of bilateral programs in Jamaica and Guyana in the latter part of the planning period. The high assistance levels in relation to per capita income and population are considered necessary at this time to support U.S. interests in political stability, human rights and free institutions, as well as economic development.

Bilateral programs are recommended for the seven LDCs and Barbados at a level of \$10 million per year. The bilateral program will be coordinated closely with the Peace Corps and maximum use will be made of PVOs to achieve significant grass roots, people-to-people contact not attainable through most regional institutions. These quicker impact programs, as described in Part II, will serve to meet critical needs not immediately conducive to regional responses.

The PAPL includes \$11.0 million in grant funds in FY 82 for projects which have received, or will receive, approval prior to the planning period. This same carry-over requirement for FY 83 is \$9.5 million and for FY 84 about \$5.5 million.

The Indicative Planning Allocation (IPA) formula which results in a projected \$10.0 million dollars for Caribbean regional programs in year five of the planning period, does not take into account the many factors which combine to make the Caribbean

important to the U.S. national interest. In addition, the IPA level would rule out the necessary support to regionalism that must be sustained to achieve the institutional and cooperative base which increasingly can deal with common problems and realize economies of scale among small island states with limited resources. ESF has been recommended as a supplemental tool for the program. However, ESF resources could not adequately offset the gap between PAPL and IPA levels, even if relatively high levels of ESF were available. A multi-year commitment to institution building is needed in concert with the more immediate individual country requirements to be addressed with an ESF program.

An additional critical drawback in a level approximating the IPA is the adverse effect it would have on the other donors in the Caribbean Group. Substantial resources have been mobilized since creation of the Group, and the United States took the lead in calling for a strong partnership among donors and a broad multilateral response to the needs of the region. Existing momentum would almost certainly begin to crumble with a perceived reduction in commitment to the area by the United States.

Staffing Implications

One year ago there were no plans to initiate bilateral assistance to the small states of the Caribbean. Staffing projections were predicated on continued use of regional intermediaries as the sole method of implementing the program. However, the recommended bilateral program, embracing at least seven countries that have extremely limited project preparation and implementation capacity, will require a significant increase in staff resources. Anticipating a continuing portfolio of 25 - 30 projects, the average of four to six new projects per year projected in the last CDSS will more than double. Even with maximum use of PVO grants, Peace Corps participation, and contract assistance there will be a need to assign qualified officers to coordinate programs for the individual islands. RDO/C's 1980 ceiling of 17 USDH (including a regional legal advisor and one officer serving with the JAO), three IDIs and ten FSN professionals cannot take on the proposed program. We foresee the need by FY 1982 for at least four "country coordinators", a PVO officer, an assistant

program economist, and an assistant controller, bringing the USDH level to 24. In addition to this, a continuing complement of three IDIs is required. We also anticipate the need for 35 FSNs, including four additional professionals (one to work with PVOs, one for capital development and two accountants), plus six new secretarial and administrative staff. This will allow organization of staff for geographic as well as institutional and functional responsibilities.

In an effort to keep direct hire personnel levels at a minimum, RDO/C plans to make maximum use of contractual arrangements in designing approaches to new projects. We are also exploring the possibility of using PASA arrangements, particularly in energy and agriculture. It must be realized, however, that even with personnel saving approaches such as increased use of intermediaries, second generation projects, and larger projects, a program that respond to the pressing needs of these small island economies, as well as to the desire to provide a visible demonstration of U.S. interest via bilateral relationships, does not lend itself easily to increased operational efficiencies.

Coordination With Other USAID Missions:

Effective regional project design and implementation also require that RDO/C coordinate closely with U.S. bilateral AID Missions in the Caribbean. This involves (1) early consultation in the planning process and joint review of one another's presentations (ABS and CDSS) to avoid conflicts and maximize the regional impact of both regional and bilateral projects; (2) involvement of representatives from the bilateral missions in the preparation and review of RDO/C PIDs and Project Papers, and (3) close coordination in project implementation with bilateral missions providing support, to the extent that professional expertise is available, in project monitoring, reporting and evaluation. To maximize the regional potential of bilateral projects, coordination, particularly at the PID stage, should also focus on how bilateral projects might be designed to have a positive impact on regional integration. Periodic meetings of principal AID officers, program officers and division chiefs assigned to regional field missions will be encouraged.

PROPOSED ASSISTANCE PLANNING LEVELS - REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

	<u>Fiscal Years (\$000)</u>					<u>TOTAL</u>
	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	
<u>Economic Recovery</u>	30,000	30,000	10,000	-	-	<u>70,000</u>
CDF Loans	20,000	20,000	-	-	-	40,000
ESF (Eastern Caribbean Stabilization)	10,000	10,000	10,000	-	-	30,000
<u>Agriculture</u>	9,500	3,000	3,000	23,000	3,000	<u>41,500</u>
Project Loans	6,000	-	-	20,000	-	26,000
Common Services/Institutional Building Grants	3,500	3,000	3,000	3,000	3,000	15,500
<u>Education and Human Resources Grants</u>	2,000	2,000	3,000	3,000	3,000	<u>13,000</u>
Common Services/Institutional Building/Training	2,000	2,000	3,000	3,000	3,000	13,000
<u>Health and Population Grants</u>	1,800	2,000	2,000	1,000	1,000	<u>7,800</u>
Delivery Systems, including FP	1,000	1,000	1,000	500	500	4,000
Common Services/Institutional Building/Training	800	1,000	1,000	500	500	3,800
<u>Productive Employment</u>	4,000	10,000	18,500	18,000	18,000	<u>68,500</u>
Intermediate Credit	-	6,000	-	15,000	-	21,000
Common Services/Institutional Building Grants	4,000	4,000	3,500	3,000	3,000	17,500
CDB Special Development Fund Loans	-	-	15,000	-	15,000	30,000
<u>Regional Economic Planning Grants and Common Public Administration Services</u>	1,000	1,500	1,500	1,500	1,500	<u>7,000</u>
<u>Alternative Energy Sources</u>	1,500	1,500	11,500	2,000	17,000	<u>33,500</u>
Project Loans	-	-	10,000	-	15,000	25,000
Common Services/Institutional Building Grants	1,500	1,500	1,500	2,000	2,000	8,500
<u>Environmental Management/Conservation</u>	700	700	500	500	5,500	<u>7,900</u>
Project Loans	-	-	-	-	5,000	5,000
Common Services/Institutional Building Grants	700	700	500	500	500	2,900
<u>Multisector Eastern Caribbean Bilateral Grants</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>50,000</u>
SUB-TOTALS (DL)	26,000	26,000	25,000	35,000	35,000	147,000
(DG)	14,500	14,700	15,000	14,000	14,000	72,200
(ESF)	20,000	20,000	20,000	10,000	10,000	80,000
GRAND TOTAL	60,500	60,700	60,000	59,000	59,000	299,200

CARIBBEAN COUNTRIES: GROSS NATIONAL PRODUCT

<u>Country</u>	<u>Population (000) Mid 1978(P)</u>	<u>Rate of Unemployment</u>	<u>GNP at Market Prices</u>	<u>GNP Per Capita</u>	<u>Growth Rate %</u>	
			<u>(US\$ Millions)</u> 1978(P)	<u>(US \$)</u> 1978(P)	<u>Population</u> 1970 - 1977	<u>GNP Per Capita (real)</u> 1970 - 1977
<u>CARICOM</u>						
<u>Lesser Developed Countries</u>						
Belize*	132	N/A	110	840	0.9	4.7
St. Lucia*	120	18.0	80	630	2.3	0.7
Grenada*	106	20.0	60	530	1.8	-3.2
St. Vincent*	105	18.0	40	380	2.3	-2.2
Dominica*	77	23.0	30	440	1.2	-4.1
Antigua*	74	20.0	70	950	1.3	-3.7
St. Kitts-Nevis*	50	13.5	30	660	0.9	1.6
<u>CARICOM</u>						
<u>More Developed Countries</u>						
Barbados	250	13.5	490	1,940	0.5	2.6
Guyana	836	19.5	460	550	2.0	0.4
Jamaica	2131	26.0	2,350	1,110	1.7	-2.0
Trinidad and Tobago	1137	N/A	3,310	2,910	1.2	1.5
<u>OTHERS</u>						
Bahamas	218	N/A	570	2,620	2.7	-7.2
Dominican Republic	5128	24.0	4,680	910	3.0	4.6
Haiti	4831	N/A	1,240	260	1.7	2.1

* Estimates of GNP per capita and growth rate are tentative
(P) Preliminary
N/A Not Available

CARICOM COUNTRIES: DIRECT INCIDENCE OF OIL IMPORTS

COUNTRIES	In US\$ Million				In % of GDP			
	Oil Imports		<u>Balance of Payments Current Account Deficit</u>		Oil Imports		<u>Balance of Payments Current Account Deficit</u>	
	1978	Projected 1980*	1978	Projected 1980*	1978	Projected 1980*	1978	Projected 1980*
(Antigua)	6.5	14.8	8.0	14.0	9.0	16.6	11.0	14.7
(Dominica)	1.7	3.6	5.2	8.6	4.5	9.6	13.8	23.0
(Grenada)	3.3	7.1	0.1	7.3	5.8	12.5	0.2	9.9
(Montserrat)	0.8	1.8	4.5	4.8	5.7	10.6	31.6	38.5
(St. Kitts/ Nevis)	2.0	4.6	6.0	7.5	6.0	11.1	14.2	20.7
(St. Lucia)	5.4	12.3	28.0	24.2	6.2	13.3	32.3	26.2
(St. Vincent)	2.3	5.3	3.4	14.4	5.0	8.6	7.4	23.4
Barbados	20.4	39.6	4.7	38.3	4.0	5.8	0.9	6.1
Belize	<u>11.0</u>	<u>25.8</u>	<u>15.6</u>	<u>34.5</u>	9.1	16.4	13.0	22.0
SUB-TOTAL (Barbados and the LDCs)	53.4	114.9	75.5	153.6				
Bahamas	70.0	164.3	-46.6	-8.2	10.3	17.6	-6.9	-0.9
Guyana	66.7	149.1	27.5	66.7	13.4	22.1	5.5	9.1
Jamaica	<u>200.3</u>	<u>422.0</u>	<u>138.1</u>	<u>105.0</u>	8.0	14.2	5.5	3.5
GRAND TOTAL	<u>390.4</u>	<u>850.7</u>	<u>194.5</u>	<u>317.1</u>				

* These figures are based upon IBRD projections prepared in early 1980 taking into account the direct impact of the oil price increases on the balance of payments. (Assuming a 117% increase between the 1978 average and 1980 average). They assume zero economic growth for Jamaica in 1980 and reduced or no growth for most of the rest of the countries. Achievement of growth rates previously projected by IBRD in conjunction with the Caribbean Group analysis would involve significantly higher current account deficit.

CARICOM LESSER DEVELOPED COUNTRIESSELECTED ECONOMIC INDICATORS1977

	<u>GNP Growth Rates</u> <u>Per Capita 1970-</u> <u>1977* (%)</u>	<u>Consumption as %</u> <u>Of GDP</u>	<u>Imports as %</u> <u>Of GDP</u>	<u>Government Budgets</u> <u>US\$ Million</u>			
				<u>Trade</u> <u>Balance</u>	<u>Domestic</u> <u>Revenues</u>	<u>Operating</u> <u>Expenditures</u>	<u>Govt.</u> <u>Savings</u>
Antigua	-3.7	100.0	70.5	-35.6	10.9	14.5	-3.6
Belize	+4.7	89.8	91.2	-28.0	22.0	19.2	+2.8
Dominica	-4.1	99.6	65.5	N/A	** 7.4	** 9.3	** -1.9
Grenada	-3.2	97.0	65.4	-17.1	12.2	12.4	+ .2
Montserrat	N/A	101.6	76.6	- 5.7	2.7	3.1	- .4
St. Kitts/Nevis	+1.6	108.8	80.8	-11.9	10.3	9.9	+ .4
St. Lucia	+0.7	83.8	95.5	- 35.9	***18.1	***17.3	***+ .8
St. Vincent	-2.2	127.5	102.5	-20.4	***12.4	***11.1	***+1.3

* World Bank Atlas 1979

** 1976 - 1977

*** 1977 - 1978