

USAID/Caribbean Regional Program

Annual Report

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Caribbean Regional Program

Performance:

Background: Despite inherent similarities, the Caribbean is extremely diversified in terms of demographics and levels of economic and social development. This poses a tremendous challenge to USAID's Caribbean Regional Program in terms of program design, oversight, and implementation. Most Caribbean countries have deeply-rooted democratic institutions with freely contested elections and uninhibited expression of views. Freedom House gives a rating of "free," with good scores for both political rights and civil liberties, to all of the Caribbean countries except Cuba and Haiti. Nevertheless, even in the strongly democratic countries there are problems. In several, deep partisan traditions mar the political process, and the process is often vulnerable to extraneous elements, for example international crime, money laundering, and drug trafficking.

CARICOM, the most prominent Caribbean regional organization, operates by consensus of the heads of government of the member countries and is often cumbersome in action. Current emphasis remains on the elusive goal of establishing a single market and economy, with no near-term prospect of political union. Although many regional organizations have been established within CARICOM, few receive adequate funding from member governments and most depend heavily on external support.

The small but relatively evenly matched members of the Organization of Eastern Caribbean States (OECS) have made the most progress toward integration. They have established a successful monetary union, an Eastern Caribbean Supreme Court, and several joint diplomatic missions. Recently, with USAID support, they collaborated on common reforms in the area of telecommunications and established an Eastern Caribbean Telecommunications Regulatory Authority. Even as regional integration offers a way of overcoming some of the disadvantages of small size, sensitivity over national sovereignty, coupled with a pervasive sense of vulnerability among the smaller states, continues to be an obstacle to integration. Accustomed to trade preferences, the countries' focus on "special and differential" treatment is delaying their action on the difficult steps they might take to improve their competitive position.

The Caribbean's economy as a whole has performed well over the last three decades in both overall and per capita growth, but intra-regional differences remain and the gap between the highest and lowest per capita incomes in the region has increased. Contributing to the Caribbean's per capita growth performance is its relatively low population growth rate, which has been stable at between 0.3 and 0.4 percent. The main source of economic growth in the Caribbean, in most cases, has been the services sector, with wholesale and retail trade (including hotels and restaurants) the most dominant component. Services contribute more than 50 percent of Gross Domestic Product (GDP) in all countries except Guyana and Haiti. Agriculture, meanwhile, has been in decline and exceeds 25 percent of GDP only in Guyana and Haiti. Overall, the contribution to growth of the services sector has risen from 35 percent in the 1970s to nearly 70 percent in the 1990s.

The small islands of the Eastern Caribbean are particularly vulnerable to environmental degradation and natural hazards. Throughout the sub-region, insufficient attention has been given to land-use and building planning as well as policies and practices that would reduce risks and limit the negative impact of human activity on natural assets. Environmental quality is deteriorating throughout the sub-region and natural disasters continue to set back development efforts.

There are significant variations in the region with respect to the percentage of the population below the national poverty line. Haiti has the highest poverty rate at 53 percent, which is consistent with the below average social indicators of its citizens. Barbados has the lowest rate of poverty at 13.9 percent.

True to the diversity of the region, public spending on education varies from 9.3 percent of GDP in Guyana to 1.4 percent of GDP in Haiti. This is reflected in Haiti's regional high 50 percent rate of illiteracy contrasting with Guyana's low 1.5 percent rate of illiteracy. In the OECS countries, public sector investment in education has declined with some deterioration in physical structures. Primary level education is universal across the sub-region, but secondary school enrollment rates are much lower, meaning that many young persons leave the education system with minimal literacy and numeracy skills. Only a small portion of secondary graduates succeeds in certifying examinations giving access to the tertiary level. Lack of technical and vocational training leaves most secondary graduates without the practical skills appropriate to the job market or active entrepreneurship.

AIDS is a serious problem in the Caribbean - a developmental challenge with implications far beyond medical and health concerns. The Health Economics Unit at the University of the West Indies estimates that in 2005 over 4 percent of GDP in Trinidad and Tobago and 6 percent in Jamaica could be lost due to AIDS. At the end of 2002, the adult HIV/AIDS prevalence in the Caribbean of 2.4 percent is surpassed only by Sub-Saharan Africa. Within the Caribbean region, prevalence rates vary, but rates are climbing. For example, between 1999 and 2001, Jamaica's rate rose from .71 to 1.2 percent. Social patterns of early sexual initiation and multiple partners increase the risk and, increasingly, women are infected in greater numbers than men.

U.S. Interests and Goals: In the Caribbean, U.S. national interests have been guided by the 1997 Barbados Summit accords, which committed the United States and Caribbean nations to implement plans of action that promote free trade and economic development, safeguard the natural environment, and enhance justice and security. The large number of U.S. citizens of Caribbean origin, the region's proximity to the United States, and its importance as a U.S. tourist destination mean that joblessness, the HIV/AIDS epidemic, drug trafficking, environmental degradation and recurrent natural disasters directly affect U.S. security and well-being.

Donor Relations: Canada (CIDA) has substantial regional and bilateral programs in the Caribbean focusing on economic competitiveness, trade policy, financial sector reform, institutional strengthening, disaster management, gender equity and HIV/AIDS. For the Eastern Caribbean sub-region, current CIDA projects include economic management, trade policy, small enterprise development, environmental capacity, education reform, and judicial and legal reform. The key objective of the British Department for International Development (DFID) in the Caribbean is to help the region reduce poverty and meet the challenges of globalization. In addition to economic integration and trade, DFID assistance includes HIV/AIDS, public sector reform, education, environment and justice. The European Union provides significant resources for agricultural adjustment and development through its STABEX fund. Private sector development is the second main area of EU development assistance. Japan, France, China and Kuwait, among others, also provide bilateral economic assistance to the region.

United Nations agencies are assisting the region in health and combating HIV/AIDS, constitutional reform, and disaster management. The Caribbean Development Bank (CDB) and the World Bank are the main international financial institutions engaged in the region. The CDB finances roads, transport, education, and disaster management. The CDB is implementing the Disaster Mitigation facility for the Caribbean with funding from USAID's Office of Foreign Disaster Assistance (OFDA). The Special Development Fund of the CDB provides concessionary loans and grants targeted to poverty reduction. The CDB has recently taken on leadership of the main forum for donor coordination in the region. World Bank programs include financing for education, environment, disaster/risk management and telecommunications reform. The Inter-American Development Bank has programs in a few of the larger countries, but reaches the smaller ones through the CDB.

Challenges: The development challenge of the countries of the English speaking Caribbean is characterized by their vulnerability to natural disasters, due to their small sizes, and their heavy dependence on external trade, especially under preferential trading regimes. This is an addition to the potentially destabilizing effects of the HIV/AIDS epidemic, which has reached the world's second highest prevalence rate at 2.2% at the end of 2001 behind Sub-Saharan Africa.

The small market and limited production capacity of the region, even taken in its entirety but exacerbated by dispersal among small states, means that it is less able to build a broad, diverse base of products. With small domestic markets, the region has to be export-oriented and has little to buffer global conditions. Attitude itself is an area of vulnerability. The region has grown used to reliance on trade preferences and the feeling of vulnerability makes the region more "risk averse", which can obstruct useful change. The region faces significant disruptions of livelihood as it adjusts to WTO rules and FTAA and possible IMF regimes (as Dominica already faces). A stronger safety net is needed. Several islands are pooling resources in a stabilization fund, but their total resources are still low.

Many of the islands and coastal nations of the Caribbean are prone to natural disasters, especially hurricanes and flooding. Because of their size, the small countries also have less redundancy in their lifeline systems and have a high proportion of their resources exposed to loss in a single event. The natural resource base of the region - sea and land - is a valuable but fragile asset. It is vulnerable to degradation, including negative impacts from the economic activities that depend on this base - tourism and agriculture. The region depends heavily on imported energy and has suffered from severe cost shocks, while shipping oil through the region poses a risk of spills. More investment is needed to develop alternative and renewable energy sources. Although there is widespread recognition of the need for comprehensive disaster management and better management of the environment, there is both a shortage of people with needed skills, for example, in physical planning, and difficulty in mobilizing political will and concerted action.

Despite relatively good ratings on most social indicators, the Caribbean also faces vulnerabilities related to its human resources and culture. The Caribbean fares poorly compared to other regions of the world in the number of youth who are considered "at risk." In many Caribbean countries, children begin sexual activity at a very early age, which results in early pregnancies and sexually transmitted diseases, including HIV/AIDS. Also there is a serious problem of boys dropping out of school and being poorly prepared for legitimate employment.

All of the Caribbean countries except Haiti score above the 50th percentile on voice and accountability in World Bank governance ratings. However, the political process in several countries involves fierce partisanship, leading at times to episodes of election violence and, more pervasively, to short-term political expediency at the expense of forward-looking policies and political will, thus obstructing development. The region, however, fares well in the World Bank ratings on government effectiveness and regulatory quality although several countries are barely above the 50th percentile on the effectiveness measure. Sound policies are important to development, but effectiveness in implementation is equally essential and more difficult to achieve.

Crime is rising dramatically throughout the region. Among the main contributors are the spillover effects of international crime and drug trafficking and reduced local employment opportunities. The police forces of many states are weak and may include pockets of corruption, while legal/judicial systems have not adequately modernized to maintain and improve efficiency. One consequence of the judicial system's inability to respond to its growing burden is declining respect for the system. Another challenge is laws and regulations that are themselves outmoded or inadequate. Most of the countries rank in the middle range for control of corruption, but there is significant room for improvement with major consequences for development results.

Most countries in the region have had relatively strong educational systems reflected in high literacy rates, although in some countries there has been slippage even in the quality of basic education. There is a lack of entrepreneurial culture and a shortage of skills needed for competing in a knowledge-based global economy. The business community is not well organized to promote changes in favor of competitiveness and Caribbean entrepreneurs tend to defensive attitudes that discourage cooperation among firms.

Regional education and training institutions have not adjusted to provide the skills the region needs to be globally competitive. Even under the best of circumstances, the relatively small population of the region means a small pool of human resources to draw from. This is made worse by the outflow of people with

education and skills seeking more opportunities in the larger arenas of North America and Europe. Lack of mobility within the region adds to the problem. Despite the objective of a single market and economy, so far only very limited steps have been taken to allow free movement for employment within the region.

Key Achievements: FY2003 was a year of good progress for the USAID Caribbean Regional Program. Noteworthy gains have been made in promoting free trade and economic development, safeguarding the natural environment, enhancing justice and security, and combating the HIV/AIDS crisis. The Mission is entering into the last year of its current strategic plan. Current plans call for the new strategy to be submitted to the LAC Bureau for review and approval on January 30, 2004.

Spurring Economic Growth: USAID is working with the nations of the Eastern Caribbean to respond to the challenges of global markets and trade liberalization by encouraging and facilitating competition, diversification of goods and services. In 2003, the CRP catalyzed much of the private sector and government leadership to take more aggressive action to integrate regional trade issues related to the FTAA, building competitiveness and undertaking institutional policy analyses for the benefit of the Caribbean region. Over this review year, this strategic objective met expectations, achieving a 19% increase in the export sales of 30 selected firms (compared to a target of 15%). Additionally, investment in targeted sectors grew by \$89 million, compared to the target of \$46 million.

Protecting the Environment: USAID's program addresses the most critical environmental problems affecting the Caribbean ecosystems. The principal focus of this SO is on the tourism sector with an emphasis on expanding the capacity of small hotels to improve environmental management practices, adopt policies that meet international standards, and increase their ability to obtain financing for low-cost activities that can quickly be implemented. Over the review year, the number of tourism organizations adopting best environmental practices exceeded the set target, reaching a cumulative total of 282 (approximately 17% higher than the projected end of year level). A number of tourism enterprises have also introduced and adopted more energy efficient systems and equipment, solid and liquid waste disposal systems, composting programs, solar water heaters, and other mechanisms to conserve energy.

Modernizing the Justice Systems: Through this SO, USAID is working with the OECS Secretariat and the Supreme Court to improve the efficiency of the region's legal systems and access to legal information and training. The recently established Regional Legislative Drafting Facility has seen great success in drafting and updating legislation related to the establishment of a Caribbean Single Market and Economy, as well as justice and security issues. More than 40 bills and regulations have already been drafted or revised.

Responding to HIV/AIDS: Through this SO, USAID is enhancing the capacity of the region's private-and public-sector institutions to respond to the HIV/AIDS crisis. In 2003, this program expanded the number of HIV/AIDS NGO networks established throughout the Caribbean from three to six. Creation of these networks provided local NGOs with technical, administrative, and managerial assistance to strengthen their on-the-ground coordination efforts, enhance their capacity to deliver HIV/AIDS services, and increase their ability to benefit from other sources of HIV/AIDS funding and technical assistance available in the region. In addition, the number of countries with formally established National Strategic Plans on HIV/AIDS was increased from 8 to 17. It is anticipated that with USAID's assistance, the target of 21 countries with plans will be achieved by the end of FY 2004.

Country Close and Graduation:

Results Framework

538-004 Improved Business Environment to Meet International Standards

SO Level Indicator(s):

Export sales increasing in targeted firms

Increased investment in targeted sectors

IR1 Capacity of firms to deliver goods and services by international standards improved

IR2 Legislative/Policy framework established to support free trade and competition

538-005 Improved Environmental Management by Public and Private Entities

SO Level Indicator(s):

Number of organizations adopting environmental best practices

Number of organizations exposed to environmental information in the region

Number of private, community, and public organizations independently securing finance for environmental management activities

IR1 Increased access to best environmental management practices

IR2 Implementation of improved environmental policies and standards

IR3 Strengthened organizational capacity to finance environmental improvements

538-006 Increased Efficiency and Fairness of Legal Systems in the Caribbean

SO Level Indicator(s):

Number of cases disposed of (cleared from the formal court system)

IR1 Improved efficiency of legal systems

IR2 Improved access to legal system information and training

IR3 Revised and updated laws

538-008 Enhanced Caribbean Response to the HIV/AIDS Crisis in Target Countries

SO Level Indicator(s):

Number of countries that produce and disseminate surveillance data to CAREC on an annual basis

Number of countries with approved national strategic plans in place

IR1 Increased NGO/CBO capacity to deliver HIV/AIDS prevention and care programs in target countries

IR2 Increased government capacity in target countries to implement an effective response to HIV/AIDS

538-x10 538-XXX Global Competitiveness and Open Trade

538-x11 538-ZZZ Regional Response to HIV/AIDS

538-x12 Improved Country Performance (Caribbean Performance Fund)

538-xx9

538-YYY Improved Country Performance (Caribbean Performance Fund)