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COUNTRY DEVELOPMENT
STRATEGY STATEMENT

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CARIBBEAN REGIONAL

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REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

CARIBBEAN REGIONAL DEVELOPMENT STRATEGY STATEMENT

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Caribbean Regional Development Strategy Statement

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Caribbean Regional Development Strategy Statement

Regional Development Office/Caribbean

Introduction and Overview

This paper deals with our regional assistance relationship with the English-speaking Caribbean and the mandate to support broader regional cooperation. The countries differ in size, resources and stages of development but share certain common economic and social problems. The narrow natural resource base, small domestic markets and insufficient range of human resources limit the development potential of individual countries. Regional mechanisms and cooperation can help to overcome the diseconomies of scale arising from the economic and political fragmentation of the Caribbean and to assure fulfillment of their populations' basic human needs.

The U.S. has important interests in the Caribbean which derive from geographic proximity, economic interdependence, ethnic ties, and a shared commitment with many Caribbean countries to democratic institutions and human rights. Indeed, the Caribbean encompasses the largest accumulation of democratic political entities in the developing world. Economic ties include U.S. investment of \$4 billion, exports of \$2 billion, and imports, including bauxite and oil products, of \$5 billion. We collaborate with the Caribbean in a variety of areas including narcotics control. Inevitably the problems of the Caribbean also become our problems as evidenced by the substantial numbers of undocumented workers from the area in the United States.

A series of factors in recent years have combined to aggravate the economic situation in these countries. The quadrupling of oil prices and the large increase in prices of imported foodstuffs, without an offsetting increase in international demand for the region's major exports and services, have had serious adverse impact. Economic growth has been stymied and in many instances living standards have deteriorated. High unemployment and underemployment is a crucial problem. Agricultural production is not keeping pace with population growth. Events in the international economy have brought to the surface the inherent weaknesses of the economic structures of the Caribbean countries and at the same time have circumscribed their capacities to cope with these weaknesses. Under these circumstances the abilities of Caribbean countries to achieve growth with equity and to assist their poor is severely circumscribed.

The Administration of President Carter recognized that these negative trends in the Caribbean, if left unchecked, would seriously threaten the future course of development in the region and even call into question the economic and social stability of some of the principal countries. In September 1977; the President initiated an 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 objective of addressing the common problems of the Caribbean in a coordinated way. To provide an international framework for this effort and to facilitate appropriate burden sharing for the enormous task it entailed, the U.S. Government encouraged the World Bank to convene a conference on Caribbean Economic Development. This conference in turn led to the creation the the Caribbean Group for Cooperation in Economic Development (CGCED) comprised of some 31 donor and recipient countries and 16 international and regional institutions. The Administration indicated it was prepared, within the context of the CGCED, to consider an increase in the volume of U.S. assistance for the comprehensive development of the Caribbean.

As an integral part of this overall effort, the mandate assigned to the

Regional Development Office/Caribbean (RDO/C) is three-fold:

- (1) To program and administer U.S. economic assistance which is regional in nature and which is provided in support of Caribbean Group initiatives, including assistance to support equitable growth readjustment through the Caribbean Development Facility.
- (2) To promote economic integration and cooperation among the countries of the English-speaking Caribbean and closer collaboration between these countries and the non-English speaking Caribbean countries by fostering the improvement and development of regional institutions and programs.
- (3) To support sub-regional programs which address the basic human needs and equitable growth requirements of the Eastern Caribbean and Belize.

These tasks place a premium on a rational system of effective regional and sub-regional institutions with delineated responsibilities supplementing national capacities, or obviating the need for such national capacities where quality or cost advantages are apparent. Essential national services in Haiti, the Dominican Republic, Jamaica and Guyana which are not susceptible 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. In the least developed countries of the Caribbean Community - Antigua, Belize, Dominica, Grenada, Montserrat, St. Kitts-Nevis-Anguilla, St. Lucia, St. Vincent - and Barbados, unmet external assistance requirements for national development will be programmed by RDO/C and provided through regional and sub-regional mechanisms.

Since the RDO/C program encompasses many countries and includes a comprehensive regional approach to meeting basic human needs, the material which follows in Part I necessarily deviates somewhat from the suggested format for country specific strategy statements. In addition to descriptions of the poor per se in some detail, the causes of national poverty as well as the status and the prospects for regional institutions will be treated. While these presentations discuss in some degree all Caribbean countries, emphasis is placed in the LDCs, regional institutions and regional considerations. 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.

PART I. DESCRIPTION AND ANALYSIS

A. The Economic Setting

1. General: The Caribbean members of the CGCED consist of the Commonwealth countries of Jamaica, Guyana, Barbados, Bahamas, Grenada, Dominica, Antigua, St. Kitts, St. Lucia, St. Vincent, Belize, Trinidad and Tobago, British Virgin Islands, Cayman Islands, Montserrat and The Turks and Caicos Islands, The Dominican Republic, Haiti, The Netherlands Antilles, and the French overseas Departments of Martinique and Guadeloupe. These countries of the Caribbean area exhibit a rich diversity of history, culture, language and development. With a total population of about 15 million, the countries range in size from approximately five million persons each in Haiti and The Dominican Republic to five thousand persons in The Turks and Caicos. 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 less than \$200 in Haiti and only slightly higher in the poorest Commonwealth LDCs to \$1,900 in Trinidad and Tobago and \$2,600 in the Bahamas.

Yet a number of common features stand out. All of the Caribbean countries are characterized by small market size which denies them the 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 their opportunities for productive investment thus constraining growth and especially employment creation.

The historical dependence upon agricultural exports for employment and income, the longer term decline in relative prices of these exports, the limited access to technology and services, combined with a determination of many farm laborers to escape the social stigma associated with slavery and seek more remunerative employment, have contributed to stagnating agricultural sectors and increasing requirements for food imports. While tourism and nascent industries have in some areas provided new employment opportunities for a portion of the job seekers, in all countries the ranks of the unemployed have grown to serious proportions.

The 1970s have been a particularly disruptive decade in the economic life of the Caribbean countries. Two of the countries most seriously afflicted are 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. To sustain expansionary activities and cover balance-of-payment deficits, Jamaica and Guyana borrowed heavily from external sources, increasing their external debt burdens to the point of impairing their credit worthiness for borrowing on conventional terms. When external borrowing proved inadequate to alleviate their external payments position, they were forced to impose 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. The import restrictions also curtailed regional trade with their partners in the Caribbean Common Market (CARICOM).

Essentially the same set of external conditions exasperated by both drought and marketing limitation had marked economic consequences for the Dominican Republic and Haiti. While in the face of these economic reversals their governments were able to focus more on medium and longer-term priorities, to exercise fiscal restraint and maintain a strong emphasis on investment rather than consumption, these public policies have exacted a high price in welfare terms further aggravating economic disparities in these two countries.

The economic viability of the smaller English-speaking Caribbean countries has traditionally depended on external assistance and subsidies. Despite a precarious financial balance and the reduction in recent years of budgetary grants from the United Kingdom, their governments have been highly responsive to pressures to provide social services. Their people have enjoyed per capita consumption in excess of levels justified by the output of their economies. As admirable as this concern for the public welfare has been, it has also imposed heavy burdens on public finances, generated domestic inflation and, in a number of instances, reduced investment levels.

The results have been declining output and falling standards of living since 1973-74 throughout the region. 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 percent 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 percent of GDP and public sector savings 4 percent of GDP, but during 1974/77 gross national savings averaged only about 10 percent of GDP and the public sector has negative savings equal to 5 percent 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.

Data presented below suggest an average per capita income in the CARICOM LDCs of US\$513. Because price level variations across countries and regions are often not adequately reflected in exchange rates, these data require adjustment before comparisons are made with other regions. One recent study (conducted by the Bariloche Foundation and subsequently used by the ILO) suggested that a U.S. dollar converted to local currency may buy 80% more in the Asian LDCs than in Latin America. The purchasing power of a dollar is likely to be even lower in the Caribbean because of scale problems and because of the need to import food and other items which most countries produce locally. Real income levels in the Caribbean are thus much closer to levels in Asia than nominal income data suggest.

Estimated Per Capita Income 1976

	<u>GNP Per Capita</u>		<u>GNP Per Capita</u>
Antigua	\$663	Barbados	\$1,260
St. Kitts-Nevis	\$614	Guyana	\$ 540
Dominica	\$347	Jamaica	\$1,070
St. Lucia	\$511	More Developed Country	
Grenada	\$370	(MDC) Average**	\$ 945
St. Vincent	\$316		
Montserrat	\$641	* 1975	
Belize	\$762*	** Does not include Trinidad and Tobago	
Least Developed Country			
(LDC) Average	\$513		

2. A Closer Look at the CARICOM LDCs: The small countries present an especially intractable case in economic development. They are scattered over 2,000 miles of ocean. They range in size between 102 and 23,000 square kilometers and have populations between 6,350 and 111,500 persons. Altogether, they have a population of about 700,000, a land area of 26,547 square kilometers (23,000 of which is in Belize), and a 1976 GNP of less than \$400 million. The scattered nature of the region and the physical isolation requires extensive transportation infrastructure and results in high built-in transport costs for production and marketing. Poor natural resource bases (limited for the most part to marginal agricultural land, good climate and beaches) restrict production and export possibilities and require high cost imported raw materials and intermediate inputs. Small manpower bases result in a limited availability of specialized personnel required for key economic undertakings. Diminutive markets result in an inability to achieve economies of scale, thus limiting opportunities for output and employment and resulting in high cost production. Similarly, many social services and infrastructure investments have a critical minimum size for efficient operation at reasonable costs.

The growth performance of the LDCs in recent years has been poor. As indicated in the following table, real per capita growth rates were negative for the period 1970-75 for all the LDCs except Belize, and possibly Montserrat for which comparable data is not available. The trade picture is equally bleak. Imports exceed exports

by a wide margin. Imports consist of a broad variety of goods while exports consist largely of traditional agricultural products - sugar, bananas, spices, and tropical fruit. In general, the LDCs also suffer operating deficits and are unable to generate public savings with which to finance investment. They have historically relied on external grants for some operating expenses and virtually all capital outlays. This unsound financial picture emerges notwithstanding a highly creditable tax performance; current domestic revenue ranged from 20% to 35% of GDP in 1976. These figures suggest that the opportunities for increasing government revenues in order to improve social services or finance public investment are extremely limited unless the revenue base can be expanded through increased output in the productive sector.

Basic Economic Indicators

GNP Growth Rates Government Budgets, 1976
1970 - 1975

US\$ Millions

	<u>Total</u>	<u>Per Capita</u>	<u>Domestic Revenues</u>	<u>Operating Expenditures</u>	<u>Govt. Savings</u>	<u>1976 Trade Balance</u>
Antigua	-0.9	-2.3	14.7	19.2	-4.4	-32.4
Dominica	-0.1	-1.3	8.8	11.4	-2.6	- 7.3
Grenada	-4.3	-7.3	14.3	17.1	-2.8	- 2.1
Montserrat	N/A	N/A	N/A	N/A	N/A	- 5.9
St. Kitts-Nevis	-0.5	-1.5	9.5	13.1	-3.6	-30.0
St. Lucia	-0.8	-2.2	16.5	16.4	+ .1	- 1.7
St. Vincent	-1.6	-2.3	10.6	12.6	-2.0	-14.0
Belize	+4.6	+1.5	N/A	N/A	N/A	- 6.4

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 those 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 "show place 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 a sufficient quantity of schools and teachers for all children to receive at least primary education, modest but functional and fairly extensive road systems, and weak but broadly based systems to provide health services.

PART I. B. The Target Group; Causes of Poverty

Although RDO/C programs will assist the poor throughout the Commonwealth Caribbean, and to a lesser extent in the broader Caribbean, particular emphasis will be given to the needs of the LDCs. For this reason, and because the target groups in Guyana, Jamaica, Haiti and The Dominican Republic are discussed in the CDSS's for those countries, the following discussion focuses largely on the situation in the LDCs.

In contrast with many developing countries where wide-spread poverty results largely from the mal-distribution of economic opportunities and social services, poverty in the Commonwealth Caribbean is to a large extent a function of severe resource limitations, of geographic isolation and of under-development that is characterized by the lack of absorptive capacity, limited capital and inadequate infrastructure, public administration and economic management. RDO/C's target

group is comprised largely of the unemployed and the small farmers, landless poor and urban workers who are underemployed or producing at low levels of productivity.

1. Unemployment, Underemployment and Low Productivity: Unemployment is clearly among the foremost direct causes of poverty in the region. Surveys conducted in 1977 in Jamaica and Barbados show that 24% and 16% respectively of their labor forces were idle. Reliable data are not available for the LDCs, but most observers estimate the rates in the 18 - 23% range. Underemployment also is believed to be widespread, particularly in the agricultural sector which employs about 30% of the LDCs' labor force, and in unskilled and semi-skilled, non-union urban employment. Data on the age distribution of unemployed workers shows that about 75% are under 25. The fact that the numbers of youth entering the labor force annually is increasing, both because of demographic characteristics and because the fewer young workers are able to migrate to developed countries, suggest that the pressure for jobs will become more intense in the future.

The majority of unemployed have only had primary schooling, although a significant percentage also have received some or all of the secondary school program. Several studies, including the AID Educational Survey, have concluded that changes in the type and quality of educational programs may be more effective in dealing with low productivity and unemployment than increases in the amount of education. At present the highly academic nature and passive learning techniques typical of Caribbean schools do not foster the development of the skill and attitudes needed by creative, adaptive and responsible workers, managers and entrepreneurs.

Although better education and training would help to solve the unemployment problem, the inadequate level of labor demand must also be confronted directly. With public sector budgets already over-strained, additional demand for labor must come largely from the private sector. Public policies, however, have a strong influence on private sector performance. In recent years, while some countries have enthusiastically courted investors, the nationalizations and more subtle pressures on the private sector which have taken place in several countries have dampened investment throughout the region. Re-establishing an atmosphere conducive to private investment where it does not exist is essential to private sector employment creation. The level and labor intensity of investment are also influenced by government policies on intra-regional trade, taxation, exchange rates, interest rates, tariff exonerations and incomes. Too often these policies have been inconsistent with one another, have provided too few or too many incentives, have inadvertently encouraged capital intensity, or have encouraged competition rather than complementarity in regional investment patterns.

These deficiencies in policy formulation result 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 channeling it into labor intensive investments.

2. Declining Employment and Low Productivity in Agriculture: Over the past several decades plantation agriculture, upon which the countries historically relied, has become progressively neglected to the point where much of the land is under-utilized and employment has fallen. The local food markets traditionally were by default relegated to thousands of small holders who produced local crops on the poorer lands. 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.

Small farmers 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, e.g. chemicals to enrich soils and to

control disease and pests, irrigation systems to counter drought. Second, insecure land tenure, particularly under Government settlement schemes, discourages investment in the land. Third, inputs are often unavailable or very high priced. Fourth, uncertain marketing, storage and transportation make increased production by itself highly 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 provide more self-sufficiency in food production, and to earn foreign exchange, the abovementioned factors 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.

3. Unemployment and Underemployment in Non-Agricultural Sectors: 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 have the advantage of often being labor intensive. In addition, they often supply their own capital, market information and technical expertise. If enclave industry is to be attracted, it is imperative to maintain the incentives of competitive wages and few industrial disputes.

The most significant structural obstacles to expansion of production and employment in manufacturing have been the dearth of natural resources suitable for industrial processing and the small size of internal markets. Other important constraints include:

- (a) Shortcomings of the capital markets, e.g. inadequate availability of capital, unduly conservative credit terms and conditions, limited capacity of many of the financial institutions to efficiently serve small clients and concentration of wealth in the hands of businessmen in the distributive trades who are unwilling to assume risks in industry.
- (b) Lack of confidence in Government economic management, lack of clarity about the rules governing foreign investment and a resulting perception by foreign investors that they are unwelcome in the Caribbean.
- (c) Limited entrepreneurial skills, lack of knowledge of technological alternatives and of potential markets. Insufficient capacity in project preparation, financial management and marketing.
- (d) Inadequate intra and extra-regional transport, e.g. frequency, reliability and cost.

4. 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 very high.

From the perspective of the poor, however, the education system has significant qualitative deficiencies. Educational content and methodology reflect the highly academic and elitist British grammar school model implanted during the colonial period. Instructional materials are in short supply and 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 systems appear to lead to unrealistic expectations, frustration and unemployment. Training courses, most of which exist only in the MDCs, tend to be overly formalized and few opportunities exist for inservice training in either the public or private sectors in management, project development and related areas.

5. Access to Health Services: As in the educational 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 mid-twenties to the low forties per thousand live births for most of the LDCs and is considerably higher in St. Kitts-Nevis 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 wastes provides breeding grounds for pests. In addition to its direct health effect, an esthetically pleasing healthful environment is vital to the economically important tourist industry.

6. Population Growth: As noted above, the population density of the Caribbean islands is the highest in the hemisphere. In the Eastern Caribbean, the population is currently increasing at around 2% per annum, double the rate which occurred during the 1960s when migration outlets were more readily available. The population increase intensifies poverty by causing available income to be divided among greater numbers, where productivity and employment cannot be expanded at least proportionately.

Governments of the region either openly espouse the importance of population limitation or tacitly permit the functioning of family planning clinics. This policy has contributed to a marked decline in the birth rate since 1970. The unweighted average for the LDCs and Barbados has dropped from 31.1 in 1970 to 27.0 in 1975. Nevertheless, much more progress is needed if the decline is to impact favorably upon real growth and development.

PART I. 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 diseconomies 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.

1. Cooperation Among the English-speaking Countries*: While there is definite intellectual commitment to the concept that economic improvements are dependent upon regional approaches and common services, 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.

a. CARICOM Goals: The Caribbean Community and Common Market (CARICOM), which includes twelve English-speaking states, has two main long-term goals: to foster general economic development, with a strong accent on the creation of employment, and to reduce the region's external dependence. Specifically, the economic goals are: (a) to improve efficiency through greater cooperation and specialization in an extended market; (b) to make this market sufficiently large to support viable new industries; (c) to achieve greater national or regional linkages between sectors, particularly to increase the use of regional natural resources; (d) to develop a common position towards non-member countries on relevant policy matters (such as foreign investment, trade preferences, and shipping); and (e) to provide for the equitable sharing of the fruits of development.

b. CARICOM Trade and Monetary Arrangements: The process of harmonizing trade and monetary arrangements has been at the heart of the integration efforts over the past decade. Under the CARIFTA Agreement in 1968, tariff and non-tariff barriers between member countries were reduced or removed, and some tentative steps were taken towards fiscal harmonization. The CARICOM treaty of 1973 proposed the establishment of a single regional market with a common external tariff for imports from non-member countries and common policies for the economic development of the region, including cooperation in monetary policy, harmonization of industrial incentives and fiscal policies in general and regional planning for agricultural and industrial development. Agreements establishing the Common External Tariff (CET) and setting out harmonized fiscal incentives to industry were also signed in 1973; in the same year, a unified system of tax concessions on exports was set up. More recently, a double taxation agreement has been negotiated between the MDCs and the LDCs, with provisions designed to be of special benefit to the latter, and in 1978 the CET was modified to rationalize rules determining whether goods are treated as being of CARICOM origin.

For CARICOM as a whole, the consequences of the trading arrangements made over the decade have been positive but modest. Intra-regional trade quadrupled in money terms between 1967 and 1974, and the share of intra-regional trade in the total trade of member countries also rose. However, the share of intra-regional trade in total trade never exceeded the 11% achieved in 1973. By 1976, its share had declined to 7%. Although additional opportunities for expanding intra-regional trade exist, there are clear limitations to growth based on a combined market of only 5 million persons, especially when country production capabilities are similar. Moreover, much of the increase in exports was achieved by the MDCs,

* Substantial parts of this section are taken from a World Bank Economic Report by Sidney E. Chernick and others, The Commonwealth Caribbean: The Integration Experience, C. 1978 by the IBRD. Because we have added our own views and edited freely, the views expressed should not be attributed to the authors of the study or to the IBRD.

notably in manufactured goods. The LDCs maintain that the special concessions for them built into the CARICOM Treaty have been ineffective, due to the resource imbalance between the two groups.

On the monetary front, lines of credit have been created between member countries, so as to simplify intra-CARICOM transfers of funds, and a financial safety net facility developed for Barbados, Guyana, Jamaica and Trinidad, to give them a degree of mutual balance of payments support. Little progress has been made as yet on liberalization of capital flows within the region, largely because it is feared that relaxation of the existing controls would lead to a flow of funds away from the LDCs to the MDCs. Exchange rate policy remains based on the concept of separate currencies and fixed parities, which are to be adjusted only in the case of a "fundamental" disequilibrium in a country's balance of payments.

c. Recent Barriers to Integration: The acute economic difficulties of the CARICOM states in the mid 1970's placed a severe strain on the development of a coordinated regional strategy. (See Section I.A.). Intra-regional trade constraints were imposed to meet balance of payments problems, particularly in Jamaica and Guyana. The LDCs suffered even more in that the Leeward and Windward Islands' Eastern Caribbean Currency Authority regulates the amount of currency in circulation according to the foreign exchange available to back it. Consequently, recent outflows of foreign exchange, entailed by increasingly heavy import bills, severely reduced domestic money supply and credit availability leading to falls in consumption and real incomes. In addition to these developments is the increasingly independent posture of Trinidad and Tobago. Although the GOTT had earlier provided generous financial support to the other ailing CARICOM countries, it has not chosen to play an active role in the CGCED or to contribute to the Caribbean Development Facility. It has, moreover, sought greater control over the St. Augustine Campus of the University of the West Indies and has established its own Caribbean Aid Scheme.

In sum, CARIFTA and CARICOM monetary and trade arrangements have had a generally useful effect, but they have not dealt adequately with the problem of LDC/MDC polarity within the region and they have been unable to cope with the trade balance of payments consequences of recent international dislocations. More intensive efforts are needed to develop and, where feasible, to integrate the directly productive sectors of the economies of member countries within the context of both intra and extra regional markets. Further strengthening of functional cooperation is also required.

2. Regional Institutional Framework: The following institutions will be highly important in the regional development process. The enhancement of their capacities and, in turn, these institutions' contribution to the broader absorptive capacities of individual countries in the region will be a prime concern of the RDO/C:

a. CARICOM: Established in 1974 as the successor to CARIFTA, CARICOM is a key institution for economic cooperation and joint approaches to development. Although frequently thought of mainly in terms of its common market and trade functions, its purview includes broad responsibilities for economic, social and functional cooperation. In addition to the trade and monetary activities already discussed, for example, CARICOM has assisted in the drafting of model health policies for the region, the design of a process list to promote greater use of regional raw materials, the establishment of the West Indies Shipping Company (WISCO) and the elaboration of a Regional Food Plan.

The principal organs of CARICOM are the Conference of Heads of Governments and the Common Market Council of Ministers. Sectoral and Functional meetings of ministers are also held. The primary planning and administrative instrument of CARICOM is the Secretariat located in Georgetown, Guyana. However, the CARICOM Secretariat does not yet have the analytical capacity in many sectors to make regional or national policy recommendations. Of the some sixty professional positions

in the Secretariat, a number of senior posts are presently unfilled. The position of Secretary General itself was vacant from late 1977 to late 1978. The new Secretary General, Dr. Kurleigh King, has begun to revitalize the institution and, based upon his record as head of the CDB's Industry Division, and the Barbados Institute of Management and Productivity (BIMAP), is expected to provide much needed dynamic leadership and organizational acumen. Nevertheless, further capacity-building will be needed for the Secretariat to fully carry out its mandated functions:

b. Caribbean Development Bank: The Caribbean Development Bank (CDB) is regarded by CARICOM governments as a major catalyst in the developmental process, and they are committed to its existence. The Bank was established in 1969 to help promote the development and integration of the Commonwealth Caribbean with special attention to the LDCs. By the end of 1978, the CDB had approved loans of roughly US\$180 million, of which nearly two-thirds had been lent for national and regional development projects in the LDCs. Fully 30% of all external development assistance to the LDCs is channeled through the CDB. This is a mobilization of the region's public sector requirements in an amount much greater than could have been achieved through the members' individual efforts. The Bank also has provided much needed technical expertise and assistance to the LDCs in project identification, preparation and implementation, permitting the active involvement of a well trained cadre of West Indian CDB staff members in the economic development of the region. In addition, the Bank is often a spokesman for the region on economic matters and is a strong advocate of regional integration. The operating policies and procedures of the CDB are modeled on those of the World Bank and other international lending agencies.

The CDB's conscientious observance of sound development practice has been an important factor in attracting resources from bilateral and international agencies. Yet it must be noted that member countries have expressed concern over the extent and timeliness of the CDB's response to their requests. Clearly, the Bank staff, though dedicated and competent, is over-extended and attention must be given to its depth of personnel and its structure if the Bank's regional efforts are to be sustained and expanded.

c. The University of the West Indies: The University of the West Indies was founded in 1948 to serve the English-speaking Caribbean. Courses are offered in Arts, Social and Natural Sciences, Education, Medicine, Law and Engineering. UWI is often regarded as the most convincing evidence of a common effort within the region. By combining their resources and student populations, the countries of the region, excluding Guyana, have managed to produce a quality university. The institution is funded by the participating states on basis of the number of students each has enrolled. In addition, financial assistance has been given by U.K., Canada and the U.S.A. The University maintains campuses in Jamaica, Trinidad and Barbados. The University has among its faculty a major accumulation of expertise in several development related fields. Increasingly the faculties have become concerned with outreach programs addressing development needs.

d. The Caribbean Agricultural Research and Development Institute: CARDI is associated with the UWI and carries out research for the English-speaking Caribbean. Well staffed, it has with AID's assistance increasingly become focused on problems of the small farmer.

e. The Caribbean Food Corporation: CFC is currently being organized to promote, finance and manage projects in commercial agricultural production, processing and marketing within the framework of the Regional Food Plan. The CFC is headquartered in Trinidad.

f. The Caribbean Investment Corporation: CIC was established in 1973 to promote and finance industrial development in the LDCs. Headquartered in St. Lucia, the CIC supplements the CDB's activities by promoting private sector ventures in the

manufacturing or agro-industrial sectors. Capital of the CIC is provided by all CARICOM member countries. However, by the end of 1977, cumulative approvals of loans and equity investments amounted to only US\$1 million, and the CIC has recently encountered serious financial difficulties.

g. The Caribbean Food and Nutrition Institute and the Caribbean Regional Epidemiology Center: CFNI and CAREC are specialized sub-centers of PAHO established to serve its Caribbean members. Notwithstanding their formal organizational relationship to PAHO, they are considered by West Indians to be Caribbean organizations largely staffed by West Indians. CFNI and CAREC are located respectively in Jamaica and Trinidad.

h. 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 East Caribbean Common Market Secretariat (ECCM).

WISA and ECCM provide political, administrative and economic coordination among the present and former Associated States and Montserrat. They have been only marginally effective to date. A proposal now under consideration by governments would merge the WISA and ECCM secretariats, increase their staff capabilities, and establish pools of experts for specialized technical services. The Eastern Caribbean governments generally endorsed expanded common services at the last Caribbean Group meeting and the UNDP is currently assisting in the development of a plan for accomplishing this objective.

PART II. STRATEGY

A. Overview of Regional Objectives and 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 the English-speaking countries and in many other Caribbean countries. However, the ability of the individual countries of the region to achieve such development separately will continue to be severely constrained by their small size and economic fragmentation. Consequently, consistent with Section 209 of the Foreign Assistance Act, fostering regional cooperation to achieve long-range development is accorded high priority in the provision of U.S. assistance to the area.

Progress toward comprehensive and coordinated regionalism will be difficult in view of current political pressures for greater independence, the nationalistic sentiments of many leaders in the Caribbean, the lack of emphasis on regional approaches by other donors, and the limited scope and fragile nature of most regional institutions. However, a number of public and private groups exist in the English-speaking Caribbean which have been formed by considerable local initiative and which offer considerable long run potential. RDO/C's basic strategy is to provide resources to strengthen these initiatives and institutions which are essential to long-range viability of Caribbean economies. On a broader Caribbean basis, AID will facilitate an increase in contacts and joint endeavors.

The framework for the strategy will be provided by the Caribbean Group for Cooperation in Economic Development (CGCED). 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 newer bilateral donors. In this regard, maximum coordination of programs will be sought with the IBRD, IDB, UNDP, U.K., Canada, EEC, Venezuela, Trinidad, OAS, ECLA and others. Major resource flows will be needed to deal with balance of payments problems and to finance infrastructure, tourism, large scale agriculture and extractive industries. The IFI's and certain other donors can be expected to contribute to these needs. RDO/C's strategy calls for working with and complementing the activities of AID's bilateral programs as well as the other donor programs which are largely bilateral in scope.

The following sections outline the RDO/C strategy for achieving the immediate program objectives of:

- Strengthening regional cooperation
- Strengthening the capability of the Caribbean countries to provide for the basic human needs of their citizens, and
- Stimulating equitable economic recovery and growth.

B. Regional Cooperation

1. Objective: To encourage regional cooperation to overcome the diseconomies of small scale inherent in strictly a national approach by these small countries, and to foster the development of complementary economies. The AID strategy will encourage the formulation of complementary regional and national policies and selectively 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.

2. Geographic Focus: RDO/C's strategy for encouraging regional collaboration initially focuses principally on the Commonwealth Caribbean. This strategy 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 program. Moreover, the smallness of the individual Commonwealth Caribbean countries demands priority in seeking economy of scale. In addition, broader collaboration among countries of the Caribbean archipelago and institutional ties to Central America and other basin countries will be supported. Increased cooperation between the Dominican Republic and Haiti will be fostered through the programs of AID bilateral missions in those countries.

3. Encouraging the Formulation of Complementary Regional and National Policies: Cooperation in a number of functional areas is needed and will be supported. These include coordination of production to maximize economic use of local resources, harmonization of industrial incentives, trade policies encouraging the development of intra-regional and extra-regional markets and sectoral planning in education, health, energy, transportation and communications.

These efforts will be coordinated through the CGCED and its technical assistance working parties. The CARICOM Secretariat in close cooperation with the Caribbean Development Bank, ECCM and other regional institutions will be implementing agents. Grant technical assistance will be required for strengthening the analytical and planning capacity of these institutions. Within the CGCED framework, countries also will be encouraged to collaborate with the CDB and IBRD in preparation of their investment programs and with the IMF in the development of their monetary and foreign exchange policies.

4. Strengthening Regional Development Institutions

(a) Caribbean Development Bank (CDB) - In its role as the principal regional development finance institution, the CDB will be the channel for most of the future development lending proposed for the regional program. Assistance objectives for the CDB during the planning period which RDO/C will support include:

- An expanded and more effective role in the LDCs: a broadened scope to encompass assistance to social sectors (particularly health and education); increased technical assistance to help alleviate local absorptive capacity constraints; and encouragement of other donors to channel a larger portion of their bilateral assistance through the CDB.
- A more extensive role relative to the MDCs: continued CDF contributions through the CDB, encouraging other donors to do likewise; increased assistance to the private sector; and more benefit to the MDCs through regional programs.
- More comprehensive regional projects; including projects benefiting the Dominican Republic, Haiti and other Caribbean countries: Consideration will be given to creation, with other donor support, of a Caribbean Regional Development Fund administered by the Bank that would finance regional projects benefiting non-member Caribbean countries as well as CDB member countries.

(b) Caribbean Investment Corporation (CIC) - CIC is a unique regional institution in that it combines both public and private sector memberships and direction. However, the CIC is facing serious financial problems and CIC's Board of Directors currently has under consideration a proposal to become an IFC-like institution within the CDB. Subject to successful resolution of financial and organizational problems, RDO/C strategy envisions supporting the Corporation as an instrument for encouraging foreign and indigenous private sector collaboration, evolving new public-

private forms of ownership, and operating eventually in the MDCs as well as the LDCs.

(c) Caribbean Food Corporation (CFC) - CFC's role as a holding company investing in a broad range of agribusiness activities will be supported. Private sector participation in CFC ventures will be encouraged. As this occurs, the Regional Food Plan must continually be revised in the light of changing opportunities for agricultural production, processing and marketing.

5. Strengthening Common Services

Strengthening of Common Services within the English-speaking Caribbean, and particularly those serving the smaller LDCs, is a priority requirement in achieving economies of scale and in supporting national programs addressing basic needs. Common Services that must be strengthened include both those which primarily provide technical services (including research and training) and those which provide commercial services in vital areas such as transportation.

(a) Technical Services - RDO/C strategy gives high priority to 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 arrangements desirable. Development of pools of experts or 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: University of the West Indies (basic needs research and outreach capacity), Caribbean Examinations Council, Caribbean Agricultural Research and Development Institute, Caribbean Food and Nutrition Institute, Caribbean Regional Epidemiological Center, the Eastern Caribbean Common Market Secretariat and Eastern Caribbean Currency Authority. 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.

(b) Operating Agencies - Improving the operating efficiency and financial viability of West Indies Shipping Company (WISCO) and Leeward Islands Air Transport (LIAT) will be important factors in increasing trade and communication within the region. Expansion of routes and schedules and facilitation of WISCO and LIAT's interface with other transport entities in the broader Caribbean will be necessary. Other donors will be encouraged to take the leading role in these areas within the CGCED framework.

6. Supporting Broader Regional Cooperation

Of the range of activities which are appropriate to broader regional cooperation, transport, communication, energy, fisheries and environment are important to the development of the broader Caribbean area and inherently lend themselves to multi-national, region-wide solutions. Cooperation through educational exchanges and dissemination of research results are clearly of advantage to all Caribbean countries and should be supported. The expansive nature of health, nutrition and disease control problems and the effective inter-island communication network already established by CAREC and CFNI make the fuller integration of activities in this sector highly desirable.

To accomplish this cooperation, the Association of Caribbean University and Research Institutions would be further developed, CARDI's relationship to its Central American counterpart CATIE would be intensified and the linkage between the Pan American Health Organization (PAHO) affiliates in the Caribbean (CFNI and CAREC) and those in Central America would be solidified. An additional measure would be the inclusion within CARICOM of current non-member states such as the Dominican Republic and Haiti on an observer or liaison basis.

C. Assistance for Basic Human Needs

RDO/C's strategy is to utilize regional institutions to strengthen programs which improve the welfare of the poor, and specifically, to stimulate and support activities to:

- Revitalize agriculture with emphasis on small farmer agriculture to increase self-sufficiency in food production, improve nutrition, maintain or expand employment opportunities in this sector and improve the incomes and quality of life of the rural poor.
- Expand productive employment and increase labor productivity in labor-intensive enterprises as a primary means for the urban poor and as a supplemental means for the rural poor to have increased access to essential goods and services. Encouragement and increased attention will be given to the application of appropriate technologies and environmental and energy considerations.
- Assure access by the populace to such services as education and training programs relevant to the needs of the poor and low cost health and family planning services.

Highest priority is given to efforts to stimulate growth in the productive sectors with emphasis on encouraging private initiative. Increasing employment and output in these sectors is essential both to generating increased real income and to obtaining the additional public revenues needed to develop and maintain improved public services for the poor.

Of the productive sectors, agriculture is given top priority because it employs about half the target group and because it holds considerable promise. RDO/C will assist regional programs to lessen many of the constraints identified previously - credit, technical know how, a lack of reliable source of farm inputs, storage facilities and marketing systems. Depending on further analysis and political acceptability, a program to improve land tenure may also be undertaken. To increase productive employment in other sectors, efforts will be aimed at improving the private investment climate and economic infrastructure. Emphasis will be on providing credit for plant and equipment, market information and training to small and medium-sized businesses, and information on appropriate technology and alternate energy systems to all firms.

The strategy places second priority but importance on improving education and health services. Assistance will be provided through regional institutions to improve the quality of educational programs at the primary and secondary level and to expand and improve the availability of work-related training. Later in the planning period, assistance to strengthen non-formal education and educational planning is contemplated. Activities in health will focus on the management of health delivery systems, communicable disease control and environmental health - especially rural water supply and waste disposal systems. Other longer term programs will seek to improve the environment and to stimulate the expanded availability of power from non-conventional energy sources. Within the context of these activities, RDO/C sees considerable potential for recognizing the important position of women in the economic life of the region and for addressing more directly the particular problems and needs of women in development. Currently a baseline study proposal on Women in

the Caribbean is under discussion with UWI's Institute of Social and Economic Research, and two PVO projects which would create new employment opportunities for women are in the design stage. Programs to provide legal aid to low-income women and other services are expected to materialize during the planning period.

In carrying out its program in the Eastern Caribbean, RDO/C plans to collaborate closely with the Peace Corps, engaging in joint planning and, where appropriate, joint implementation of projects. In addition, U. S. and indigenous private and voluntary organizations (PVOs) will continue to be used in specialized areas where their experience is proven, and the capacity exists to reach the neediest among the target population. Areas where PVOs would be most appropriate include non-formal education, early childhood education, skills training, (especially for unemployed youth and low-income women), family planning, cooperatives, and other community development activities. Local or West Indian PVOs, especially, will be valued resources for grass roots initiatives which respond to needs which the disadvantaged have identified themselves and where there is a maximum of self-help.

D. Objectives and Strategy for Sectors and Key Problem Areas

1. Agriculture

In order to reduce the decline in agricultural employment, increase rural incomes and alleviate the economic strains caused by a growing food import bill, a strategy based upon the provision of common technical services and capital resources through regional institutions is proposed. A loosely defined framework for a Regional Food Plan to increase agricultural production was agreed to by a CARICOM Heads of Government Conference in 1976. The Plan calls for the creation of the Caribbean Food Corporation (CFC) to promote, finance and manage projects in commercial agricultural production, processing and marketing. While it is not yet certain whether this approach will be workable, AID is carefully examining this and other regional initiatives directed at alleviating constraints to agricultural development.

Specific problem areas to be addressed in a phased five year program are the needs for (1) effective agricultural planning at the local and regional level, (2) research relevant to the small producer, (3) improved extension and delivery systems, and (4) increased investment in credit, agribusiness, marketing and infrastructure.

(a) Agricultural Planning: Within the ECCM, national and regional expertise in agricultural planning and project design will be improved through a project being initiated in FY 79. The ECCM Secretariat will be strengthened to provide common statistical and analytical services to its member countries. At the local level, agricultural planning offices will be established and local technicians trained in survey and statistical techniques. As a more complete data base is established, agricultural policy recommendations can be delineated, including policies on land tenure which affect a large majority of the rural population. Building upon the Regional Food Plan initiative, support will also be provided for agricultural planning on a CARICOM-wide basis. This activity is intended to yield policy recommendations which will encourage both intra and extra-regional trade.

(b) Research: The present RDO/C program assists the Caribbean Agricultural Research and Development Institute (CARDI) to strengthen its outreach capacity and provide additional relevant research by establishing CARDI/Country teams in the LDCs to conduct adaptive, on-farm research and develop economical multiple cropping farming systems for farmers holding between one and five acres. These teams are supported by CARDI's professional core staff located in Trinidad and elsewhere around the region. As CARDI's adaptive research expertise increases and the institution becomes more familiar with the constraints facing agriculture in

the region, it is anticipated that governments will request CARDI to engage in research programs dealing with watershed management, low cost irrigation techniques and further crop diversification in spices, nuts, and non-traditional fruits and vegetables. During FY 81-85, AID will support these additional research initiatives to further strengthen CARDI's regional focus and to intensify the search for increased crop diversification and higher incomes for small farmers. Also envisioned during the planning period are studies on the feasibility of artisan fishing - both fresh and salt water - to reduce the amount of fish products imported from outside the region.

(c) Extension and Credit Systems: Training and managerial deficiencies in agricultural extension agencies at the local level and outreach capacity on a regional level will be addressed in a FY 79 project supporting the University of the West Indies (UWI) and local extension services. Local extension agents will be trained in small farm cropping systems and information transfer techniques, and the capacity of the UWI Department of Agricultural Extension will be increased to continue periodic upgrading of extension personnel region-wide. The project will be closely linked to the CARDI Multiple Cropping Systems Research Project and other programs of the local and regional delivery system. During FY 1981-85, this delivery system will be integrated with expanded credit to small farmers by additional AID financial support to the Agricultural Production Credit Scheme begun in 1976. RDO/C will also support efforts through the CFC to improve local facilities and production and distribution of agricultural supplies, and support commercial production schemes.

(d) Marketing, Agro-Industry and Infrastructure: To confront one of the more persistent constraints to increased agricultural production, marketing of produce both intra-regional and extra-regional, the RDO/C and the Caribbean Development Bank are jointly developing a project which will (1) improve island handling and storage of agricultural products, (2) expand regional shipping services, and (3) establish a regional marketing information network. To improve access to producing areas, AID assistance will be required during FY 81-85 to improve feeder roads, especially in the Windward Islands. Complementing this initiative are projects with the CDB and CFC specifically geared to develop, through loan and equity financing, agro-industries and processing centers which will increase the potential outlets for agricultural products in the region.

It is expected that by the mid 1980s: CARDI will be conducting relevant farms-based research on all of the LDCs; all extension agents in the LDCs will have been trained in new farming systems for small farmers and UWI will have a continuing program for agents in suitable technology transfer techniques; credit will be available to small farmers; and transportation and storage will be improved, allowing for increased flow of agricultural production into extra regional markets.

The agricultural development program which RDO/C is supporting will expand both in scope and geographic coverage during the planning period. Increasingly CDB resources will be channeled to the MDCs, and AID supported programs with CARDI and newer regional institutions will develop greater outreach capacity, sharing research and experimentation results with other institutions and nations of the Caribbean basin. The marketing and transportation infrastructure, along with the planning capability mentioned above, is expected to grow to include arrangements with Spanish, French and Dutch speaking Caribbean states.

2. Education and Human Resources Development

West Indian educational leaders are well aware of the qualitative deficiencies in their educational systems and of the need for expanded training opportunities, but the limited human and financial resources of each territory prevent effective unilateral action. Although no state has been willing to relinquish internal control of education, several important activities have been ceded to regional organizations. First, the University of the West Indies (UWI) was created to serve fifteen

English-speaking states, second, the UWI Department of Education has been given a major role in primary and secondary teacher training and curriculum development for eight Eastern Caribbean states. Third, the entire English-speaking Caribbean has collaborated to create the Caribbean Examinations Council (CXC) to set and administer exams and to develop appropriate West Indian syllabi. Finally, various regional and national entities provide in-service training programs on a regional basis. RDO/C's strategy is to support and build upon these regional initiatives.

In FY 79, RDO/C is initiating two major four-year regional programs to address the problems outlined above. First, RDO/C will support the regional initiatives of the UWI School of Education and the 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 teacher education, curriculum revision and instructional materials development at the primary and secondary level. Assistance at the secondary level is being provided because of the importance of the secondary school leaving/university entrance exams in determining curriculum down to the primary level and because of the West Indian initiative to revise the secondary curriculum. Assistance to the CXC will help it to efficiently administer regional exams and develop teaching materials. While participation in these activities will be available to all Commonwealth Caribbean countries, the third element, construction and refurbishing of primary schools, is open only to the LDCs. Efforts will be made to introduce simple, functional designs with minimal maintenance requirements. The CDB will administer this component. Second, RDO/C is also embarking in FY 79 on an in-service training project involving participant training and development of short training workshops given in the LDCs (principally by West Indian institutions). The project will also seek to develop a capacity in the ECCM to provide technical assistance and training to its members so that they in turn can provide management/supervisory training in the public sector.

Other programs will be initiated during the planning period to improve educational planning and non-formal education. The latter will assist both public and private groups to develop, expand and improve educational activities in areas such as nutrition, health practices and work skills of the poor. Particular emphasis will be placed on enhancing the role of women.

3. Health/Population

Within the health sector, priority will be accorded to problems particularly affecting the poor, e.g. malnutrition, inadequate water supply and waste disposal, infant mortality and overpopulation. Unsatisfactory environmental conditions in the region and resulting communicable diseases are the greatest single causes of sickness and death. The AID program is designed to complement PAHO and Canadian efforts in this area by providing training for public health and utilities personnel, conducting water supply and sanitation feasibility studies and financing selective demonstration water and sewage disposal systems. RDO/C also plans to collaborate with PAHO in expanding and improving disease surveillance and laboratory capabilities in the region through the Caribbean Epidemiology Center (CAREC). In FY 80, AID will begin a project with CARICOM to help that organization assist in further assessing the regional environmental health problems and in developing environmental health strategies.

During the 1981-85 period, AID's activities will concentrate upon assistance for the actual execution of the environmental health strategies adopted by the area governments; in particular, support will be directed at the implementation of projects in waste management, and the promotion, construction and maintenance of community water systems and waste disposal facilities, with emphasis upon appropriate technology. There will be a need for improving the institutional mechanisms which manage environmental health problems and training for professional workers who will be expected to sustain these activities at the local level.

Continuing upgrading of CAREC's services and greater inclusion of Haiti and the Dominican Republic is contemplated.

At the present time, countries in the region are beginning to integrate health programming into national development planning. However, because health delivery in these countries has historically been hospital-based and physician-provided, there is a void in terms of governmental capability in administration, program design, problem analysis and resource management. AID's current project with CARICOM in basic health management training will help establish a pool of expertise in health management, budgeting, team building techniques and program design and execution. It will also aid the design and testing of model district health teams in three LDCs. Management Resource Centers, too, will be established in health ministries for follow-on inter-island exchanges. The 1981-85 period will see a need for continuing assistance to CARICOM and individual governments as national health plans are adopted, institutional modifications are made to effect the plans and as attempts are made to achieve a commonality of services. Continuing education and training will be provided for implementation of the health team approach and for the creation and management of an inter-island health information system.

Family planning will also receive support during the planning period. Current activities are conducted primarily through regional affiliates of the International Planned Parenthood Federation, with modest governmental support. Beginning in 1979, RDO/C plans to investigate areas in which its program might strengthen this umbrella organization which now operates in fifteen states. Other program possibilities are being explored, and assistance may materialize with such regional institutions as UWI in the training of local clinicians in the technology and management of contraception programs. Delivery of family planning services is expected to receive increasing attention and support during the planning period.

By 1985, the RDO/C program is expected to result in a CARICOM Health Secretariat with a permanent and comprehensive program of technical assistance to each LDC and Barbados. In addition, each country will have initiated implementation of integrated health sector plans, with emphasis upon local auxiliary health workers and multi-purpose health centers. Eighty-five percent of all citizens in the LDCs will have ready access to potable water and excreta disposal facilities. It is anticipated that a full range of family planning information, contraceptive and selective voluntary sterilization services will be available in each country in the CARICOM region.

4. Productive Employment

One of the most critical and immediate problems facing the island governments in the region is the intolerably high rate of under and unemployment. Government ministries and local finance institutions have lacked the technical and institutional capacity to identify, plan, finance and manage the types of programs which could establish significant industrial or agribusiness development. This void of technical expertise carries over to the private sector where there is a similar need to strengthen the broad range of management skills required for successful business operations. There is, in addition, a serious lack of information and data, organized and readily available on which to base investment, marketing and technological decisions.

The RDO/C program in the area of productive employment generation is designed to address these constraints. An ongoing project will assist the CDB to become a dependable source of assistance in such areas as innovative applications for indigenous raw materials, process and product development and application of appropriate technologies to labor intensive commercial enterprises. An AID-assisted Technology Information Unit in the CDB will develop and maintain a data base of

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regional manufacturing processing techniques and equipment for all scales and types of operations. Another ongoing project with the CDB has established an Agribusiness Development Fund which is financing loan and equity investments in labor-intensive agribusiness, particularly for food processing and production of farm inputs needed by small farmers. Support to the Caribbean Food Corporation will provide specialized technical assistance, equity and loan investment for commercial production, processing and marketing activities leading to import substitution and export development.

Further and more concentrated small and medium sized industry development will be needed during the 1981-85 period, with a goal of greater economic growth and increased employment. The following areas will receive attention and assignment of resources:

(a) Development Finance Institutions: The entire range of local finance institutions' services and operations need to be strengthened and expanded. Technical assistance to the public and private sector in project design and implementation, portfolio management, cost and delinquency control and financial planning is required. Through modified lending and organizational policies developed with AID support in the early '80s, the DFC's and the CIC will take an expanded role in small industry development.

(b) Government Policy Formulation: RDO/C will assist CARICOM and the CDB to strengthen their capacities to provide technical assistance to the Governments in formulating economic policies in areas such as industrial harmonization, investment incentives and promotion of substantially greater private sector involvement in the nation's productive effort. Technical assistance in rationalizing national policies with the regional integration activities of CARICOM and ECCM is also planned.

(c) Technology Product Development: The ability of CDB and other regional institutions such as the Caribbean Industrial Research Institute to identify and disseminate appropriate labor-intensive technology will be expanded and new institutional and informational channels identified.

(d) Production Credit: Through 1985 assistance will be required for capitalizing new or expanded enterprises. Lending institutions will be more adequately capitalized, staffed and organized, and credit will be made more available, particularly to the more nascent entrepreneurial groups often found in services, small manufacturing and cottage industries. RDO/C may also provide funding to the CDB for equity and loan investments in CFC agricultural and agribusiness projects which benefit low income groups.

(e) Manpower and Common Technical Services: RDO/C will provide assistance to upgrade managerial and analytical skills in the public and private sectors through in-service technical assistance and training.

It is expected that by the mid 1980s:

--- the MDC and LDC governments will have devised and be executing policies which establish environments favorable to private investment and which emphasize labor intensive versus capital intensive activities. In addition, CDB/CIC will have a comprehensive, non-subsidized program of financial support to the regional private sector, and the CFC will be undertaking a full-scale agribusiness financing program in the region.

5. Alternate Energy Sources

The high cost of energy has been one of the major contributing factors to the economic stagnation of 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. Indeed, wind and biomass energy were widely used as traditional sources of energy in the Caribbean, but in the 1900s have largely been displaced by fossil fuel.

With an initial phase project beginning in 1979, RDO/C is assisting in the assessment of the alternate resources available to the Caribbean for power generation purposes. Opportunities for pilot studies and demonstration projects will be explored along with the formulation of regional strategies and the training of specialists in application of alternative energy systems. Based upon the pilot intervention, during the 1981-1985 period a program will be fostered to fund adoption of these alternate systems on a broader and economically significant scale. Institutional mechanisms such as energy units within the UWI or CARICOM will be created and strengthened so that they can monitor, supervise where appropriate, and continually aid in the development of refinements and improvements in alternate systems' acceptance and use. The CDB and local finance institutions will require assistance in evaluating and designing alternative energy projects.

By the end of the planning period, it is expected that dependence upon fossil fuels for basic human needs will be reduced and a Caribbean group of trained technicians and specialists will be functioning and available for consultation and providing data and direction to Caribbean governments in technical and policy matters to energy. Energy research and development institutions of the region are expected to be collaborating closely by the mid 1980s, sharing research results and designing pilot projects which will include Spanish, French and Dutch-speaking Caribbean countries as well as CARICOM members.

6. Environmental Management

At the present time environmental planning and policy do not play a prominent role in the development policies of the Governments of the Caribbean region. Few budget resources are assigned to environmental protection due to the high priority given to the development needed to solve the problem of high unemployment so critical among Caribbean communities. There is, however, a growing concern among some governments and institutions in the Caribbean about the development of man-made environmental problems. This concern is expected in the next few years to lead to some delineation of the need for and role of environmental and conservation planning as an essential component of development planning and policy formulation in the Caribbean.

Beginning in 1980, RDO/C expects to support CARICOM in a project that will provide technical assistance for (1) an assessment of the environmental problems of the CARICOM countries, (2) development of guidelines for a regional environmental strategy, (3) identification of projects and policies to protect the environment, and combat problems of industrial wastes, solid wastes, water and beach pollution. Upon receipt and review of the environmental base line study presently being prepared by UNDP, additional links in the strategy will be developed. It is expected that by 1985 CARICOM will have formulated an environmental and natural resources policy and begun dealing regionally with environmental issues. Trained West Indian staff will be assisting in local and regional environment planning and policy development. Collaboration in research and planning is expected to include the Dominican Republic and Haiti as well as the English-speaking areas.

E. Regaining Equitable Growth

The fact that progress on meeting basic human needs and on building regional cooperation has been severely curtailed by the current economic crisis makes re-establishment of economic growth essential. At the first meeting of the CGCED, the need for special supplementary economic assistance to address these problems was recognized, and the World Bank with strong support and encouragement from the U. S. proposed the establishment of a special mechanism, the Caribbean Development Facility. The CDF is a multi-lateral framework under which the CGCED members are expected annually to pledge special supplementary assistance to finance the local costs of high priority development projects for which international institutions or other external lenders are financing foreign exchange costs, thus assisting participating countries to maintain acceptable levels of development investment and social services while executing economic policies directed toward financial stability and growth. The CDF Working Group, composed of representatives of the IBRD, IMF, IDB, and CDB, makes recommendations on the eligibility of participating countries for CDF financing and on the amount of special external assistance required for each year.

Prior to and concurrent with the first meeting of the CDF, the Governments of the CARICOM countries announced policies (reinforced in the case of Guyana and Jamaica by agreements with the IMF) designed to achieve stability and sustained growth. Such self-help commitments included reduction in Government deficits, steps to decrease consumption and increase savings, and action to stimulate private sector production. For the LDCs, the commitments included efforts to increase investment levels and increase actions to develop common services activities. The IBRD/IMF are presently evaluating the fiscal situation and participating countries' adherence to policy commitments, and will report to the CGCED on progress in the Spring of 1979.

The IBRD has estimated that a total annual CDF requirement of about \$145 million, including Haiti and the Dominican Republic (\$95 million if they are excluded) for three to five years (1978-1983) by which time the Caribbean economies should have adjusted to the new economic realities. At the first meeting of the CGCED in June, 1978, other donors pledged \$74.3 million towards CDF requirements for the period July 1, 1978 to June 30, 1979. These donors included the U.K., Canada, the Netherlands, France, Norway Venezuela, Columbia, OPEC Fund, and the World Bank.

In September 1978, the U. S. loaned \$20 million to the CDB as its first contribution to the CDF. PL-480 resources were also programmed for the CDF requirements of Haiti and the Dominican Republic. The US\$20 million loan is for on-lending in Jamaica, Guyana, and Barbados and the LDCs of the English-speaking Caribbean, for projects which address the basic human needs of the poor. Projects include provision of infrastructure, services and inputs for small holder agriculture; employment generation activities in urban areas; and education and population services. The largest allocation of funds (US\$12 million) is for food and nutrition. As of the end of 1978, the U.S. CDF loan was on schedule with disbursements of \$9.0 million dollars for the local costs of these BHN projects.

RDO/C considers the CDF program to be transitional but of high priority, for until such time as the underlying economic structural problems are corrected the productive sectors will not provide the employment and income for the unemployed nor generate the resources to sustain and expand social services for BHN. Therefore, RDO/C has programmed \$20 million for the CDF in FY 80 and again in FY 81 and FY 82. The requirements will of course be reviewed on a year to year basis, but the strategy of the mission is to maintain the momentum of this US-inspired multi-lateral thrust until the objectives of our participation are achieved.

For the Caribbean Group's next meeting, RDO/C foresees the need to obtain a consensus on the part of the Caribbean Governments to reinforce their activities to achieve the previously established objectives and to strengthen their policies and programs for increasing regional cooperation and private sector investment. Ideas which will be pursued with the CDF working group include (1) agreement that CDF funds could be used to finance the local costs of regional projects or complementary national projects; (2) agreement to have CARICOM explore the potential of greater harmonization of industry and industrial incentives; (3) agreement to have CARICOM and/or CDB develop a program to establish an effective regional analytical and planning capacity in agriculture, transportation and communications, energy and science, and education and training; and (4) establishment of a Caribbean work group with private and public sector participation to develop coordinated policies to encourage domestic and foreign private investment. This group would, for example, examine the adequacy of the allocation of foreign exchange to the private sector for equipment, spare parts and raw materials.

By the end of the five year period (1983) the following results may reasonably be expected, provided total investment goals, including the supplementary CDF assistance and regular foreign assistance programs are met:

- resumption of economic growth initially but gradually rising to 4-5%; increased private sector savings and investment; significantly increased employment with a gradual decline in unemployment rate - perhaps a 25% decline; significantly reduced balance of payments deficits on current account; increased tax revenues and increased public sector savings - with resultant decreases in inflation, and modest increases in public investment in the larger countries; in the LDCs, reduced public sector deficits turning in some cases to surpluses with increased flows of revenues to common services institutions and significantly improved and enlarged common services programs and strengthened regional integration.

Proposed Assistance Planning Levels (In 1979 Dollars) - Regional Development Office/Caribbean

Fiscal Years (\$000)

	1981	1982	1983	1984	1985	TOTAL
<u>Economic Recovery</u> (CDF loans)	20,000	20,000	-	-	-	40,000
<u>Agriculture</u>	7,700	2,000	12,000	11,000	18,000	50,700
Project Loans	5,500	-	9,000	9,000	16,000	39,500
Common Svcs./Inst. building grants	2,200	2,000	3,000	2,000	2,000	11,200
<u>Edu & Human Res. Grants</u>	2,800	2,100	3,750	4,500	4,500	17,650
School Facilities	500	500	1,500	1,500	1,500	5,500
Common Svcs./Inst. Building/Training	2,300	1,600	2,250	3,000	3,000	12,150
<u>Health & Population Grants</u>	1,550	2,100	2,100	2,500	2,500	10,750
Delivery Systems, incl. FP	250	200	200	1,000	1,000	2,650
Common Svcs./Inst. building	700	900	900	500	500	3,500
Water/Sanitation infrastruc.	600	1,000	1,000	1,000	1,000	4,600
<u>Productive Employment</u>	900	15,000	6,000	16,000	1,000	38,900
Intermediate Credit	-	14,000	5,000	25,000	-	34,000
Common Svcs./Inst. building grants	900	1,000	1,000	1,000	1,000	4,900
<u>Reg. Econ. Plng. Grants & Common Pub. Admin. Svcs.</u>	1,000	1,000	2,000	2,000	2,000	8,000
<u>Alternative Energy Sources</u>	6,000	1,000	11,000	1,500	1,500	21,000
Project loans	5,000	-	10,000	-	-	15,000
Common Svcs./Inst. building grants	1,000	1,000	1,000	1,500	1,500	6,000
<u>Environmental Management</u>	400	400	800	800	9,000	11,400
Project loans	-	-	-	-	8,000	8,000
Common Svcs. Inst. building grant	400	400	800	800	1,000	3,400
SUB-TOTAL (L)	30,500	34,000	24,000	24,000	24,000	(136,500)
SUB-TOTAL (G)	9,850	9,600	13,650	14,300	14,500	(61,900)
GRAND TOTAL	40,350	43,600	37,650	38,300	38,500	198,400

PART III. PROPOSED ASSISTANCE PLANNING LEVEL

The Proposed Assistance Planning Level (PAPL) of \$198.4 million for the period 1981-1985 represents a comprehensive investment in the Caribbean region's economic and social development and recognizes the serious commitment to development made by the countries of the region and by a broadly based, multilateral group of donors. It is the only major external assistance program in the Caribbean which devotes virtually all its resources to fostering regional approaches to development and, as such, complements our bilateral programs as well as the programs of other donors.

The Indicative Planning Level (IPL) earlier formulated by AID/W set \$8 million as the annual funding indicated for the Caribbean regional program beginning in FY 1980. Such a level is sufficient to permit only modest assistance to basic human needs programs in the Eastern Caribbean. It would preclude support for wider regionalism, effective assistance to agriculture and employment generation, and eliminate U.S. participation in the CDF in 1980-82. The CDF which is now the corner stone of the U.S.-inspired CGCED, could be expected to collapse, since without U.S. participation it is unlikely that other donors would provide the special financial assistance required for implementing the investment programs and economic policies that are preconditions to regional economic recovery and growth. Furthermore, the IPL is not adequate to support the increase in the capacity of regional institutions which RDO/C believes is essential to the long-run viability of the region.

The PAPL remains fairly constant during the planning period despite the anticipated termination of the CDF assistance after 1982. This flow of proposed resources reflects the anticipated increase in the absorptive capacity of key regional institutions and increased project opportunities in the agricultural and employment generating sectors as economic recovery is achieved and new initiatives take shape within the framework of the CGCED. Given that newly achieved political independence of some members of the region will create additional strain on already inadequate public management structures, the proposed grant program devoted to strengthening regional institutional capacity is timely and urgent. It should be noted that the PAPL also is made up of over \$7.8 million in grant funds in FY 81 for projects which have received, or will receive, approval prior to the planning period. This same carry-over requirement for FY 82 is just over \$5.0 million and for FY 83 about \$3.0 million.

While regional institution-building pervades the entire program, the functional thrust is a dual approach in agriculture and productive employment generation. The lending program under these two areas will absorb major investments in marketing and rural infrastructure, local industry and appropriate technology. Concerted efforts at reducing the high costs of energy through development of alternative energy sources constitutes a secondary priority. 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. Training will focus on priority problem areas. Basic social services are being supported in both education and health sectors in concert with the strategy for the priority areas, as a way of sustaining progress toward meeting basic human needs even while directing investments toward longer-term payoffs in food production, regional marketing and indigenous industry development.

In conclusion, it is necessary to re-emphasize the importance of throwing the full weight of our support, during the present transitional juncture, behind regional initiatives in the Caribbean. The U.S. commitment is the vital ingredient in the mobilization of what promises to be a formidable, multilateral assault on the constraints to development of the region. Without this comprehensive program, integrating a major

commitment to regionalism, relatively weaker states will be bypassed and incentives for cooperation will diminish. Such disintegration would leave the smaller economies of the region searching in frustration for ways to overcome their stagnation, and pressures to experiment with more radical, authoritarian solutions could be expected to grow. To ward off such developments, concerted action to reduce unemployment and improve economic opportunity must be undertaken without delay. The program proposed here is an important part of the necessary effort.

Staffing Implications: From 1981 through 1985, the program objectives will require the preparation of an average of four new technical assistance projects and two new capital projects per year. Under the present program management mode that heavily utilizes contract and TDY personnel, development and implementation of this program will require an increase of two Americans and four foreign national professionals in the areas of program concentration: agriculture, employment generation, new technology initiatives (alternate energy, appropriate technology, and environment), and education, plus one additional American and four additional foreign nationals in program, accounting and support personnel. This increase would result in a core staff in 1981 of of fifteen American professionals and twenty-two foreign service nationals as compared to present ceiling of twelve Americans and fourteen foreign service nationals (three professionals and eleven secretarial/administrative).

Coordination with other USAID Missions: Effective regional project design and implementation require that RDO/C coordinate closely with U.S. Bilateral AID Missions in the Caribbean. This will involve (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 mission in the preparation and in RDO/C review of 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. In order to maximize the regional potential of bilateral projects, such coordination should also include RDO/C-Bilateral Mission consultation at the PID stage 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.

Field Coordination with Other Donors: The Caribbean Group, including its technical working groups, will serve as the principal overall mechanism for coordinating external assistance. However, more frequent field orientation will also be necessary. The CDB has agreed to host bi-monthly sector meetings to coordinate regional and bilateral external assistance for the LDCs. In addition, joint programming of assistance will be undertaken with the UNDP and other donors as appropriate.

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