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ECONOMIC ASSISTANCE STRATEGY
FOR THE CARIBBEAN REGION
1992-2000

U. S. Agency for International Development
Latin America and Caribbean Bureau
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Preface

The following document is intended as a strategic framework for USAID economic assistance to the Caribbean in the decade of the 1990s. It is intended as a guide, a point of reference, in development of Agency programs and projects, and, for those looking in from the outside, as a concise, yet encompassing characterization of Agency thinking for our programs in the Caribbean through the end of this century.

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ACRONYMS

CAIC	Caribbean Association of Industry and Commerce
CARICOM	Caribbean Common Market
CBI	Caribbean Basin Initiative
CDB	Caribbean Development Bank
CGCED	Caribbean Group for Cooperation in Economic Development
CLAA	Caribbean Latin American Action
CLI	Caribbean Law Institute
DEA	Drug Enforcement Agency
DOD	Department of Defense
EAI	Enterprise for the Americas Initiative
EEC	European Economic Community
EPA	Environmental Protection Agency
GATT	General Agreement on Tariffs and Trade
IBRD	International Bank for Reconstruction and Development
IDB	Inter-American Development Bank
IMF	International Monetary Fund
INM	Bureau of International Narcotics Matters (State)
LAC	Bureau for Latin America and Caribbean (USAID)
LAC/CAR	Caribbean Desk of the LAC Bureau
MIF	Multilateral Investment Fund
NAFTA	North American Free Trade Agreement
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
USG	United States Government
USIA	United States Information Agency
USTR	United States Trade Representative
UWI	University of the West Indies
RDO/C	Regional Development Office/Caribbean (USAID-Barbados)

I. INTRODUCTION: THE CARIBBEAN IN A CHANGING WORLD

A. A Changing World Development Environment

The decade of the 1990s is witnessing some of the most fundamental changes in world political and economic systems since the Second World War. Countries are moving rapidly to adopt increasingly democratic political systems; economic competition is replacing Cold War political tensions and related conflict. Liberalized trade is opening the prospect of achieving, sometime in the next century, an economically efficient world economy that maximizes national and regional comparative advantage and more rapidly improves living standards for all peoples.

In the Western Hemisphere, the trends are increasingly apparent: popularly elected governments are now the only accepted norm, market-based economic policies have achieved renewed stability, and regional cooperation has been revitalized on the basis of free trade among neighboring countries.

The Enterprise for the Americas Initiative

In June 1990 the United States inaugurated the Enterprise for the Americas Initiative (EAI). EAI aims to forge a mutually beneficial partnership of free market reform so as to promote economic growth and political stability in Latin America and the Caribbean. Special emphasis is placed on improvements in trade, investment, and debt reduction. In announcing EAI, President Bush set the tone for future U.S. development policy for the region, by noting that "prosperity in our hemisphere depends on trade, not aid" and that "the future...lies with free government and free markets."

The United States is actively pursuing the long-term EAI objective of creating a hemisphere-wide free trade area. The vigor and enthusiasm of the response by the nations of Latin America and the Caribbean is demonstrated by the conclusion of trade and investment framework agreements with more than thirty countries, including a multilateral agreement with CARICOM.

B. The Challenge for the Caribbean

This period of transition poses a special challenge for the countries of the Caribbean. The region's economies have been among the smallest, most highly protected and import-dependent in the Western Hemisphere. Their economic production is relatively similar, both within individual countries and for the region as a whole. The natural resource base, particularly of the island economies, is fragile and natural disasters occur frequently.

In contrast to these similarities, however, living standards and growth prospects of the region vary dramatically. Haiti and Guyana are the two poorest countries in the Hemisphere -- yet, they share the Caribbean Sea with the countries having the highest GDP south of the Rio Grande (see Table 1). Any regional review must acknowledge this diversity: in culture, language, and colonial heritage; in living standards, economic status, and health and education indices; in legal and political systems.

C. Looking to the Future

Because of their small size, Caribbean nations are vulnerable to international trends. The recent years of world economic and political change have drawn them, despite individual differences, in a similar direction.

Economic Trends

The Caribbean's traditional reliance on preferential trade arrangements and foreign aid from Europe and North America is becoming less viable. The focus of EAI on a region-wide free trade area offers far greater long-term benefit to the Caribbean countries, if they adopt the reforms necessary to be eligible; EEC integration provides an impetus for the Caribbean states to become more competitive in global markets. Development assistance levels are small compared the potential gains from increased trade flows, and cannot be relied upon to continue as changing world conditions create new priorities.

The Caribbean region is reacting slowly to this situation, and, as of yet, has failed to achieve either competitive integration into the world trade system, or sustainable long-term growth. Economic productivity still tends to be low, and production generally not based on economic comparative advantage. Significant local economic distortions to free trade, including tariffs and quotas, remain, leaving little incentive to the domestic producer to be efficient -- resulting in high-priced domestic goods, an inability to export in the international market, and diversion of resources toward inefficient production.

As world trading conditions continue to liberalize, failure to further free trade can be expected to have serious adverse effects on the region. However, improvements to the trade regime, as witnessed by those in neighboring Central America or Mexico, can have a major positive impact on diversification, investment, employment, and, importantly, national household income and welfare.

The Political Setting

During the 1980s the English-speaking states generally maintained their traditional democratic structures, and the Dominican Republic witnessed several peaceful transitions of duly-elected governments.

Country-specific problems are evident, however. Haiti is currently engaged in the complex process of attempting to restore constitutional democracy. Despite previously announced intentions to pursue free and fair elections, Guyana has failed to provide effective democracy to date. And, for the first time in over thirty years, the potential for a major shift in political and economic policy in Cuba, with consequences for the whole Caribbean region, may be on the horizon.

II. ECONOMIC ASSISTANCE STRATEGY FOR CARIBBEAN PROGRAMS IN THE 1990s

A. Moving Toward a Shared Vision

The generation of a shared vision of economic and political development in the Western Hemisphere is now just beginning, and will require effort and comprehension from all sides. Donors want to support development beyond what can be expected from their increasingly constrained foreign assistance budgets and the eroding value of trade preferences in the regional economy. Partially on their own initiative, and partially as a reaction to these foreign trends, the Caribbean nations are increasingly required to look to private sector trade activity as the motor of their own development process, forcing a substantive rethink of the respective roles of public and private sectors. Viewed from both perspectives, EAI provides a strategic framework for collaboration in the future.

U.S. economic assistance programs for the Caribbean¹ must be crafted to be responsive to this evolving global context of public and private sector change, and to be supportive of EAI.

The Future Utility of Regionalism

Support for selected regional approaches to common objectives will increasingly figure in the USAID Caribbean activities in the 1990s. Regional cooperation assumes special potential significance for the Caribbean because of its many countries with small populations, and the consequential need for economies of scale, pooled technical expertise and common services. Possibilities for this form of cooperation can be found at three levels:

- *Sub-regionally*, especially to enhance integration within the Caribbean Common Market (CARICOM), and to encourage cooperation on the island of Hispaniola. It is useful to note that the U.S. bilateral framework agreement on trade and investment was signed with CARICOM for its 12 member states.

- *Caribbean-wide*, to foster greater collaboration among CARICOM, Haiti, the Dominican Republic, and other Caribbean islands. For example, Puerto Rico, already a center for trade and finance in the Caribbean, has the potential to become a major force in some aspects of broader regional cooperation.

¹ USAID-assisted countries in the Caribbean currently include Haiti, Dominican Republic, Jamaica, Belize, and the six OECS states (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines). Guyana, Barbados, Suriname, and Trinidad and Tobago are occasional recipients of minor assistance from USAID, essentially through regional programs.

- *Inter-regionally*, especially with countries that border the Caribbean Sea. The longer-term implications of current U.S. free trade negotiations with Mexico, and the EAI objective of a free trade zone "from Port Barrow to Patagonia," may lead to this type of regional collaboration in the future.

B. Framework for Economic Assistance in the Caribbean in the 1990s

In the Caribbean, as with the rest of the hemisphere, the longer-term potential for development is one in which all countries participate actively in reciprocal trade relationships. The EAI provides a framework which can guide the needed restructuring. The further liberalization of Caribbean economies will help eliminate the economic distortions that discriminate against sustainable growth. Increased tax revenue from economic growth will enable governments to deliver public services in education, health, nutrition, and other aspects of the quality of life, and will further improve living standards and support sustained growth. Increased attention to sound management of the natural resource base will help assure economic growth and well being for future generations.

Through program and project assistance, USAID will

- participate in the economic policy dialogue to encourage reforms that support liberalized trade and development of a competitive investment climate;
- work closely with Caribbean and U.S. businesses interested in trade and investment opportunities in the region, providing information, contacts, and targetted services;
- support sound natural resource management and development of the human resource base, themselves critical to sustained economic growth, political development, and the extension of the benefits of growth;
- assist Caribbean efforts to deepen democracy;
- seek to complement other donor flows to increase the impact from our limited resources;
- by virtue of the presence of local USAID missions throughout the region, serve as a point of coordination with regional institutions, other USG agencies and bilateral donors, and international financial institutions.

Accelerated growth in the Caribbean will create larger markets for U.S. exports and greater opportunities for U.S. investors, creating additional jobs and revenues in the U.S. and the Caribbean alike. Additionally, the emphasis on free trade and sustainable private sector-led growth has the advantage of lessening dependence on, and necessity for, external donor assistance. It is the surest guarantee of sustainable development for the Caribbean.

C. Targets for the Year 2000

Within the framework outlined above, the Caribbean region can be a vibrant, increasingly prosperous, and democratic region by the year 2000. With adequate international support, the following broadly stated targets appear attainable:

Broad-based, Sustainable Economic Growth

The Caribbean region should be a full participant in the world economy, with market-oriented economic policies that make possible steady and sustainable increases in employment and productivity based on the region's comparative advantages.

Government policies should reflect a focus on facilitating, rather than impeding, business development. They should encourage sound management of the natural resource base so as to ensure long-term economic viability and growth. They should also reinforce a broadening of the economic base by improved access to quality basic education and health care in response to the democratically-expressed will of the people, by market-based policies that nurture all entrepreneurs and other producers, and a legal framework that protects property.

Initial indicators for measuring progress are shown in Table 1. Specific quantitative goals will be reflected in individual country strategies and annual Action Plans. This is particularly important due to the diversity that exists in the region in the quality of life, conditions and prospects for economic growth, and the stability and development of its institutions.

Democracy

- Free and open national and local elections should be the norm.
- Strengthened judiciaries should increase respect for the rule of law and human rights, and protect person and property.
- Legislatures should function effectively.
- The autonomy of the military in political and economic processes should be reduced.
- Civic participation in the democratic process should increase.
- The press and other communications media should be free and accountable.

III. STRATEGY OBJECTIVE NUMBER ONE: ACHIEVEMENT OF BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH

Achievement of broad-based, sustainable economic growth requires (a) the rapid liberalization of Caribbean economies to increase trade and investment, (b) the optimal management of natural resources to sustain growth and employment, and (c) attention to complementary human resource development.

A. Increased Trade and Investment

Constraints

The principal constraints to increased trade and investment in the region include:

- Distorted resource allocations
- Limited world market competitiveness
- Legal and regulatory obstacles
- Inappropriate public and private sector roles
- Smallness of geographic size
- Fragile natural resource base
- Non-competitive human resources

Strategic Elements

1. *To further liberalize global trade*

USAID will collaborate with the Caribbean private and public sectors to liberalize and harmonize trade regimes. Key areas of cooperation include:

- reduction (and eventual elimination) of tariffs, quotas, and non-tariff barriers,
- access to all resources, including foreign exchange through market-based systems,
- development of growth-enhancing fiscal systems, through decreased reliance on taxation of international trade,
- greater budgetary control, rationalized public expenditures, and greater efficiency in social accounts,
- development of competitive financial markets, and
- development of attractive investment climates.

Assistance will be provided both bilaterally and regionally through assistance to government and such organizations as CAIC or CARICOM. USAID will also work to stimulate public debate on, and awareness of, the need for growth-oriented trade and investment policies.

2. *To overcome legal, regulatory, and judicial obstacles to a competitive business environment and enhanced productivity*

USAID will support national and regional efforts to streamline and harmonize the business regulatory environment. Close cooperation with business, governments, selected regional organizations (e.g., University of the West Indies, Caribbean Law Institute, Caribbean Association of Industry and Commerce, CARICOM), as well as the interaction with other U.S. agencies, is required to identify bottlenecks to business growth and to work toward their elimination on a national and regional basis.

Improvements will be sought in:

- adoption of international standards of accounting and auditing,
- customs and port handling,
- transparency in the administration of business, taxation, and investment codes,
- recognition and protection of property rights, including intellectual property,
- legal and judicial systems which administer commercial laws and business regulations, and
- use of market-based pricing mechanisms in the allocation of resources.

3. *To stimulate private investment in the Caribbean*

In collaboration with other U.S. agencies, the CDB and the IDB, the private sector, individual nations or groups of nations, USAID will:

- encourage efficiency through streamlined, decentralized administration, private or NGO provision of public services, appropriate cost sharing, and divestiture of parastatals;
- promote an investment climate which facilitates private investment and encourages IDB and CDB to use the Multilateral Investment Fund and investment/financial sector loans to improve the investment climate on a regional basis;
- facilitate the private sector's policy, business, and regulatory dialogue with governments; and
- foster public and private understanding of linkages of trade and investment efforts to necessary supporting infrastructure, including requirements for financing and cost recovery, efficient management, and maintenance.

4. *To help Caribbean countries compete in an economic environment characterized by trade*

USAID will assist the Caribbean nations to work within areas of comparative advantage and to enhance private enterprise efficiency and collaboration to improve upon that advantage.

Specifically, USAID will:

- finance studies to highlight competitive sectors or industries, both nationally and regionally,
- assist the private sector to develop market-based mechanisms, which make marketing information, new

- technology, service training, and other vital inputs widely available in such competitive sectors, and
- foster public/private sector partnerships to enhance investments in human resources, facilitate technology transfers and adaptations, and improve business management, on a sustainable, cost-sharing basis.

5. *To ensure that all segments of the populace participate in and benefit from trade and investment expansion*

USAID will monitor the social and equity impact of trade and investment expansion, designing selected interventions, as necessary, to encourage optimal participation by all in the benefits of growth. Trade and investment expansion should produce employment gains for the poorer segments of society, although such expansion based on comparative advantage is a sharp departure from current practice, requiring a short-term transition which may be disproportionately difficult for the more economically disadvantaged. Consequently, USAID will

- finance analyses and develop baseline data on wages, incomes, and expenditures to assist in monitoring impact on various segments of the population;
- help to ameliorate short-term market imperfections, as required, through support of small and micro-enterprise sustainable credit and technical assistance programs, and
- join with international financial institutions in transition efforts to cushion the near-term impact of adjustments, if they are unduly difficult for the poor.

B. Sustained Natural Resources Management

Constraints

The wise use of natural resources is crucial to achieving sustainable development. The region's insular and fragile natural resource base may provide excellent opportunities for development, but will require special care to ensure its sustained use. For example, the strong comparative advantage in marine-based development can be undermined by the soil erosion, sewage, and fertilizer run-off which kill coral reefs, damage fisheries, and destroy the resource base upon which the tourism industry depends.

Selected political and social characteristics of the region also contribute to special natural resource vulnerability:

- environmental degradation tends to be greatest in coastal areas, where most people live and earn their livelihood,
- small countries are challenged by the high cost of effective resource management and must work collectively to achieve economies of scale;

- environmental issues frequently transcend national boundaries (e.g. Hispaniola and a shared Caribbean Sea);
- weak public and private institutions and the lack of appropriate technologies hamper sustainable economic growth.

Strategic Elements

1. *To recognize the economic opportunities provided by natural ecosystems and to promote their conservation and judicious use*

USAID will finance the training and institutional development of public entities in support of efforts to integrate environmental considerations into overall economic decision-making. Particular emphasis will be placed on strengthening economic accounting methods and improving market functions to reflect the true costs of resource degradation. Current problems include pricing policies that undervalue common goods, subsidies, inadequate rents and user fees, and tax policies that lead to inefficient use of resources.

2. *To stimulate key environmental policies and reforms*

USAID will promote public and private awareness of environmental issues in an effort to improve local policies. Environmental education in schools, universities, business fora, local communities, and governments will help develop an informed citizenry that plays a more effective role in defining the development agenda and encouraging formulation of key environmental protection policies and necessary reforms. By increasing participation and empowerment of citizens in environmental initiatives, the laws, regulatory systems, and enforcement mechanisms to support sustainable use of resources and to improve the human environment will be strengthened.

3. *To support governmental capacity to formulate and implement environmental and natural resource management policies*

USAID will assist public entities to:

- establish baseline monitoring systems and collect and analyze data,
- provide environmental education and training for employees and managers of policy and planning units,
- strengthen capacities to enforce environmental and natural resources policies, laws, and regulations, and
- improve coordination among institutions responsible for environmental protection and resources management.

In this effort, Caribbean experience, knowledge, and expertise must be fully utilized to harmonize environmental protection laws on a regional basis.

4. *To develop and strengthen regional institutions addressing environmental and natural resource management issues*

USAID will collaborate with CARICOM:

- to support the program expansion of a regional entity involved in environmental monitoring, data analysis, provision of services to national environmental protection agencies, and identification of viable environmental and economic policy alternatives; and
- to stimulate regional information exchanges to expand knowledge of policy and technology options.

5. *To support disaster preparedness and mitigation*

A special characteristic of the Caribbean islands is their vulnerability to natural (e.g., hurricane) and man-made (e.g., oil spill) disasters, on a fairly regular basis. Inadequate prevention and mitigation result in health problems, injury and loss of life, especially among the poor, the unnecessary destruction of homes and basic infrastructure, major economic dislocation, and accelerated environmental degradation. In collaboration with OFDA and RHUDO, USAID will

- support improved environment and natural resources planning and management;
- encourage efforts to undertake structural risk assessments, code modification and enforcement, involvement of private insurers in prevention, and community readiness.

6. *To support the development and use of sustainable technologies (such as, competitive farming systems, watershed and coastal zone management, and management of parks and protected areas)*

USAID, in conjunction with the private sector, will facilitate the exchange of technology and information among Caribbean nations, concentrating efforts in farming systems, watershed and coastal zone management, and management of parks and protected areas. USAID will cooperate with local PVOs to enhance and expand their innovative approaches and pilot programs to improve the state of the art and facilitate the transfer of such technology. USAID will participate fully on the environmental councils established under EAI and will advocate allocation of EAI environmental fund resources to PVOs in consonance with this strategy.

USAID will consult closely with the IDB, IBRD, CDB, Canada, and the U.K. in working toward these aspects of this strategic objective. In the formulation and management of its activities, USAID will engage the expertise of USDA, EPA, Interior, Peace

Corps, the U.S. Coast Guard, the Commonwealth of Puerto Rico, and individual NGOs active in environmental issues.

C. Human Resource Development

Health and basic education services are well developed in most of the Caribbean. However, in a few countries these services are significantly below standard and are major constraints to development. The special challenge narcotics pose for human resources development in the Caribbean must also be addressed. These areas are closely related to this strategic framework for the Caribbean, in that:

- a vibrant economy requires a healthy, educated workforce, as well as a fiscally-prudent public budget with appropriately allocated social expenditures,
- increased growth enhances prospects for greater disposable income for choice among social services options, and
- democratic participation will ensure that quality public social services are relevant and responsive to popular needs.

Family Health

In the English-speaking Caribbean health is not a constraint to development, and only limited investments in health and family planning services, financing reform, and policy development will be undertaken on a specific country-by-country basis.

In Haiti and, to a lesser extent, the Dominican Republic, poor health status and high fertility are major constraints to improving living standards. With life expectancy in the mid-50s and fertility and population growth rates on the rise, Haiti's population will double to 13 million by 2025. Most of this increase will be among people living in poverty, placing an even greater strain on the environment and already overstressed social institutions, and making it all the more difficult for democracy to flourish. Child survival indices are among the worst in the Hemisphere. In the Dominican Republic, infant mortality is too high and life expectancy too short. While the annual population growth rate is declining, it is still high at 2.3%.

USAID will support institutional and policy reforms in both public and private sectors that increase access to primary health care, remove obstacles to better resource allocation, increased efficiency, and more cost recovery in family health service delivery. AIDS is a special and growing problem throughout the region, particularly in Haiti, Dominican Republic and Jamaica, countries being considered for special funding under an intensive impact-oriented program. Finally, the region will continue to receive prompt support to prevent and control anticipated cholera outbreaks, using a Washington-based LAC regional cholera program.

What? !!

Education

Assistance in basic education is only expected in Haiti and the Dominican Republic, where the local systems need to extend basic education to a larger proportion of the population. Assistance efforts will focus on restructuring government budgets and decentralization; curriculum reform; providing instructional materials and text books; and developing innovative approaches to encourage greater private sector support to sustain improved public and select private school systems.

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USAID's programs in the rest of the Caribbean will respond to the diversity of human resource endowment among Caribbean countries. To support increased trade and investment, USAID will target training to labor leaders, businessmen, government officials and opinion makers. Management and vocational education will be geared to productive employment and increased efficiency in globally competitive enterprises. To the extent feasible, programs will be implemented by the Caribbean private sector, on a sustainable, cost-sharing basis.

Counternarcotics Efforts

Narcotics production, trafficking, and transshipment threaten to corrupt the fabric of society and to create a permanent underclass. While the Caribbean serves mainly as a transit point for drugs moving to the U.S. market, there is also production in some of the larger countries. Narcotics pose a growing threat to the development of the islands, with important economic and societal implications. The lack of viable economic alternatives for the unemployed, low public awareness of the dangers of narcotics, and inadequate judicial systems lead directly to increased corruption, ineffective government, and severe debilitation of drug users.

USAID, in cooperation with INM and DEA, will contribute to the counternarcotics effort by assisting Caribbean countries to increase public awareness of narcotics-related problems, to improve efforts for broad-based growth and employment, and to strengthen overall financial and administrative accountability.

IV. STRATEGY OBJECTIVE NUMBER TWO: STRENGTHENING OF STABLE, PARTICIPATORY DEMOCRACIES

The benefits of increased economic growth are enhanced through participation of the people at all levels of governance to ensure that services are equitably distributed and policies are relevant to their needs.

The status of democratic development in the Caribbean varies from country to country. In the Commonwealth Caribbean, democratic traditions tend to be strong. Guyana, with its multi-ethnic population is grappling with pluralism, and the current political leadership has committed itself to holding elections soon. In the Dominican Republic, there exists generally good respect for civil liberties, although the need for greater popular participation in governance and for improvements in the judicial system are issues under active debate. Haiti, a fragile democracy, faces difficulties with political instability and intimidation, anti-democratic forces, and human rights violations, as it seeks to re-establish constitutional democracy. Finally, Cuba may become the issue of tomorrow.

Strategic Elements

The United States and Caribbean nations seek to promote and solidify democratic values and institutions because they reflect mutually-held beliefs and means to ensure self-determination, human rights, the rule of law, and political freedom. USAID's democratic strategy in the Caribbean has two objectives:

1. *To strengthen the competence, accountability, and responsiveness of key government institutions, that they might better govern and merit public confidence*

USAID will support:

- political system development, including electoral and legislative reforms,
- improvements in the regulatory and judicial environments,
- decentralization of bureaucracies and empowerment of local governments, and
- better financial management.

2. *To strengthen public participation in democratic processes and institutions*

USAID will:

- encourage public debate and greater consensus on public policy issues,

- underwrite the teaching of democratic values, knowledge, and practices,
- support private organizations participating in an emerging civil society, and
- finance leadership training.

These actions will simultaneously help improve the overall business climate and thereby complement the first objective of this strategy.

The level of effort will differ in each Caribbean nation, reflecting the region's diversity in democratic development. USAID will operate within the context of a Country Team Working Group in the individual country, which will itself provide the mechanism to ensure coordination with the State Department, USIA, DOD, DEA, Justice Department, and the Peace Corps.

In Washington, USAID will collaborate with appropriate U.S. democratic-enhancement institutions and will continue to participate in the Interagency Working Group designed to provide overall policy and program coordination. USAID will consult with labor, human rights, and legal organizations, as well as the academic community, to continuously update and refine our strategic concerns and program design efforts.

USAID will work closely with individual key donors such as Canada, the U.K., other European donors, the UNDP, and the OAS, to ensure coordination.

V. RESOURCES, ORGANIZATIONAL RELATIONSHIPS, AND MANAGEMENT CONSIDERATIONS

A. Resources

Existing Resource Flows

Total resource flows to the Caribbean, from all sources, approached \$9.2 billion in 1989 (latest year for which complete data are available), constituting a modest decrease in nominal terms from flows registered at the beginning of the decade. Despite the size and nature of these flows, the Caribbean countries did not record positive per capita growth during the 1980s.

- Merchandise exports, currently responsible for 70-80% of foreign exchange flows into the Caribbean, has declined over the decade to \$6.6 billion in 1989.
- Tourism receipts advanced 110% over 1981-89, reaching \$2.6 billion at the end of that period.
- Private flows, consisting of commercial bank lending, direct foreign investment and export credits, were negative throughout 1981-89, representing minus \$334 million in 1989. This was primarily repayment of principle and interest.
- Net official flows, including official development assistance, amounted to \$370 million in 1989. This total is down from a peak of \$1.1 billion in 1982. Key lenders include World Bank, IMF, IDB, CDB, EEC, United States, Canada, and the U.K.

Future Resource Trends

As a longer-term trend, the Caribbean cannot look to U.S. and other donor economic assistance flows to fill future resource gaps in any important way. USG assistance already is on the decline (see Table 2) and levels in the year 2000 can be expected

**Table 2: U.S. Development Assistance to the Caribbean Region
(Annual Obligations for FY1980-93)**

to dip below the \$200 million mark in nominal terms.

B. Organizational Relationships

To maximize the impact of scarce and declining resources, successful implementation of this economic assistance strategy will require greater focussing of future programs, as well as selected phasing out of activities which diverge significantly from the strategy framework. To provide clearer focus at the regional level, it is expected that the regional mission in Barbados (RDO/C) will be requested to develop selected region-wide programs, in consultation with bilateral missions and with Washington. Additionally, USAID will develop a more concerted working relationship internally, with other USG agencies, and with the international donor community.

Coordination Within USAID

Field missions and Washington jointly prepare bilateral and regional program statements which define strategic objectives and expected accomplishments. Progress against these objectives is reviewed annually, with participation of offices from both USAID and other relevant USG agencies. To enhance coordination and more effectively integrate bilateral and regional programming, a new management oversight structure will be established for USAID Caribbean programs. The Assistant Administrator will chair a Steering Committee, to be comprised of the directors of USAID missions in the Caribbean, and the Office of Caribbean Affairs, with LAC/CAR serving as Executive Secretariat. This committee will convene at least annually to review overall priorities, address region-wide issues, assess progress against strategic objectives, and to provide input to the CGCED process.

Finally, planning conferences will also be held on special topics, as needed, to ensure optimal coordination.

USG Coordination

A number of USG agencies have a mandate to provide expertise and funding in areas related to the objectives of this strategy. Close coordination with these agencies is essential to ensure maximum impact of overall USG assistance to the region, and judicious use of limited USG resources. Consultations on EAI will occur through existing committees, coordinated at the Cabinet level by the EAI Policy Coordination Committee. The Treasury Working Group on Debt, the Joint Trade and Investment Councils, and the Environment for the Americas Board bring USAID into operational relationships with Commerce, EPA, Interior, State, Treasury, USDA, and the USTR. In improving natural resource management, USAID will coordinate with and gain access to the expertise of EPA, the Park Service and the Fisheries and

Wildlife Service, Peace Corps, U.S. Coast Guard, and the USDA. USAID also will work closely with DOD, Justice, Peace Corps, State, and the USIA on democratic development and with the DEA and INM on drug awareness programs. Finally, USAID will engage the Puerto Rican public and private sectors to increase trade and investment and to supply natural resource management technology. The Caribbean stands to derive significant gains if it can more effectively use Puerto Rico's Section 936 monies.

Donor Coordination

Implementation of the strategy necessitates convergence of policies and practices among the international donor community. The principal donor coordination forum in the Caribbean is the CGCED chaired by the World Bank. While the United States has been an important spokesman in past bi-annual CGCED meetings, we plan to become even more active in that forum in the future. In order to implement the EAI, USAID will continue to coordinate with the IDB in the development of investment sector loans and both the IDB and CDB to provide access to monies under the new Multilateral Investment Fund.

Congressional Collaboration

Considerable funding flexibility will be needed to enable USAID to respond effectively to the region's needs, to ensure adequate program and financial accountability, and to demonstrate program impact. Congress and USAID can collaborate meaningfully in the achievement of these strategic objectives either (a) by providing relief from the rigidities of functional accounts and earmarks or (b) by appropriating sufficient funds in the Private Sector, Energy, and Environment accounts.

EAI is the cornerstone of the Caribbean strategy which seeks to promote an economically vibrant region due largely to increased trade and investment flows by active participation of the private sector. Congress could enhance prospects of achievement of these strategic objectives (a) through enactment of those elements of the EAI which have not yet been codified and (b) through appropriation of sufficient resources. So far, only modest funding is envisaged for initiatives in debt reduction, a component of the EAI; debt reduction would mobilize flows for new investment in productive enterprises and would provide resources for delivery of social services and to help manage the natural resource base and the environment. The USG has committed \$500 million over five years for the \$1.5 billion IDB-administered Multilateral Investment Fund, an element of the EAI whose mandate is to ensure effective use of donor and private resources in support of trade and investment. However, the requisite budgetary allocations have been neither authorized nor appropriated by Congress.

C. Management Considerations

Over the next few years, USAID's declining resource levels will necessitate greater focussing and concentration of activities around our major objectives. There may also be a need (a) to reduce non-strategic targets of opportunity, (b) to increase use of non-project assistance, and (c) to selectively expand reliance on regional institutions for program implementation. In the face of these developments, USAID will attempt to:

- restructure its overseas staff mix so as to place stronger emphasis on expertise needed to implement the Caribbean Strategy, particularly in the area of trade and investment;
- continue to improve financial accountability of missions;
- utilize the staff of our Regional Development Office (RDO/C) to engage a range of appropriate Caribbean nations through regional programs to advance the EAI process.

Given the likelihood that program and staff reductions will continue throughout the remainder of the 1990s, the LAC Bureau Steering Committee for the Caribbean will continue to review the organization of its operations overseas as part of its regular oversight functions.