IDB REGIONAL STRATEGY FOR SUPPORT TO THE CARIBBEAN COMMUNITY
(2007-2010)

October 2006

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BACKGROUND INFORMATION AVAILABLE IN THE FILES OF INT/ITD

Statistics in CARICOM. Background Report by Lancelot Busby

The Maritime Sector in CARICOM. Background Report by G. Wilmsmeier, R. Sanchez

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IDB/INT/RE3. Caribbean Regional Portfolio Review, 2005 (CP-1526-5)

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<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>CARICOM</td>
<td>Caribbean Community</td>
</tr>
<tr>
<td>CARICRIS</td>
<td>Caribbean Credit Rating Service Company</td>
</tr>
<tr>
<td>CARTAC</td>
<td>Caribbean Regional Technical Assistance Center</td>
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<tr>
<td>CCJ</td>
<td>Caribbean Court of Justice</td>
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<tr>
<td>CDB</td>
<td>Caribbean Development Bank</td>
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<tr>
<td>CDERA</td>
<td>Caribbean Disaster Emergency Response Agency</td>
</tr>
<tr>
<td>CET</td>
<td>Common external tariff</td>
</tr>
<tr>
<td>CFD</td>
<td>Caribbean Forum for Development (formerly CGCED)</td>
</tr>
<tr>
<td>CIDA</td>
<td>Canadian International Development Agency</td>
</tr>
<tr>
<td>CRNM</td>
<td>Caribbean Regional Negotiating Machinery</td>
</tr>
<tr>
<td>CROSQ</td>
<td>Caribbean Regional Organization for Standards and Quality</td>
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<tr>
<td>CSME</td>
<td>CARICOM Single Market and Economy</td>
</tr>
<tr>
<td>CXC</td>
<td>Caribbean Examinations Council</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development (UK)</td>
</tr>
<tr>
<td>EC</td>
<td>Eastern Caribbean (OECS) countries</td>
</tr>
<tr>
<td>EPA</td>
<td>Economic Partnership Agreement</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>FSO</td>
<td>Fund for Special Operations</td>
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<tr>
<td>FTAA</td>
<td>Free Trade Area of the Americas</td>
</tr>
<tr>
<td>FTZ</td>
<td>Free trade zone</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>ICT</td>
<td>Information and communications technology</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>INT</td>
<td>Integration and Regional Programs Department</td>
</tr>
<tr>
<td>INTAL</td>
<td>Institute for the Integration of Latin America and the Caribbean</td>
</tr>
<tr>
<td>ITD</td>
<td>Integration, Trade and Hemispheric Issues Division</td>
</tr>
<tr>
<td>LAC</td>
<td>Latin America and the Caribbean</td>
</tr>
<tr>
<td>LDC</td>
<td>Less developed country (in CARICOM)</td>
</tr>
<tr>
<td>MIF</td>
<td>Multilateral Investment Fund</td>
</tr>
<tr>
<td>OECS</td>
<td>Organization of Eastern Caribbean States</td>
</tr>
<tr>
<td>RE2</td>
<td>Regional Operations Department 2</td>
</tr>
<tr>
<td>RE3</td>
<td>Regional Operations Department 3</td>
</tr>
<tr>
<td>RS</td>
<td>Regional Strategy</td>
</tr>
<tr>
<td>RTC</td>
<td>Regional Technical Cooperation</td>
</tr>
<tr>
<td>SME</td>
<td>Small and medium-sized enterprises</td>
</tr>
<tr>
<td>TC</td>
<td>Technical cooperation</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>UWI</td>
<td>University of the West Indies</td>
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<tr>
<td>WTO</td>
<td>World Trade Organization</td>
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EXECUTIVE SUMMARY

This document articulates the Bank’s strategy for support to the Caribbean Community’s regional integration process in the period 2007-2010. Regional integration is not an end in itself, but one of several policy instruments used by Caribbean countries to achieve their development goals. Caribbean countries recognize that successful participation in the global economy is a vital condition for their sustained economic development, and have increasingly sought to shape their integration process to reflect that goal. How regional integration can support global integration and competitiveness is therefore an important focus of the Bank’s Regional Strategy (RS) for CARICOM.

Since the approval of the last strategy in 1999, Caribbean countries have made significant progress towards consolidating and deepening their regional integration arrangement, which covers not only economic integration, but also foreign policy coordination and functional cooperation in a variety of areas related to social and economic development. CARICOM is one of the most advanced integration arrangements in the Western hemisphere, and current efforts to move towards a CARICOM Single Market and Economy (CSME) attest to the strong political support the process enjoys among government leaders in the region. Despite its large membership (15 countries, eight of which are Bank members), CARICOM is by far the smallest integration group in the hemisphere in economic terms, which has implications for the specific gains that it can derive from its integration process.

The strategy departs from a conviction that because of the small size of the Caribbean economies, the benefits of regional integration for CARICOM differ from those of larger integration groups. The regional market, even when fully integrated through the CSME, will still be small, and the traditional trade-related gains from economic integration will therefore be modest. Because the gains are modest, they can easily be rendered irrelevant by remaining imperfections in the free trade area or customs union, or obstacles to the free flow of services, capital and labor within the region, which can constrain the effective allocation of resources across the CSME and intensify adjustment costs from intra-regional liberalization. For CARICOM, therefore, full intra-regional market liberalization and integration is more crucial than for larger integration groups, which can more easily afford exceptions to customs union discipline.

CARICOM’s current trade negotiations with the European Union, its participation in the Doha Round of multilateral trade negotiations and possible future negotiations with the United States demand that developments in the CSME are aligned with the group’s external negotiating agenda, and that the two processes of intra-regional and external liberalization are mutually supportive. In implementing the CSME, CARICOM must also address existing economic disparities in the region, as well as the distributional impact of integration. This is best done through adjustment support, rather than exceptions to customs union discipline. It is also important to help the region’s private sector take advantage of the new opportunities offered by a more liberalized trading environment.

While the small size of the regional market limits the traditional trade-related gains from economic integration, gains from regional cooperation in the production of “non-tradables” could be sizable precisely because the countries are so small. This is because the advantages of size go well beyond the production of tradable goods and services. By pooling their resources, Caribbean countries can lower per-capita costs in the provision of public or quasi-public goods (e.g. infrastructure; security); provide better insurance to region-specific shocks (e.g. natural disasters); better internalize cross-regional externalities by centralizing the regulation of externality-prone activities (e.g. environmental regulation); and attenuate regional disparities with redistributive schemes. These non-tradable “goods” play a critical role in the region’s productivity, competitiveness and growth prospects. Without pooling their resources, small countries either carry a heavy fiscal burden to produce and have access to these goods, or have no access to them at all. While the “single economy” element of the CSME clearly aims to expand functional cooperation in the production of these “goods”, many details of such cooperation have yet to be defined.
The overall objective of the Bank’s Regional Strategy for CARICOM in the period 2007-2010 is to help Caribbean countries transform their regional integration process into an effective instrument of global integration, competitiveness and economic growth. To this effect, the strategy proposes two main areas of strategic focus. The first is full intra-regional market liberalization, aligned with CARICOM’s external liberalization efforts and effectively managing the distributional risks of liberalization. Specifically, the Bank will support CARICOM in its efforts to: (i) eliminate remaining restrictions to the free flow of goods, services, capital and people within the CSME; (ii) align its regional and global integration agendas; (iii) move from protection to adjustment support to help disadvantaged countries, regions and sectors manage the process of intra-regional liberalization; and (iv) facilitate private sector development within a more open trading environment.

The second strategic area is regional cooperation to improve CARICOM’s social and economic infrastructure (non-tradables) in critical areas of development. The aim is to support horizontal cooperation initiatives that benefit all productive sectors, and to prioritize initiatives that have a clear potential to improve, at a lower cost to members, the region’s existing infrastructure and related services. Following these objectives, the Bank could provide support in five specific areas of regional cooperation: (i) information and communications technology (ICT); (ii) energy; (iii) disaster risk management; (iv) statistics; and (v) management of the integration process, in terms of planning, monitoring and awareness building.

In line with these strategic areas and recommendations from a regional technical review meeting held in Barbados on 8 July 2006 and chaired by Barbados Deputy Prime Minister Mia Mottley, the Bank will work particularly closely with the following regional institutions in implementing the strategy: (i) the CARICOM Secretariat (mainly its CSME Unit); (ii) the newly established Caribbean Business Council; (iii) the Caribbean Regional Negotiating Machinery (CRNM); (iv) the Caribbean Knowledge and Learning Network (CKLN) and other institutions focusing on skills development, such as the University of the West Indies (UWI) and the Caribbean Examination Council (CXC); and (v) the Caribbean Disaster Emergency Response Agency (CDERA). The Bank could also consider supporting the planned Regional Development Agency and Commission on Functional Cooperation once they are operational, given their potentially important role in coordinating and channeling resources to various areas of the strategy.

Key operational features of the strategy include: (i) more programmatic interventions, focusing on demand-driven projects in a select number of priority areas and greater synergy across the regional portfolio; (ii) simpler and more results-oriented project designs to match regional execution capacity and encourage timely implementation; (iii) building effective monitoring and evaluation frameworks at the strategic and project level to help measure development outcomes; and (iv) greater efforts at donor coordination and initiatives to strengthen institutional capacity in regional executing agencies.

The strategy was prepared by the Integration and Regional Programs Department in close collaboration with the Bank’s Regional Operations Departments RE2 and RE3, and is the product of a broad consultation process both within the Bank and in the Caribbean region. It offers proposals on how to use the Bank’s various financial and non-financial instruments to support priority areas of action related to regional integration and, where possible, indicates how those instruments can be mutually supportive (e.g., MIF support for regulatory harmonization in the CSME can open the way for greater activity by the Bank’s other private sector windows). The strategy moreover seeks to complement and contribute to the Bank’s country strategies with its Caribbean members. It highlights the importance of integrating regional objectives into the Bank’s national programming, and offers specific recommendations on how to achieve this. Annex I of the RS, which contains country-specific analysis for the eight Bank member countries and for the Eastern Caribbean countries as a group, proposes interventions at the national level to facilitate each country’s regional and global integration, for possible inclusion in the Bank’s national pipeline.
I. INTRODUCTION

1.1 The Caribbean Community (CARICOM) was established in 1973 to foster economic integration among its member states through the creation of a common market; strengthen the region’s external position through coordination of member states’ foreign policies; and pool resources through functional cooperation in areas such as health, education and disaster risk management. In 1989, member states reaffirmed and broadened the Community’s core objectives to include the creation of a CARICOM Single Market and Economy (CSME).\(^1\) CARICOM has 15 member states\(^2\), a population of 15 million and a combined GDP of $40 billion. Eight member states are also borrowing members of the IDB. The Bank has moreover established a partnership with the Caribbean Development Bank (CDB) to extend technical and financial support to the remaining seven member states, which comprise the Organization of Eastern Caribbean States (OECS).

1.2 This document articulates the Bank’s strategy for support to CARICOM’s regional integration process in the period 2007-2010. Regional integration is not an end in itself, but one of several policy instruments used by Caribbean countries to achieve their development goals. Caribbean countries recognize that successful participation in the global economy is a vital condition for their sustained economic development, and have increasingly sought to shape their integration process to reflect that goal. How regional integration can support global integration and competitiveness is therefore an important focus of the Bank’s Regional Strategy (RS) for CARICOM.

1.3 The timing of the new strategy is propitious. The last RS (GN-2035-1/2) was approved in 1999, when CARICOM member states were still in the process of revising their original treaty to establish the legal basis for the CSME. This process took longer than anticipated, as did the subsequent implementation of the treaty’s single market provisions. The year 2006 marks a milestone in the integration process, with entry into force of the CARICOM Single Market among 12 member states. This year, CARICOM also enters the final phase of negotiations for an Economic Partnership Agreement (EPA) with the EU, the first-ever reciprocal trade agreement between CARICOM and one of its main trading partners. At the same time, a number of external developments are altering the context in which Caribbean countries pursue their integration efforts: they include the stalled Free Trade Area of the Americas (FTAA) process, the resulting proliferation of bilateral trade agreements across the Western Hemisphere, the continued erosion of preferences in CARICOM’s main export markets, and the emergence of new trading powers such as China and India. In this changing context, it is a good time to reflect on the group’s integration challenges, and on how the Bank can best support the process.

1.4 The new strategy is the product of a broad consultation process both within the Bank and in the Caribbean region. It takes account of the challenges Caribbean countries face in

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\(^1\) The single market covers the free movement of goods, services, capital and skilled persons across the region, the right of CARICOM nationals to establish a business presence anywhere in the region without restrictions, and the implementation of a common external tariff and trade policy. The single economy refers to macroeconomic policy coordination, harmonization of policies, laws and regulations in various areas of the economy, and regional sector programs (agriculture, industry, transport).

\(^2\) Barbados, Guyana, Jamaica and Trinidad and Tobago are founding members. Belize and the OECS countries (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, Montserrat, St. Lucia and St. Vincent and the Grenadines) joined in 1974, The Bahamas in 1983, Suriname in 1995 and Haiti in 2002.
their effort to achieve deeper integration; priorities for regional integration as articulated by CARICOM Heads of Government; lessons learned from previous Bank interventions in support of Caribbean integration; Bank comparative advantages; and the work of other development agencies in the region. It moreover seeks to complement and contribute to the Bank’s country strategies with its Caribbean members. As small economies, CARICOM countries can often benefit from addressing national constraints through regional cooperation, and from taking account of regional implications (externalities) in crafting their national development strategies. By identifying and addressing these issues, the RS can help Bank country teams capture them more effectively in their national programming, while at the same time guiding Bank interventions at the regional level.

1.5 The strategy presents priority areas of action rather than a specific project pipeline, for reasons related to both demand and supply factors. Contrary to country strategies, the Bank does not have a single local partner with whom to develop a regional strategy and project pipeline; rather, demand for integration projects comes from multiple sources, including member state governments and numerous regional agencies in CARICOM. On the supply side, there is no dedicated Bank instrument for support to regional integration, and FSO and other grant funds are not programmed on a multi-annual basis. The Bank’s Regional Integration Strategy (GN-2245-1) therefore argued that rather than just guiding the use of regional FSO, regional strategies should seek to mobilize funds from all sources. Hence, the RS proposes a strategy for using the Bank’s various financial and non-financial instruments to support priority areas of action related to integration, help Bank staff evaluate incoming project proposals, and guide national programming. Specific projects are then developed during implementation of the strategy.

1.6 Section II of the RS reviews the objectives, status and main challenges of Caribbean regional integration. Section III assesses the Bank’s past strategy for CARICOM and summarizes the main findings of the Caribbean Regional Portfolio Review conducted in 2005. Section IV presents the new strategy. Annex I contains country-specific analysis for the eight Bank member countries and for the OECS as a group. Annexes II-X provide relevant institutional, operational and statistical information related to the strategy.

II. REGIONAL INTEGRATION: OBJECTIVES, STATUS AND MAIN CHALLENGES

A. Why Integrate?

2.1 For decades, the constraints of small size, a common history and certain cultural affinities have combined with external pressures to push Caribbean countries towards ever-closer regional integration. Size constraints, in particular, have fueled both political and economic motivations for integration. This is not surprising in a region where all but three countries are classified by the United Nations as “microstates”.

2.2 Caribbean countries view economic integration as a way to mitigate the vulnerabilities of small size. The rationale for the CSME is that the free movement of goods, services, capital and skilled people across the region will facilitate better allocation of resources and more competitive production of goods and services. Macroeconomic coordination and the harmonization of economic policies are expected to boost the gains from
intraregional liberalization and encourage domestic and foreign direct investment (FDI) in the enlarged regional market. Size constraints also drive foreign policy coordination, where increased bargaining power is a major goal, and functional cooperation, where countries hope to achieve both cost savings and quality enhancements in the common provision of social services.

2.3 Size constraints matter not only as an incentive for regional integration, but also because they determine the specific gains Caribbean countries can derive from their regional integration process. The regional market, even when fully integrated, will still be small. The traditional trade-related gains from economic integration (in terms of allocative and scale effects) will therefore be modest, even in a fully functioning CSME where intraregional trade liberalization is accompanied by full factor mobility and harmonized economic policies. This is particularly true in a region characterized by high trade openness (because access to world markets mitigates size constraints in the tradable goods sector) and similar factor endowments across countries (limiting the scope for intra-regional trade). Because the gains are modest, they can easily be rendered irrelevant by remaining imperfections in the free trade area or customs union, or obstacles to the free flow of services, capital and labor within the region, which can constrain the effective allocation of resources across the CSME and intensify adjustment costs from intra-regional liberalization. For CARICOM, therefore, full intra-regional market liberalization and integration is more crucial than for larger integration groups, which can perhaps more easily afford exceptions to customs union or common market discipline.

2.4 Meanwhile, the gains from regional cooperation in non-trade areas could be significant precisely because the countries are so small. This is because the advantages of size go well beyond the production of tradable goods and services. In contrast to Caribbean countries, for example, larger countries: (i) have lower per-capita costs in the provision of public or quasi-public goods (e.g., infrastructure, security); (ii) can provide better insurance to region-specific shocks (natural disasters); (iii) can better internalize regional externalities by centralizing the regulation of externality-prone activities (environmental regulation); and (iv) can attenuate regional disparities with redistributive schemes. In the production of these “goods”, which play a critical role in the region’s productivity, competitiveness and growth prospects, trade openness can do little to mitigate the constraints of small size. These are by definition non-tradable “goods” and therefore countries cannot resort to trade to find an alternative, cost-effective source of supply. Without pooling their resources, Caribbean countries either carry a heavy fiscal burden to produce and have access to those “goods”, or have no access to them at all. While the “single economy” element of the CSME aims to expand functional cooperation in the production of non-tradables, many details of such cooperation are not yet defined.  

B. Economic and Political Context

2.5 The prevailing economic context in which Caribbean countries are seeking to build a single market and economy and consolidate regional cooperation in other areas is not an easy one. Since 1999, most Caribbean countries have witnessed sluggish growth, weak

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3 For a more detailed analysis of the costs and benefits of Caribbean integration, see Mauricio Mesquita Moreira: Regional Integration: What is in It for the Caribbean? IDB Integration and Regional Programs Department, 2006.
export performance, growing fiscal constraints, high unemployment and rising crime levels, along with eroding trade preferences and ever-harsher competition in world markets. Caribbean countries are among the most indebted in the world, and for many of them, debt levels have increased in recent years. This not only complicates the integration process, but also highlights the importance of achieving real progress so that the benefits of integration can materialize as soon as possible. That regional integration has not faded from government agendas in this challenging context attests to the strong political support it enjoys among government leaders in the region.

Table 1. CARICOM versus LAC: Growth, Fiscal Deficits and Debt, 1999-2004

<table>
<thead>
<tr>
<th>Annual Averages for the Period 1999-2004</th>
<th>CSME-12</th>
<th>CARICOM</th>
<th>OECS</th>
<th>CARICOM minus T&amp;T</th>
<th>LAC* total</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth (Constant Prices)</td>
<td>3.4%</td>
<td>2.7%</td>
<td>1.5%</td>
<td>1.3%</td>
<td>2.2%</td>
</tr>
<tr>
<td>GDP/Capita Growth (Constant Prices)</td>
<td>2.6%</td>
<td>1.2%</td>
<td>0.6%</td>
<td>-0.2%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Export Growth, Goods and Services (G+S)</td>
<td>8.9%</td>
<td>7.9%</td>
<td>2.7%</td>
<td>4.0%</td>
<td>8.8%</td>
</tr>
<tr>
<td>Fiscal Deficit as % of GDP</td>
<td>3.0%</td>
<td>2.8%</td>
<td>6.1%</td>
<td>4.1%</td>
<td>2.5%</td>
</tr>
<tr>
<td>External public debt as % of GDP</td>
<td>41%</td>
<td>35%</td>
<td>58%</td>
<td>41%</td>
<td>40%</td>
</tr>
</tbody>
</table>

* LAC total is provided for comparison. It covers all IDB borrowing member countries and the OECS.

Source: IDB Integration and Regional Programs Department based on World Bank, IMF, ECLAC and WTO data. For country-specific data, see Tables 1, 2 and 5 of the Statistical Annex.

2.6 Yet despite such support, regional integration has been beset with delays. This owes to a variety of factors, including the complexity of the process, the scarcity of resources to support it, high levels of economic disparity and divergence among member states, perceptions and fears of unequal distribution of the benefits and costs of integration, limited popular support for and knowledge of the process and, above all, a strong desire among governments to preserve national sovereignty. Because deeper integration is necessary to generate the benefits of integration, addressing these constraints is an urgent task. Some of them cannot be solved through technical or financial assistance, but require political decisions that only governments can take. The Bank’s strategy for CARICOM should focus on those areas where external support can help eliminate existing bottlenecks to integration.

2.7 While all countries support integration, not all of them support the same level of integration.\(^4\) As a result, CARICOM membership does not mean the same for all 15 countries. This is important because it determines what the Bank can and should do in each member state – at the national level – to support the country’s participation in the regional integration process so that it can maximize its benefit from that process while also contributing to the group’s overall development. The country notes in Annex I of the RS provide more specific recommendations to this effect.

\(^4\) All 15 member states participate in foreign policy coordination and functional cooperation, but only 12 participate in economic integration via the CSME. The Bahamas has never participated in the group’s economic integration efforts. Haiti was excluded from the Community Councils during most of 2004-2005, but was readmitted in July 2006 and may join the CSME in the near future. Montserrat also plans to join the CSME and is awaiting entrustment from the UK to this effect. Meanwhile, the OECS countries have established a monetary union, the deepest form of economic integration within CARICOM.
C. Completing the Single Market

2.8 When the last RS was approved in 1999, intra-regional trade in goods was almost fully liberalized, but a common external tariff (CET) agreed in 1994 had been implemented by only two countries. Liberalization in other areas had barely begun. Economic integration has advanced considerably since then. In 2002, twelve member states signed the Revised CARICOM Treaty. Since then, all twelve have ratified the treaty, eleven have enacted it into domestic law, and full implementation has been a priority. In 2004, member states inaugurated the Caribbean Court of Justice (CCJ) to oversee the correct application of the treaty. On 30 January 2006, Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago signed a declaration marking the entry into force of the CARICOM Single Market. OECS countries signed the declaration on 3 July 2006.

2.9 Free Movement of Goods. This is the most advanced area of the single market. Intra-regional trade is virtually free of tariff restrictions, and most unauthorized non-tariff barriers have been lifted. However, the widespread and disparate use of authorized measures such as customs surcharges or stamp duties is constraining trade and depriving the system of transparency. Apart from remaining tariff and non-tariff restrictions, some further issues will need to be resolved to attain the free movement of goods. First, there is no agreement yet on how to treat goods produced in and shipped from free trade zones within the region. Second, CARICOM does not yet have a regime for free circulation. Currently, extra-regional suppliers face border restrictions both at the point of entry into the single market and each time goods that are not of Community origin are re-exported within the CSME. Third, members have yet to develop a common regime for government procurement and electronic commerce. Technical work is underway in all areas, but specific policies and related legal arrangements have not yet been agreed.

2.10 Common External Tariff. Implementation of the CET has advanced significantly since 1999. Today, eleven countries apply the CET, and as a result, CARICOM import tariffs are down from an average 20 percent in the early 1990s to 10 percent today. Even when fully implemented, however, the CET will not be very common because it offers broad scope for national exceptions and derogations. This complicates the region’s joint negotiating efforts with third countries and, given the implementation of rules of origin to avoid trade deflection, raises transaction costs and reduces transparency of market access for exporters targeting the Caribbean market. Moreover, the level of tariff dispersion in the CET structure remains high, resulting in additional efficiency costs. And, while considerably lower than a decade ago, CARICOM tariffs are still relatively high in some food and manufacturing sectors, raising concerns about trade diversion. Governments recognize the need for CET reform, but are concerned about revenue implications of further tariff reductions and the difficulties of establishing alternative revenue sources.

2.11 How Important is Intra-regional Goods Trade? For CARICOM as a whole, the share of intra-regional trade in total trade is not significant, although the regional average of 15 percent masks huge variations in shares across countries (Graph 1). Growth in intra-

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5 See Table 3 in Regional Integration, op.cit., for country-specific information on the application of such measures.
6 The three problems in the CET structure are illustrated in Table 29 of the Statistical Annex.
regional exports has also varied across the region, averaging a modest 3.4 percent a year for CARICOM as a whole between 1999 and 2004, much slower than growth in extra-regional exports, which was dominated by Trinidad and Tobago’s surging energy exports (Graph 2). Removing the remaining restrictions to intra-regional trade would certainly facilitate such trade, as would more efficient transport systems across the region. But given the small size of the regional market, intra-regional trade will never constitute a large share of CARICOM’s total trade. That is why the objectives of economic integration go well beyond facilitating intra-regional trade. The main goal is to strengthen CARICOM’s position in external markets, through full implementation of the CSME.

2.12 How Important is External Protection for Intra-regional Trade? Intra-regional merchandise trade is dominated by Trinidad and Tobago, which accounts for almost 70 percent of all intra-group exports. Many of the products it exports to CARICOM are not overly protected from extra-regional competition (that is, the CET for these products is at or below 5 percent); moreover, exports of these products have grown faster in recent years than those that are highly protected (with CET levels at or above 10 percent). A similar trend is apparent in the other Caribbean countries: many of their fast-growing intra-regional exports are not protected from external competition, while exports of goods that are highly protected have shown much less dynamic growth. Of all CARICOM exports that have gained market share in the regional market in recent years, about one third are protected from extra-regional competition by CET rates at or above 10 percent.

2.13 Two lessons can be drawn from this: first, rather than fostering more dynamic intra-regional trade, external protection appears mostly to have sustained inefficient domestic production. This is confirmed by analysis of the product composition of intra-regional trade, which shows that such trade has not become more diversified over the years and that, in general, countries have not exploited their preferences to upgrade their export supply by advancing from less complex to more sophisticated products with a higher technology content. Second, some intra-regional trade would be vulnerable to further CET reductions. Vulnerabilities are most pronounced in the food and manufacturing sectors, which account for half of all intra-regional trade (the other half being fuels).  

2.14 **Right of Establishment and the Free Movement of Services, Capital and People.** A program for removal of restrictions in these areas was agreed in 2002 and, by December 2005, six countries (Barbados, Belize, Guyana, Jamaica, Suriname and Trinidad and Tobago) had largely completed it. But even when the program is fully implemented in all member states, CARICOM will not be a true single market. First, exceptions to the right of establishment and full factor mobility will remain. Second, member states can seek exemptions from their single market obligations by applying treaty provisions designed to shield vulnerable sectors of the economy from full intra-regional competition. Third, some administrative processes linked to the single market still need to be put in place. Fourth, some sectors remain excluded from liberalization because common provisions have not yet been agreed or because full liberalization is not contemplated. For example, member states have yet to develop common provisions for air and maritime transport services, which are of crucial importance to the operation of the single market. The free movement of people is restricted to some categories of skilled professionals and their families, and a protocol on contingent rights of movement (including establishment and the provision of services) remains to be drafted. Full labor mobility is unlikely to be achieved in the near future given member states’ reluctance to liberalize the movement of unskilled labor. Partial liberalization constrains the effective allocation of resources across the region and may intensify adjustment costs from intra-regional liberalization.

2.15 **How Integrated are Regional Factor Markets?** CARICOM lacks detailed statistics on intra-regional services trade. Anecdotal evidence nevertheless suggests that such trade has grown significantly in recent years, mainly through direct investment (mode 3 services trade) in industries such as finance, insurance, tourism, retail, business and entertainment services. Capital markets are still fairly fragmented in the region, with very limited cross listing and trading between the national exchanges. Plans are underway for creating a regional stock exchange to facilitate greater capital market integration. Member states have also agreed to develop a CARICOM Financial Services Agreement to help streamline the cross-border operations of financial institutions and reduce barriers to cross-border financial flows. There is little data on the movement of skilled professionals in the region, but according to some observers, the numbers are still quite small.

2.16 **Dealing with Economic Disparities in the Single Market.** Economic disparity among CARICOM countries is pronounced and growing (Graphs 3 and 4). It has given rise to some doubts about the benefits of integration and, as a result, delays in reaching and implementing Community decisions. The smaller and less developed Caribbean countries (LDCs) fear that further intra-regional liberalization will harm their industries while benefiting those of countries that have already attained a higher level of development. Economic theory lends some support to this concern. Because of similar factor endowments among countries, south-south agreements such as the CSME are particularly prone to trade diversion and agglomeration of economic activities in larger countries, at the expense of smaller ones. To avoid a politically unsustainable scenario where large and wealthier countries reap the greatest benefits from integration, it is important to “tilt the playing field” in favor of the smaller and less developed partners.

2.17 **CARICOM governments have developed three mechanisms to assist weaker members of the Community (i) protection, (ii) incentives, and (iii) the Regional Development Fund. The first, which allows LDCs to impose protective measures to hinder or slow the**
liberalization process, is the least efficient in economic terms. It contradicts the principle of a single market and, while providing temporary relief to a specific industry, may generate costs to CARICOM as a whole (and to LDCs) that far outweigh the benefits of special treatment (because of the imperfections it creates in the free trade area and customs union). The second mechanism, which allows countries to apply fiscal and other incentives to help local industries become efficient or to attract investment, does not impede free trade and factor mobility, but may be difficult to implement for LDCs given their fiscal constraints, and poses other economic costs. The third mechanism, the Regional Development Fund, aims to help disadvantaged countries, regions and sectors cope with CSME-related adjustment. While the fund also carries fiscal costs, it is clearly based on a common approach to funding and, if managed effectively, could go some way towards redressing the problem of growing asymmetries in the CSME. But the fund is not yet operational, and not yet capitalized. Its successful operation will require a sustained, long-term commitment among member states to share adjustment costs across the region.

Graph 3: Per Capita Income for CARICOM Countries (current US$, 2004)

Graph 4: Inequality in Per Capita Income Levels in CARICOM (Gini Coefficient, 1=inequality)

Source: Table 1 of the Statistical Appendix.

Source: IDB (INT/ITD) using WDI and WEO data.

D. Towards a Single Economy

2.18 CARICOM’s once explicit goal of creating a monetary union - already in effect among the OECS countries – has been abandoned for the foreseeable future. Today, “single economy” mostly refers to greater macroeconomic coordination, harmonization or convergence of national policies, laws and regulations in various economic areas, and the adoption of regional sector programs (e.g., in agriculture, industry and transport). For many aspects of the single economy, there is no detailed implementation plan, nor a clear definition of what needs to be implemented. So far, regional leaders have agreed to establish a framework for the single economy by 2008, but have not specified its scope. This, then, remains a crucial, yet barely implemented component of the CSME, progress on which would help both consolidate and add greater dynamism to the single market.

2.19 Macroeconomic Coordination. To date, this has mainly consisted of periodic meetings of CARICOM finance ministers and central bank governors. To facilitate macroeconomic coordination, the Caribbean Centre for Monetary Studies (CCMS) prepares semi-annual

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8 While some accept this definition, others argue that a single economy with nine different currencies is a contradiction in terms.
reports on the performance and convergence of CARICOM economies. To measure convergence, the CCMS tracks performance on a set of five eligibility criteria for entry into a monetary union. Member states do not appear to have integrated these criteria into their budgetary and policy-making processes, and there are no agreed mechanisms to correct underperformance. The continued and sometimes substantial dispersion in performance for most indicators suggests that convergence is not taking place.

2.20 Harmonization of Laws. More immediate progress appears possible in this area of the single economy, although implementation to date has been slow and there is some uncertainty about the scope and timing of regional initiatives. Harmonization of national laws, regulations and administrative practices is contemplated in a variety of areas, including fiscal and investment policies, crucial for the operation of the single market and for avoiding negative distributional effects of integration (Box 1). One of the main stumbling blocks in the area of harmonization, and more broadly in all areas of the CSME, has been the lack of sufficient numbers of legal draftspersons in the Community, a problem that remains acute despite the recent creation of a Caribbean Legislative Drafting Facility (CLDF) at the Secretariat, financed partly by USAID.

Box 1. Harmonization of Fiscal and Investment Policies in the CSME

Technical work is underway in several areas of fiscal policy, but countries have yet to agree on a policy framework for harmonization. Similar tax structures across the region should facilitate harmonization, but the wide use of tax exemptions and other exceptions in national tax regimes could complicate the process. According to the private sector, cross-border tax competition and distortions are a major impediment to doing business in the region. In the area of investment policy, CARICOM is developing a Regional Investment Code and a harmonized system of investment incentives to which all member states could commit. Regional harmonization is vital in order to increase transparency for investors and contain the harmful tax competition that occurs among countries as they seek to attract foreign investment. Fiscal incentives can affect the distributional impact of intra-regional liberalization. As mentioned earlier, south-south integration arrangements are prone to the agglomeration of economic activities in the larger, wealthier members of a group. This scale advantage is often exacerbated by the fact that these countries can also more easily afford to provide credit incentives to companies investing in their territory. Convergence of fiscal and other credit policies can help avoid this trend, and can even, within a context of greater overall harmonization, give smaller, less developed countries the possibility of offering more generous incentives than their larger counterparts.

2.21 Sectoral Programs. The CARICOM Treaty contains over 100 objectives and proposed activities related to sectoral programs, but few of the proposed activities are defined in detail. Progress in this area has been constrained by a lack of technical and financial resources and, in some cases, weak political will at the national level. Greater commitment, clearer priorities, more effective resource pooling and more funding are all needed to revitalize the Community’s sectoral work. Most importantly, perhaps, there is a need to build awareness in the region about the significant gains that can be derived from greater regional cooperation in this area of the single economy.

2.22 Two areas where cooperation is particularly important are transport and ICT. The Caribbean air and maritime transport sector faces a number of development bottlenecks that affect competitiveness. In the air transport sector, poor access to international traffic (a result of poor hub facilitation) and the failure to consolidate intra-regional air traffic
(handled by seven small, unprofitable regional airlines) constrain tourism growth and intra-regional travel. Maritime transport suffers from weak regulatory structures and limited and costly shipping connectivity. While the region has relatively competitive, extra-regionally linked transshipment centers, intra-regional shipping connectivity is expensive and unreliable, making it difficult and costly for local producers to get their goods to market. Progress towards adopting a common transport policy has been slow.  

2.23 **Information and communications technology** is of fundamental importance to integration and economic development in the region. A regional ICT strategy, drafted in 2004, highlights infrastructure development (physical and regulatory), as well as content and utilization, as areas of focus in the region’s connectivity agenda. In CARICOM, there are wide discrepancies and some serious gaps in access to physical infrastructure for ICT. Regulator frameworks are not harmonized within CARICOM, adding transaction costs to investors targeting the regional market. Many regulatory agencies lack expert resources, particularly in dispute resolution. E-government, e-commerce, e-health and e-learning platforms do not currently exist or require strengthening in many CARICOM countries. Their establishment would support the development of an information-based society capable of integrating and competing in global markets.

2.24 More recently, the **energy sector** has demanded growing regional attention. While several countries produce energy, all except Trinidad and Tobago are net importers, and in some countries, energy products comprise over 40 percent of imports. In 2003, CARICOM Heads of Government established a Task Force on Regional Energy Policy to devise ways to optimize the supply, pricing, storage and transport of energy in the Caribbean, and to explore the potential for producing renewable energy in the region. The latter is pursued, among others, through the Caribbean Renewable Energy Development Program, which began operations in 2004. Meanwhile, Caribbean sugar producers have begun to explore the potential for converting sugar cane into ethanol. While exports could face strong competition from Brazil, ethanol production for domestic and regional fuel additive may present new opportunities for Caribbean sugar producers currently facing significant preference erosion in the EU market. Overall, regional energy cooperation is still incipient, but, if strengthened, could yield important benefits in the coming years.

2.25 **Decision-making** in CARICOM is still constrained by the group’s largely inter-governmental structure (see Annex II), but ministerial councils now meet on a more regular basis than before, and can, in theory, take decisions by qualified majority vote (although in practice, the spirit of unanimous consent prevails). There is also better coordination between regional and national agencies involved in integration issues and, at the national level, better inter-agency coordination. In 2002, moreover, CARICOM governments established a “Quasi-cabinet” of individual heads of state to spearhead action in critical areas of the integration process. These developments have added greater dynamism to the integration agenda in recent years.

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10 See Peter Stern, Promoting Investment in Information and Communication Technologies in the Caribbean, IDB/RE3, 2006.
2.26 Implementation of Community decisions has been facilitated by (i) the creation, in 2002, of a special CSME Unit in the CARICOM Secretariat to help define and implement the CSME work program; and (ii) the creation of “focal points” in each member state to oversee CSME implementation. These institutions nevertheless suffer from significant resource constraints and other institutional weaknesses. The CSME Unit and most national focal points appear to be understaffed in relation to their comprehensive mandate. Institutional constraints in the CARICOM Secretariat as a whole also affect implementation, since various units beyond the CSME Unit are involved, and because the Secretariat oversees many donor-financed programs in support of the CSME.\(^\text{11}\)

2.27 Monitoring and Enforcement of Community decisions is still a problem, despite efforts to improve this aspect of integration through more regular meetings of the ministerial councils, more active follow-up by the Secretariat, and the establishment of the CCJ. While the ministerial councils have a clear monitoring role, their enforcement mandate is much weaker. They moreover rely heavily on the CARICOM Secretariat to provide them with the necessary information for monitoring. The Secretariat’s monitoring efforts, however, still need strengthening, and countries themselves are not always clear about what specific legal and administrative actions they have to take to implement CSME-related decisions. This makes enforcement even more difficult. The CCJ will only be called upon to act in matters of dispute; it is not responsible for monitoring and enforcing the implementation of Community decisions on a day-to-day basis.

2.28 Consultation and Public Outreach. Since 1999, most countries have set up mechanisms for consultation with the private sector and civil society. The CARICOM Secretariat has moreover launched region-wide campaigns to raise public awareness of the integration process and its projected benefits. Now that consultation mechanisms are in place throughout most of CARICOM, the challenge is to make them work. Despite the new structures, information-exchange and communication among ministries remains a problem in several countries. Except in a few countries, private sector participation in the formal integration process is weak, and the public in general is ill informed about regional integration. Further awareness building is needed to encourage policy debate and strengthen the democratic foundation of CARICOM.

F. The External Dimension of CARICOM

2.29 Foreign policy coordination plays a crucial role in CARICOM’s integration process. In recent years, the group’s foreign policy agenda has encompassed such issues as the promotion of small states in the international community, border disputes (with Guatemala and Venezuela), regional security (with the US and Britain), the OECD’s harmful tax initiative, and political events in Haiti. The most dominant issue on the agenda, however, has been foreign trade and, in particular, the negotiation of new trade agreements with third countries. As with the CSME, the goal is to raise domestic

\(^{11}\) Currently, the Secretariat is managing around 50 separate donor programs. Member states are considering the adoption of mechanisms for the automatic transfer of funds to the CARICOM Secretariat and other Community institutions to address the lack of stable funding that has constrained their capacity to operate effectively. With growing demands on existing institutions and the planned creation of new ones to facilitate the operation of the CSME, the need for efficient funding mechanisms is ever more apparent. But, while discussions are underway since 2003, a decision on automatic financing is still pending.
productivity and expand opportunities for Caribbean businesses in global markets. Both are urgently needed in view of the region’s modest export performance in recent years.

2.30 CARICOM’s Recent Trade Performance. Since 1999, CARICOM’s exports of goods and services have grown by 8 percent a year on average, but most of this growth is explained by Trinidad and Tobago’s booming energy exports (Graph 5). Without Trinidad and Tobago, the group’s total exports expanded by only 4 percent a year, less than half the average growth in world trade over the same period. Goods and services each account for roughly half of CARICOM’s total exports, and, except in Trinidad and Tobago, they have grown at roughly the same rate since 1999 (Graph 6). CARICOM’s share in world markets has increased for goods (but not if Trinidad and Tobago is excluded) and declined for services. The latter is a worrying trend given that the region’s future is generally thought to lie in the provision of globally competitive services.

Graph 5: Growth in Exports of Goods and Services, 1999-2004

Graph 6: CARICOM and World Exports of Goods and Services, 1999-2004

2.31 CARICOM’s extra-regional exports are even more concentrated than intra-regional trade: Twenty products alone account for 80 percent of total merchandise exports. They are mostly primary products or resource-based manufactures, with little technology content. The main export market is the United States, and in recent years only Belize and Trinidad and Tobago have seen dynamic export growth to this market. Services exports are dominated by tourism, which accounts for over two thirds of the region’s total services exports. The main tourism markets in CARICOM are The Bahamas, Jamaica, Barbados and the Eastern Caribbean islands. All have competitive tourism industries, but face growing competition from other markets in the region, including Cuba, the Dominican Republic and Puerto Rico. There is potential for diversification in this sector (e.g. into health-related travel) and for further development in other services areas (e.g. financial and commercial services), but this will require improvements in the region’s business environment. Full implementation of the CSME and more regional cooperation in the provision of common services, could help facilitate such developments.12

2.32 Trade Policy Agenda: A New Context. In 1999, CARICOM’s external trade policy agenda focused mainly on the FTAA negotiations and implementation of the agreements reached in the Uruguay Round of multilateral trade negotiations. Today, with FTAA talks

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12 See Tables 5-27 in the Statistical Annex and, for further analysis on external trade, the CARICOM Report No. 2, op. cit.
on hold, CARICOM’s negotiating efforts focus on completing an Economic Partnership Agreement with the EU, and participating in multilateral trade talks under the auspices of the WTO. The implementation agenda has also shifted, from focusing exclusively on Uruguay Round commitments to covering several new bilateral trade agreements signed by CARICOM in the past few years (with the DR in 1998, Cuba in 2001, and Costa Rica in 2004, see Annex III).

2.33 Negotiating Trade Agreements. In the absence of the FTAA process, CARICOM countries have lost an important framework for their trade liberalization efforts, and must become more proactive in designing an appropriate external trade and integration strategy for the next few years. Although EPA negotiations have filled some of the void left by the stalled FTAA process in terms of strategic focus in external negotiations, most Caribbean countries conduct most of their trade with North America, and cannot ignore trade policy developments in this market, particularly given the recent proliferation of bilateral trade agreements between the United States and Latin American countries, all of which affect CARICOM’s relative position in the US market. CARICOM has taken some initiatives to engage in trade talks with Canada, and has begun exploring the merits of negotiating a free trade agreement with the United States. The latter will soon become a pressing issue in that the preferences granted to US imports from Caribbean countries under the US Caribbean Basin Trade Preferences Act expire in 2008 unless the FTAA or a similar agreement with the United States is put in place.13

2.34 While CARICOM’s trade relations have traditionally focused on Europe and North America, the region is increasingly aware of the importance of expanding its diplomatic and economic links with non-traditional partners such as Brazil, Chile, China, India, Japan and Korea, not only because of the growing importance of these markets in international trade, but also because most of them have greatly expanded their presence – and influence - in the WTO and other important multilateral bodies in recent years.

2.35 The effective timing and sequencing of future bilateral negotiations will be important, particularly in light of the on-going EPA negotiations and the region’s limited capacity to engage in several large negotiations at the same time. A related challenge is to ensure that external negotiations are aligned with developments in the CSME, and that the two processes are mutually supportive. The CSME should provide the basis for a common CARICOM approach to external trade negotiations, but cannot do so in the absence of common regimes in areas such as transport, financial services, competition policy, government procurement, investment or intellectual property rights – all of which are covered in external negotiations. Solving these issues internally prior to completion of external negotiations would facilitate the formulation of a common negotiating strategy and increase the region’s bargaining power. Failing to do so could weaken the region’s influence and breach the integrity of the regional integration process because its future development would be shaped (and possibly compromised) by external commitments.14

13 To prepare the ground for a more active bilateral trade agenda, CARICOM ministers of trade and foreign affairs held several meetings this year with the US Secretary of State and with the US Trade Representative. The long-dormant US-CARICOM Trade and Investment Council has been re-configured and resuscitated.
2.36 On the institutional side, the Caribbean Regional Negotiating Machinery (CRNM), created in 1997 to coordinate CARICOM’s external trade negotiations, has contributed significantly towards strengthening the region’s negotiating capacity. But, nine years after its creation, the agency is still constrained by insufficient and unreliable funding. Moreover, national trade ministries, on whom the CRNM relies for its work, often lack the technical and financial resources to engage effectively in the negotiating process. A stronger CRNM and improved capacity in national agencies would help Caribbean countries confront the complex negotiating agenda they will face in the coming years.

2.37 Implementing and Adjusting to Freer Trade. With the expected conclusion of EPA and Doha negotiations in the next year or two, the region’s implementation agenda will be large and complex. As with the negotiating effort, some implementation issues could be handled more efficiently - and at lower cost - at the regional, rather than the national level. The biggest challenge of all, however, is adjustment to a more liberalized trading environment. The benefits deriving from free trade will be neither achievable nor sustainable without improvements in the region’s trade-related infrastructure (e.g. transport, communications, energy) and production capacities. Governments will have to play an active role in the transition process by supporting improvements in infrastructure and fostering a business climate that encourages and rewards innovation, initiative and risk-taking, while offering transparent laws and regulations and a stable macroeconomic environment. In all these areas, there is ample room for regional cooperation, and for fostering nascent public-private partnerships across CARICOM. Private sector development will be a key objective in this process (Box 2).

### Box 2. Private Sector Development in CARICOM

Open markets place a premium on the private sector’s capacity to compete, take advantage of new opportunities, and adjust to arising challenges. Yet recent surveys conducted in preparation for the Bank’s Private Sector Development Strategies for Caribbean countries suggest that such capacities are lacking among large parts of the region’s private sector. While circumstances vary among countries, three constraints to private sector development appear common across the region. The first is the business climate. In many Caribbean countries, the private sector is constrained by high corporate taxes (accompanied by complex incentives schemes), excessive regulation, bureaucratic inefficiencies, and gaps in physical infrastructure. Lack of detailed business data hampers efforts to assess the region’s competitiveness against international benchmarks.

Second, formal public-private sector dialogue is limited across much of the region. Private sector actors generally provide scant input to trade and economic policymaking, while public sector efforts to consult, inform, and provide training for the private sector are only incipient in the region. Private sector activity across many economic sectors is dominated by small and medium-sized enterprises (SMEs). Coordination costs among them constrain efforts to articulate common positions. Existing private sector organizations often lack the capacity for effective outreach and training.

Third, SMEs face special constraints. SMEs are the backbone of economic activity and the main source of private sector employment in the region. Because of their low start-up costs and flexibility, they have great potential for contributing to economic development. Yet they often lack the resources that facilitate larger firms’ capacities to compete in and adjust to the global economy, including abilities to access credit, training, and technologies; apply international trade agreements; network at the national and regional levels; and deal with divergent national regulatory systems when operating in regional and global markets. Support for small business development (e.g. through micro and small business finance) has largely been the purview of the state in the Caribbean. Indeed, the region has lagged behind Latin America in identifying viable private sector solutions for small business development.
2.38 Another area in need of urgent attention is statistics. In trade negotiations, as in all other areas of policymaking, access to detailed, up-to-date and reliable data is crucial. Yet the region’s capacity to generate such data is weak. Statistics management across Caribbean countries reveals problems of coverage, timeliness, quality and compatibility. National statistics legislation is outdated and has resulted in the decentralization of statistics management systems, away from national statistics offices towards ministries, agencies and independent institutions. In the restructuring process, new agencies have not been given adequate human and financial resources, causing gaps in data collection, compilation and dissemination. Confidentiality issues, insufficient cooperation from the private sector, and the paucity of modern relational databases have further weakened data management practices and constrained efforts at regional harmonization. The absence of detailed and harmonized statistical data hinders timely analysis of the region’s economic performance and reliable benchmarking against other regions.

G. Functional Cooperation

2.39 In the Caribbean, functional cooperation usually refers to cooperation in areas not directly linked to economic integration. It is widely perceived to have been more successful than economic integration, and has certainly produced some clear, early results in the Caribbean integration process. Regional institutions such as the University of the West Indies (UWI), the Caribbean Examinations Council (CXC) and the CDB all predate or coincide with CARICOM’s establishment more than 30 years ago, and continue to provide valuable services to Caribbean countries today.

2.40 **Main areas of Functional Cooperation.** While functional cooperation in CARICOM covers many areas, most efforts in the past decade have focused on education, health and disaster risk management. Cooperation in secondary and tertiary education is led by the CXC and UWI. The CXC has recently begun to offer services in curricula development in vocational studies, the demand for which will likely grow because of the premium that the CSME places on specific skills. UWI is also seeking to diversify its education product and has begun to offer a number of mid-career and other professional training services, for example in the area of trade policy and law. Cooperation on health issues has mainly focused on joint efforts to combat HIV/AIDS, but has recently also included work on the macro-economic effects of non-communicable diseases such as diabetes, hypertension and heart disease, and the need to adopt lifestyle changes to combat the growing rate of deaths from these diseases. Efforts to improve the disaster risk management capacities across the Caribbean figure prominently on the regional agenda given the region’s high exposure to natural disasters (Box 3). More recently, security has also emerged as an important topic on the regional agenda. Growing security threats and crime – often linked to drug trafficking - are critical issues affecting the region’s economic and social welfare. A number of regional initiatives have been launched in this area, but are still incipient.15

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15 Less attention has been paid to the important area of environmental management. Most Caribbean countries do not share land borders, but are connected by the Caribbean Sea. Coastal management and preservation of marine resources are crucial issues for the Caribbean countries, many of which rely heavily on sun, sea and beach tourism, as well as fisheries, for export income. Regional cooperation in this area is important because it can foster greater environment management capacities and help contain negative regional externalities of national actions.
Natural disasters have become more common, intense and damaging in the Caribbean. Over the past 26 years, they have caused US$8 billion in direct damage, and possibly a similar or larger amount in indirect damage through loss of markets (e.g., a major hurricane in one part of the Caribbean can prompt a decline in tourism arrivals in other parts). Disasters cause declines in overall and sectoral GDP, affect public finances, and have negative regional spillover effects (e.g., through damages to shared ports and disruption in cross-border supply chains). Small countries are particularly vulnerable to disasters because of their limited size and (often) limited borrowing capacity, which constrain their ability to attenuate risks, implement effective disaster prevention strategies, and respond effectively to disasters when they occur.

Regional cooperation can help Caribbean countries improve their disaster risk management capacities. Countries can work together on (i) risk identification, by jointly undertaking or sharing information on hazard and vulnerability assessments; (ii) risk transfer, through such instruments as market insurance, credit to cover contingent liabilities, catastrophe bonds, weather derivatives or reserve funds that allow for self-insurance; (iii) regional preparedness, e.g., through the development of a network of emergency responders; and (iv) mobilizing disaster relief. The Caribbean Disaster Emergency Response Agency (CDERA) is the main agency involved in regional cooperation efforts. CDERA works to develop and share disaster intelligence, mobilize and coordinate disaster relief, mitigate the effects of disasters, and promote adequate disaster response capabilities. Similar to other regional agencies, CDERA relies heavily on external funding to implement its work program.

**Box 3. Disaster Risk Management in CARICOM**

**Institutional and Financial Challenges.** A common problem across many areas of functional cooperation is that of unclear or overlapping institutional mandates and limited technical or financial resources to implement regionally agreed initiatives. Many agencies involved in functional cooperation receive most of their funding from external donors, raising questions about sustainability and ownership of their agenda. The agencies are often trapped in a pattern whereby lack of sufficient funding prevents them from fulfilling their mandates; this, in turn, can compromise their performance and reduce the incentive for governments and donors to provide further funding. Greater regional ownership is crucial to create long-lasting benefits of functional cooperation. At their recent Heads of Government meeting in St. Kitts and Nevis, CARICOM leaders discussed plans to create a Commission on Functional Cooperation.

**Setting Priorities.** Several examples from the region demonstrate that functional cooperation can provide important benefits to Caribbean countries. But functional cooperation initiatives require both start-up funding and continued support thereafter, and fiscal constraints demand that governments prioritize their support to such initiatives. Experience has shown that, to be successful, a common service must (i) enjoy broad political support in the region; (ii) be widely perceived as necessary and as yielding benefits that cannot be achieved as cost-effectively at the national level; (iii) be reliably funded by member states, which will encourage donor support; and (iv) be provided in an efficient manner. Functional cooperation efforts that do not satisfy these criteria will find it difficult to succeed. One way to prioritize regional cooperation initiatives – both functional and economic - is according to their potential for addressing constraints and fostering development across all social and economic sectors, for example, ICT, transport, energy, skills development and disaster risk management.
III. PAST STRATEGY AND LESSONS LEARNED

A. Assessment of the Past Strategy

3.1 The overall objective of the Bank’s 1999 strategy for CARICOM was to support the development of a harmonized economic area in the Caribbean region by contributing to: (i) a harmonized process of economic liberalization aimed at fostering the region’s international competitiveness; (ii) convergence towards modern, best-practice regulatory frameworks to encourage intraregional and foreign investment; and (iii) rationalization and strengthening of regional institutions to enhance their capacity for leadership and joint decision-making. To support the implementation of the strategy, the RS proposed interventions in ten priority areas of action. The strong focus on economic integration was a reflection both of CARICOM’s stated priorities at the time, and of the Bank’s comparative advantage in providing technical support in this area. It also reflected selectivity in the context of broader donor support for CARICOM’s agenda.

3.2 Implementation of the Strategy. Since the launch of the strategy, Bank-financed regional operations have supported CARICOM countries in a number of the proposed priority areas. Between January 1999 and September 2006, the Bank approved 45 regional grant projects for the Caribbean, with total financing of $16.3 million provided by MIF, FSO and Trust Funds (Table 2). Of these, 28 projects with financing of $13 million (80 percent of total financing) directly support the core elements of the regional strategy (see Annex IV for a more detailed overview of the regional portfolio).

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>Number of Projects</th>
<th>Contribution (US$)</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multilateral Investment Fund (MIF)</td>
<td>7</td>
<td>7,455,573</td>
<td>42%</td>
</tr>
<tr>
<td>Fund for Special Operations (FSO)</td>
<td>16</td>
<td>4,797,000</td>
<td>27%</td>
</tr>
<tr>
<td>Bilateral Donor Trust Funds (TF)</td>
<td>19</td>
<td>3,302,646</td>
<td>19%</td>
</tr>
<tr>
<td>Mixed Funding (MIF, FSO and TF)</td>
<td>3</td>
<td>751,741</td>
<td>4%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>45</td>
<td>16,306,960</td>
<td>100%</td>
</tr>
</tbody>
</table>

3.3 Beyond these operations, CARICOM countries have benefited from several Bank operations targeting the whole LAC region, including the Bank’s significant support to the FTAA process. In addition, several regional initiatives financed by the Institute for the Integration of Latin America and the Caribbean (INTAL), the INT Special Initiative to Support Trade and Integration, the INT administrative budget, and RE3 and SDS have

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16 They include (i) modernization and harmonization of investment regimes in CARICOM; (ii) improved regulatory frameworks, supporting regional harmonization where appropriate; (iii) free flow of goods and services trade, and further liberalization of capital and labor movements; (iv) support for greater macroeconomic convergence and coordination; (v) effective participation of new members to CARICOM (Suriname and Haiti) and further widening of the regional market; (vi) competition in transport and telecommunications services; (vii) support to institutional reform; (viii) effective negotiations and implementation of trade agreements; (ix) skills development; and (x) statistics.
directly targeted one or more aspects of the 1999 regional strategy for CARICOM (Annex V). A number of national loan and TC operations for Bank member countries have also supported implementation of the 1999 Strategy (Annex VI).

3.4 Have the Objectives of the 1999 Strategy Been Achieved? It is clear that CARICOM member states have made important progress in recent years towards establishing a harmonized economic area. They have also achieved progress in each of the strategy’s subsidiary objectives: a harmonized process of economic liberalization (e.g., through implementation of the CET and the signing of free trade agreements with Costa Rica and the DR); convergence towards modern regulatory frameworks (e.g., telecommunications reform); and strengthening of regional institutions (through the consolidation of the RNM). It is equally clear, however, that much remains to be done to achieve the objective of a fully harmonized economic area, or CSME.

3.5 Did the Bank’s support to CARICOM help move integration forward? Regional integration, much like economic development, is a long-term, complex and politically sensitive process. The attribution of results to individual players is consequently difficult, particularly in the short run and given that the Bank is only one of many agencies that provide support to CARICOM. The absence of an overall results framework for the strategy made it difficult to measure progress in each of the strategy’s main components and priority areas of action. Weaknesses in monitoring results at the project level, as emerged from the Caribbean Regional Portfolio Review conducted in 2005 (CP-1526-5), pose an additional difficulty in determining how the Bank’s interventions have contributed to achieving its broader strategic objectives for CARICOM. Reviews of project documentation, interviews with project executors, and dialogue with stakeholders in the region nevertheless point to important contributions by IDB regional operations to policymaking and decision-making on regional integration in CARICOM.

3.6 It is worthwhile, in this context, to recall the risks to the strategy that were highlighted in the RS: (i) lack of consensus on the nature, scope and speed of reforms needed to tackle CARICOM integration; (ii) political risks related to the level of support for reforms; (iii) perceptions of uneven distribution of benefits of integration and (iv) insufficient absorptive capacity for regional TC financing. Each of these risks has materialized to some degree during implementation of the strategy and they are likely to remain part of the overall context of Caribbean integration. With the possible exception of the absorptive capacity risk, all of the risks are rooted in the political (as opposed to technical) dimension of CARICOM integration. The most effective Bank interventions in support of integration helped to clarify policy options and deepen the technical soundness of CARICOM’s analysis of key issues. Political and institutional factors that are beyond the control of the Bank determine how such technical information is ultimately used.

3.7 In addition to the risks outlined in the strategy, other risks became evident during the implementation of the strategy. First, limited awareness of the strategy outside INT prevented it from being used more actively across Bank departments to guide

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17 In 2002, moreover, the Bank approved a $20 million regional FSO loan to the CDB, for onward lending to the four FSO-eligible OECS countries. The loan is 33 percent disbursed.
programming in support of CARICOM integration. Second, institutional weaknesses in some Caribbean executing agencies posed a clear risk to implementation. Against this background, the Caribbean Regional Portfolio Review provided several lessons learned and recommendations on how to improve the effectiveness of the portfolio. They mainly point to the need for better coordination among Bank units and departments involved in the design and implementation of regional operations; greater focus on demand-driven projects and synergy across the regional portfolio; simpler, more results-oriented project design; improved monitoring of the portfolio; and stronger donor coordination, particularly in areas aimed at facilitating capacity in regional executing agencies.\footnote{INT-RE3, Caribbean Regional Portfolio Review (CP-1526-5), 2005. These recommendations were taken into account in the preparation of the Evaluation Framework for the new strategy (see Annex IX).}

3.8 While the Bank’s national operations in Caribbean countries have not explicitly supported a \textit{regionally harmonized} approach to economic opening and development (a cornerstone of the 1999 strategy), many of them have supported specific priority areas of the RS (Annex VI). There is, moreover, good collaboration among INT and country teams in RE2 and RE3 to ensure complementarity between the Bank’s national and regional programming in CARICOM. Recent country strategies for Barbados, Belize, Jamaica and Trinidad and Tobago, as well as those currently under preparation for Haiti and Suriname, have received contributions from INT in the form of comprehensive “Trade and Integration Sector Studies” that emphasize the importance of trade and integration for economic growth in the region. Likewise, RE2 and RE3 have been actively involved in developing the new regional strategy for CARICOM.

3.9 \textbf{Continued Relevance of the 1999 Strategy.} The strategy’s emphasis on establishment of a harmonized economic area is well aligned with CARICOM’s top policy goal of creating a single market and economy, and the continued need for progress in the proposed priority areas of action is evident from the analysis above. In many respects, therefore, the strategy continues to be relevant. It does, however, need modification, for several reasons. First, the 1999 strategy was in some respects too ambitious, proposing actions where political commitment was tenuous (e.g., macroeconomic coordination). Second, the strategy was in some respects too general in that it supported broad economic integration initiatives without focusing on specific bottlenecks to the creation of a dynamic single market (because detailed aspects of CSME implementation were not yet known at the time). Third, the strategy underemphasized the importance of regional cooperation in non-trade areas. Fourth, it did not explicitly address private sector development as a potential area of regional cooperation and Bank support. Finally, the strategy lacked specific operational guidelines. The Bank’s strategy for 2007-2010 seeks to address these issues while also taking account of the changes that have occurred since 1999 in both the regional and external context, and in donor support to the region.

\section*{B. Donor Activities and Coordination}

3.10 The Caribbean has one of the highest per capita receipts of donor assistance in the world. The main bilateral donors in the period 1999-2004 were the United States, the European Commission, the United Kingdom, Canada and Japan. The IDB was the main source of
multilateral ODA to the region; other important multilateral donors include the World
Bank, CDB, UN-ECLAC, OAS and the UN Development Program (UNDP).

3.11 The scope of regional activities in donor aid portfolios varies (see Annex VII). While the
bulk of donor funding for Caribbean countries continues to go to national projects, there
is a clear trend towards greater regionalization of support among the main donors. Most
of them have expanded their direct support to regional organizations in recent years,
and/or adopted an increasingly programmatic, multi-country focus, rather than continuing
a project- or country-specific approach. Another broad trend in donor activities in the
Caribbean pertains to the thematic focus of assistance. Trade, economic integration, and
competitiveness have gained center stage in the main donors’ strategies in the region. But
while donors have relatively similar strategic priorities, there appears to be some
specialization of donor activities at the project level under the common thematic areas.
While donor coordination in the Caribbean has not escaped challenges, it has facilitated
information sharing and specialization among donors, and paved the way for efforts to
alleviate the beneficiaries’ high transactions costs when dealing with multiple donors.

3.12 These trends have three main implications for the Bank’s new regional strategy. First, the
Bank will need to tailor its regional approaches and interventions increasingly
strategically in order to avoid overlap with, and add value to, the existing donor work in
the region. Establishing and taking advantage of the Bank’s comparative advantages vis-
à-vis other donors will be important in this respect. Second, the Bank should strengthen
its participation in donor coordination efforts, in order to maximize complementarities
with their programs and help focus efforts on those areas where the Bank can provide
most value added. Some areas of support might lend themselves more easily to
participation by multiple donors (requiring effective coordination of efforts) while in
others, high cost of entry may preclude effective participation by more than one or two
principal donors. Third, at the level of project design, the Bank will need to pay closer
attention to the recipient’s absorptive capacity. Regional executing agencies can be hard-
pressed to deliver good value for money at times when they are implementing multiple
and/or particularly large projects. Here, too, donor coordination will be important,
particularly with respect to harmonization of reporting requirements.

IV. BANK STRATEGY

A. Objectives

4.1 The overall objective of the Bank’s Regional Strategy for CARICOM in the period 2007-
2010 is to help Caribbean countries transform their regional integration process into an
effective instrument of global integration, competitiveness and economic growth. The
specific objectives are to help CARICOM (i) enhance the benefits of the single market
for participating countries, and (ii) foster more cost-effective provision of social and
economic infrastructure and related services, thereby boosting efficiency in the domestic
market and strengthening the region’s global competitiveness.
B. Strategy

4.2 In pursuit of the above objectives, the strategy proposes two main areas of strategic focus. The first is full intra-regional market liberalization, aligned with CARICOM’s external liberalization efforts and effectively managing the distributional risks of liberalization. Specifically, the Bank will support CARICOM efforts to: (i) eliminate remaining restrictions to the free flow of goods, services, capital and people within the CSME; (ii) align regional and global integration agendas; (iii) move from protection to adjustment support to help disadvantaged countries adjust to intra-regional liberalization, without compromising liberalization itself; and (iv) facilitate private sector development within a more liberalized trading environment.

4.3 The second strategic area is enhanced regional cooperation to improve CARICOM’s social and economic infrastructure in critical areas of development. The aim here is to support horizontal cooperation initiatives that benefit all productive sectors, and to prioritize initiatives that enjoy broad political support in the region and have a clear potential to improve, at a lower cost to members, the region’s existing infrastructure and related services. Bearing in mind these objectives, the Bank could support interventions in the following areas of economic and functional cooperation: (i) ICT; (ii) energy; (iii) disaster risk management; (iv) statistics; and (v) management of the integration process itself, in terms of planning, monitoring and awareness building.

4.4 In line with the above areas of strategic focus and recommendations emerging from a regional technical review meeting held with stakeholders in Barbados on 8 July 2006, the Bank will work particularly closely with the following regional institutions in implementing the strategy: (i) the CARICOM Secretariat (mainly its CSME Unit); (ii) the newly established Caribbean Business Council; (iii) the CRNM; (iv) the Caribbean Knowledge and Learning Network (CKLN) and other institutions focusing on skills development, such as UWI and the CXC; and (v) CDERA. The Bank could also consider supporting the planned Regional Development Agency and Commission on Functional Cooperation once they are operational, given their potentially important role in coordinating and channeling resources to various areas covered by the strategy.

4.5 Key operational features of the strategy include: (i) more programmatic interventions, focusing on demand-driven projects in a select number of priority areas and greater synergy across the regional portfolio; (ii) simpler, more results-oriented project designs to match regional execution capacity and encourage timely implementation; (iii) building effective monitoring and evaluation frameworks at the strategic and project level to help measure development outcomes; and (iv) greater efforts at donor coordination and joint initiatives to strengthen institutional capacity in regional executing agencies. Implementation of the Plan of Action outlined in the Caribbean Regional Portfolio Review should help achieve these objectives. In light of the Bank’s scarce resources for regional programming, and the expected high level of demand for support from across the region, several selection criteria are proposed to establish priorities among incoming project proposals from the region (see §4.29).
C. Main Areas of Strategic Focus

1. Full Intra-regional Market Liberalization and Integration

4.6 As indicated earlier, the small size of even a fully integrated regional market limits the traditional trade-related gains that CARICOM countries can expect from economic integration. Maintaining an imperfect customs union or single market would further reduce such gains, while not diminishing the costs of integration. To maximize the benefits from the single market, therefore, CARICOM countries should strive to eliminate all remaining restrictions to intra-regional free trade and factor mobility, and fix the loopholes in the CET. In fully implementing the single market, it is important to address existing economic disparities in the region, as well as the distributional impact of integration. This is best done through adjustment support, rather than exceptions to customs union discipline. It is also important to help the region’s private sector take advantage of the new opportunities offered by a more liberalized trading environment.

4.7 Eliminate restrictions to intra-regional trade and factor mobility. Remaining restrictions to the free flow of goods, services, capital and people in the region stem from (i) delays in the implementation of already agreed liberalization commitments; (ii) pending technical work and policy decisions in areas of the CARICOM Treaty’s “in-built” agenda (e.g., free circulation, government procurement and contingent rights); (iii) exceptions granted in existing liberalization schedules as a result of LDC or other special treatment; and (iv) region-wide agreement on limitations to full factor mobility (e.g. unskilled labor). Maintaining such restrictions not only reduces the potential gains from economic integration, it can also make managing such a system more cumbersome (putting pressure on already overburdened public administrations), magnify the dislocation of production in the region, and make adjustment to production shifts more difficult.

4.8 For those restrictions (i) that have already been agreed for removal, the Bank could help institutions such as the Secretariat’s CSME Unit, national CSME focal points, and the CLDF accelerate the process of bringing all countries to full single market compliance. For those restrictions (ii) that form part of the in-built agenda, the Bank could support completion of the necessary technical work and, once policy decisions are taken, help with implementation. Future interventions could focus on government procurement and/or free circulation given the Bank’s previous work and the potential benefits deriving from full liberalization and harmonization in these areas. The Bank could also consider supporting the development of a common transport policy and protocol on contingent rights, pending decisions by other donors on support in these areas. Progress in areas (iii) and (iv) above will mainly require analytical work and awareness building to document the restrictions and highlight the costs of maintaining them. These are all areas where the Bank’s Regional Technical Cooperation instrument (RTC, financed by regional FSO and trust fund resources), and the resources of INTAL could be used. The Bank’s Private Sector Department, PRI, could support work related to the regional stock exchange and capital market integration more generally.

4.9 Align regional and global integration agendas. Maintaining an “uncommon” CET is not conducive towards establishing a common market or strengthening bargaining power in
international trade negotiations. There are also many transparency and efficiency costs associated with the current CET structure. Building on previous interventions in this area, and through RTC programs, the Bank can support analytical work by the CARICOM Secretariat and/or the CRNM aimed at (i) the removal of exceptions to the CET and reduced levels of dispersion in the common tariff structure; (ii) further reduction of the CET in areas that currently face high external protection, and (iii) identification of alternative revenue sources that do not distort business operations in the single market. Through national loan or TC interventions, moreover, the Bank can support fiscal reform efforts in individual countries; such interventions should be coordinated with, and complement, the region’s efforts at fiscal policy harmonization.\(^{19}\)

4.10 In addition, the Bank could provide support to the CRNM and other relevant agencies in analyzing different options for sequencing of internal and external liberalization, as well as the scope of the latter. The Bank has played a crucial role in the formation of the CRNM and should continue to support the region’s common negotiating efforts, particularly if CARICOM initiates bilateral trade talks with the United States. These will be challenging negotiations for the Caribbean countries, and the Bank is well placed to assist in this area given its solid track record of support to Andean and Central American countries in their recent negotiations with the United States. Regional assistance in this area could be funded by RTC and INTAL, while national interventions to support trade ministries and other relevant agencies could be financed by the Bank’s trade sector facility (already in execution in two Caribbean countries) and TC grants, for example from the IDB-Canada Trade Fund. The Bank could also give Caribbean countries some non-financial assistance to help strengthen their relations with non-traditional partners, especially those countries that are IDB members (e.g., Brazil, Chile, Japan and Korea).

4.11 Adjustment support to manage distributional risks. In a truly liberalized market there will be significant adjustment challenges, particularly for the smaller and less developed Caribbean countries, and for specific sectors and industries. Rather than maintaining existing barriers to intra-regional liberalization, CARICOM countries should increasingly seek to address the distributional risks of liberalization through compensatory measures, such as adjustment support under the Regional Development Fund. Once the operational details of the fund are fully defined, the Bank could consider financing specific regional projects under the fund. Meanwhile, RTC or the Bank’s Regional Public Goods Initiative could be used to help Caribbean countries explore other mechanisms to address the adjustment needs of disadvantaged countries, such as giving these countries, within a regionally harmonized investment policy framework, the possibility of offering more generous fiscal and credit incentives than their larger counterparts; and/or the adoption of a distribution criterion of the common tariff revenue that would favor the more vulnerable countries in the group. All such measures would help sustain support for deeper integration, accelerate the formation of a more dynamic regional economy, and facilitate more equitable distribution of the benefits of integration.

\(^{19}\) Apart from the CET, there are several other areas where greater regional harmonization is necessary to facilitate common positions in external trade negotiations, and to ensure that internal and external liberalization calendars are properly aligned. In most of these areas, technical work has already been completed or is underway with support by other donors, and implementation must await relevant policy decisions from governments.

23
Facilitate private sector adjustment and development. As the CSME takes shape and external trade barriers come down, Caribbean firms will have to adjust to a more competitive business environment. The Bank’s recent Caribbean Country Strategies highlight private sector development as a priority area for support. The Bank has stepped up its analytical and programming capacity in this area through the preparation of Private Sector Development (PSD) Strategies for Barbados, Jamaica, Suriname and Trinidad and Tobago (strategies for the other Caribbean countries are planned or underway).

While much of the Bank’s support in this area will continue to be at the national level, the progressive integration of Caribbean economies demands greater attention to possible region-wide approaches. Such initiatives can be highly cost-effective, support regional harmonization, and have the potential to facilitate the creation or strengthening of regional private sector associations and networks across CARICOM. MIF is already working at the regional level in a number of areas targeting private sector development. Future regional programs should build on these initiatives and address the common constraints outlined in this RS. The newly created Caribbean Business Council could be an important partner for the IDB in developing future Bank support in this area.

To promote improvements in the regional business climate, the Bank can step up its analytical and advocacy work on competitiveness. The Bank has recently conducted regional policy analysis in several areas affecting competitiveness, including labor markets, integration and trade, energy, and ICT. The Bank is also joining efforts with the World Economic Forum (WEF) to include The Bahamas, Barbados, Belize and Suriname in the Global Competitiveness Report. Based on this analysis, and on the findings of the diagnostic reports prepared for the national PSD strategies, the Bank plans to produce a Caribbean Competitiveness Report, which will compare competitiveness indicators across countries, identify the constraints facing private sector development in the region, and recommend public policies for resolving them. The report will also cover labor issues related to competitiveness, and will discuss the particular role of Caribbean labor organizations in shaping the region’s economic future. The Bank will also prepare a Caribbean PSD Action Plan, which would serve as a basis for guiding future Bank-financed competitiveness programs in the region, and fostering greater involvement of the Bank’s private sector windows in the Caribbean. Given the importance of fiscal and investment policy harmonization to address the problems of tax competition and foster a transparent business environment, the Bank should continue its already ongoing support to the CARICOM Secretariat in this area.

To strengthen private sector participation in economic policymaking, the Bank can support public-private sector dialogue across the region. The Competitiveness Report could help foster such dialogue; a further line of activity could involve regional business fora aimed at facilitating networking among private sector actors and the development of regional private sector policy positions. Such initiatives would raise awareness of the

While MIF has a number of projects in the Caribbean, PRI and IIC activity to date has been very limited. One of the objectives of the Caribbean PSD Action Plan will be to explore opportunities for non-sovereign lending under PPP schemes with regional scope (to explore opportunities for the Bank’s expanded 10% mandate). There could be opportunities for greater involvement of the Bank’s private sector arms in the areas of transport and energy; efficiency gains in these sectors could clearly boost the region’s competitiveness.
constraints facing the private sector and promote local ownership of plans for resolving them. RTC, MIF, RE3 and INT administrative funds could help finance these activities.

4.16 Third, the Bank can support **SME development** through various regional initiatives. In the area of training, MIF and RTC resources could be employed to support information campaigns and training workshops aimed at fostering skills and entrepreneurship, raising awareness of the new opportunities arising from trade liberalization and integration, building the management capacities of private sector organizations representing small firms, and strengthening SME capacities to identify new market niches and take advantage of the often complex provisions of trade agreements. Such activities can help strengthen business ties among Caribbean SMEs, producers and exporters associations and enhance their capacity to formulate common positions. With respect to financing, the Bank can support activities aimed at sharing information on best practices for fostering private sector financial and business development services. It can also provide direct support to SMEs. For instance, IIC can provide lines of credit and/or guarantees to finance lending to SMEs, while PRI can promote regional trade finance lines and the development of regional capital markets, both of which indirectly support SMEs.

4.17 **Skills development** more generally should continue to be an important element of the Bank’s regional strategy for CARICOM, and build on the solid regional cooperation efforts already established by Caribbean countries in this area. The Bank could support Caribbean institutions such as UWI and the CXC in their efforts to respond to demands for new types of education and testing. This could include support to initiatives for international testing and benchmarking of Caribbean education systems, as well as greater monitoring and evaluation efforts through reinforcement of the CXC. To facilitate mobility of skills across the region, the Bank could moreover support strengthening of national and regional accreditation bodies, as well as regional training initiatives to address shortages of skilled labor in specific sectors. Finally, the Bank can support efforts to foster public-private partnerships to facilitate innovation and competition in the tertiary education system. RTC, MIF and the Regional Public Goods initiative could help promote Caribbean activities in this area. The CKLN should be an important partner for the IDB in developing skills programs in the region.

2. **Regional Cooperation to Improve Infrastructure and Related Services**

4.18 Because the trade-related gains from the CSME will be modest, it is all the more important to strengthen regional cooperation in the provision of “non-tradables”: the region’s social and economic infrastructure, where trade openness can do little to attenuate the disadvantages of small size, and where the advantages of regional resource pooling are therefore considerable. Cooperation aimed at improving CARICOM’s social and economic infrastructure and related services, where possible leading to common policies, regulations and institutions, can help reduce fixed costs (by spreading them across the region) and increase the scope and quality of such services. This would serve both to consolidate the single market (because it creates a better environment for the production of goods and services and the accumulation of skills in the region), and to boost the region’s productivity, global insertion and overall growth prospects.
4.19 In CARICOM, these “non-trade” areas fall under both the single economy and functional cooperation. To date, cooperation in these areas has suffered from lack of clear priorities, inadequate follow-up and insufficient resource allocation. To retain focus in the face of multiple requests for assistance in multiple sectors, avoid overlap with other donor activities and maximize development outcomes, the Bank should be both strategic and selective in its support. The aim should therefore be to support horizontal cooperation initiatives that benefit all productive sectors, and to prioritize initiatives that enjoy broad political support in the region and have a clear potential to improve the region’s existing infrastructure and related services. In line with these objectives, the Bank could support interventions in five areas of regional cooperation: (i) ICT; (ii) energy; (iii) disaster risk management; (iv) statistics and (v) general management of the integration process. The planned Regional Development Agency and Commission on Functional Cooperation could become crucial partners for the IDB in developing regional programs in these areas; but until they are operational, the main partners will be the CARICOM Secretariat, CKLN, UWI, CXC, and CDERA.

4.20 Information and Communications Technology. CARICOM countries are committed to strengthening ICT connectivity as a strategy for public sector efficiency, business competitiveness and knowledge building. To this effect, they must address existing gaps in physical infrastructure and weaknesses in regulatory structures, particularly in the telecommunications sub-sector. There is an urgent need to strengthen existing regulatory agencies and foster greater cooperation among them through information-sharing and regional training activities. To enhance the operation of the single market, countries must also step up efforts to harmonize their policies and regulatory systems in the area of ICT, moving gradually towards increased resource sharing and, where possible, creation of common regulatory structures. Investment in physical infrastructure assets is another important aspect for developing ICT connectivity in CARICOM, as are content and utilization. Support in the latter area could focus on such activities as: (i) establishing transparency and security in the digital regional marketplace (e-commerce), and facilitating its application by SMEs; and (ii) building e-government and e-learning initiatives, interconnecting networks across the region and with third countries.

4.21 The Bank can support connectivity in the ICT sector through: (i) MIF interventions to address weak regulatory structures and facilitate e-commerce practices, particularly in SMEs; (ii) PRI finance to support investment in physical ICT infrastructure; and (iii) RTC funds or the Regional Public Goods Initiative to facilitate connectivity in ICT networks, such as e-learning and e-government platforms. The CKLN will be an important partner for the IDB in this area of ICT development.

4.22 Energy. Regional energy cooperation is still relatively nascent in the Caribbean. Regional efforts are, however, compelling given that the countries face common challenges such as rising oil prices, high ratios of energy use/GDP and the need to explore renewable energy production, including biofuel. The Bank is currently developing a regional TC to explore the potential for biofuel production in the Caribbean, and to analyze market barriers for

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21 One incipient Bank initiative is Cari-CLARA, designed in conjunction with INDOTEL (Dominican Republic) and the CKLN to strengthen ICT connectivity among academic and other networks in the region. Cari-CLARA aims to replicate a successful similar initiative carried out in Latin America (Cooperación Latinoamericana de Redes Académicas, CLARA).
carbon emission trade and carbon finance from biofuels. A number of further regional initiatives could be supported, mainly through the CARICOM Secretariat.

4.23 First, the Bank can support policy research and awareness building on regional energy consumption patterns and expenditures, renewable energy resources, and energy efficiency. Second, the Bank can support the assessment of innovative financing tools for regional energy purchases and production (e.g., a regional revolving fund to lend to businesses and communities for conservation and production of renewable energy, or a regional energy procurement system). RTC and the Bank’s Regional Public Goods Initiative are among the potential Bank windows that could support such work. Third, the Bank is well positioned to support the assessment of existing infrastructure capacities for energy transport, exploration, and use in the region, as well as related infrastructure projects (e.g., a regional gas pipeline). The Infrafund could help finance feasibility studies, and could pave the way for subsequent PRI investments in this area.

4.24 **Disaster Risk Management.** Market liberalization, integration and infrastructure development will be of little use if Caribbean member states cannot effectively manage disaster risks. The Bank is currently supporting CDERA with a regional TC to develop township-planning strategies for storm surges, and a regional public goods initiative aimed at developing a regional disaster risk management strategy for sustainable tourism. Effective implementation of these initiatives, as well as follow-up to the joint work with the CDB on mainstreaming disaster risk management into fiscal and budget planning, should be a priority in the Bank’s operational work in the region in the coming years.

4.25 As regards disaster preparedness, the Bank could moreover provide support in the development of a regional network of emergency responders and regional contingency plans, building on the institutional arrangements already in place at the national level. It could also support efforts at building stronger public-private sector dialogue and partnerships in the area of disaster risk management. The Bank could expand its support to disaster prevention through its Disaster Prevention Sector Facility and the newly created Disaster Prevention Fund, which allows financing of regional programs. CDERA will likely continue to be the Bank’s main regional partner in this area. On the topic of risk transfer, the Bank will continue its dialogue with the World Bank regarding the Caribbean Catastrophic Risk Insurance Initiative, which would provide client governments with immediate liquidity in case they are hit by an adverse natural event.

4.26 **Statistics.** Access to timely, good quality and comparable statistical data is critical to assess economic performance and inform the policymaking process. Several regional and national Bank interventions are already underway to strengthen statistical capacity in CARICOM. Effective implementation of these programs, particularly the Bank’s support to TRADSYS (a regional trade statistics program) and preparations for the next round of population censuses in CARICOM, should be a key priority in the coming years. At the national level, efforts should be made to ensure compatibility of data collection and analysis methods with regional standards where they exist, and to promote mechanisms for greater information sharing across the region. Future Bank interventions should be consistent with CARICOM’s Regional Statistical Work Program and complement other donor efforts. The Bank could assist the Secretariat, and work with relevant private sector
agencies, to strengthen mechanisms for the development and dissemination of market information in the Community. It could also help address the serious gaps that exist in the production of services statistics, particularly in the tourism and business services subsectors. Bank instruments to support such activities include MIF, RTC, and the Regional Public Goods Initiative, as well as national TC and trade sector facilities.

4.27 Managing Integration: Planning, Monitoring and Awareness-building. The efficient operation of the single market, progressive implementation of the single economy and enhanced regional cooperation in the provision of social and economic infrastructure cannot be achieved without effective management of the regional integration process. The Bank recently approved a small TC to help the CARICOM Secretariat develop and implement a methodology for monitoring progress on CSME implementation in each member state, and to undertake awareness-building activities with the private sector. Future work should build on this program and could include workshops to foster information sharing and technical capacity among national CSME focal points; national awareness-building events organized by the Bank’s country offices; and further analytical work on the costs and benefits of regional integration to inform policy debate in CARICOM. More empirical work documenting success stories in integration, particularly among private sector agents in the region, would help foster support for, and sustain the regional integration process. RTC, INTAL and INT administrative funds could all help finance such initiatives. The Secretariat’s CSME Unit, national CSME focal points and the Caribbean Business Council will be key partners in this area of support.

D. Implementation of the Strategy

4.28 Outreach. Once the strategy is approved, the RS team will collaborate with the country offices to disseminate the strategy among regional organizations in CARICOM, national CSME focal points and ministries responsible for CARICOM affairs, and donor agencies. The Bank’s Country Teams will support outreach efforts at the national level (see §4.31).

4.29 Focus and selectivity in the regional portfolio. As emerged from regional consultations and from a recent stakeholder meeting in Barbados on July 8, 2006, there is an emerging consensus among regional leaders that the Bank should focus its support on a smaller number of regional agencies than has hitherto been the case (see §4.4 above) and support more programmatic interventions, focusing on demand-driven projects in a select number of priority areas and greater synergy across the regional portfolio (§4.5). Apart from the thematic priorities outlined in the strategy, incoming project proposals should be prioritized according to the following criteria: (i) they originate from one of the agencies identified in §4.4; (ii) they have a strong regional counterpart; (ii) and they are aligned with and complement priorities outlined in the Bank’s Caribbean Country Strategies. Another recommendation is to avoid spreading Bank resources across too many small projects, but rather to focus resources on fewer, larger projects.

4.30 Inter-departmental Collaboration to Enhance the Bank’s Regional Portfolio. The 2005 Regional Portfolio Review proposed the creation of an inter-departmental Regional Team to facilitate coordination and information-sharing in the design and implementation of the Bank’s regional programs in the Caribbean. One of the Team’s first tasks should be to
discuss implementation of the new strategy with staff in key Bank units: functional
divisions in RE2 and RE3, relevant Country Offices, INT/RTC, SDS, MIF, PRI and IIC.
Once regional projects are identified, the Regional Team would provide project teams
with operational recommendations during the design phase, and support RE3 in
maintaining an up-to-date database on execution of the regional portfolio. The Action
Plan presented in the Regional Portfolio Review offers specific recommendations on how
to implement the strategy’s operational features. The Regional Team could also help
monitor the Bank’s non-financial support to the Caribbean region, in an effort to achieve
better synergy between non-financial and operational support. The Bank’s Sub-regional
Policy Dialogue meetings in the Caribbean could support specific areas of the strategy
(since the launch of the Dialogue, eight sub-regional meetings have been held, covering
trade, poverty, education, public management, environment and natural disasters).

4.31 **Use of the Regional Strategy in National Programming.** Apart from the development of a
regional project pipeline, implementation of the regional strategy also requires that it be
integrated into the Bank’s national programming, particularly given the scarcity of Bank
resources to finance regional programs. RE2 and RE3 have collaborated closely with INT
in the preparation of the regional strategy, helping to ensure that it is aligned with the
Bank’s Caribbean Country Strategies. Several steps can be taken to ensure that the
strategy is integrated into future national programming. First, RE2 and RE3 will seek to
incorporate regional issues on the agenda of their dialogue with national authorities, by
addressing them, where appropriate, in policy dialogue papers, country strategies and
eccerronas. Second, INT will continue to offer its services to support trade- and
integration-related work in the Regional Departments’ national programming exercises.
Third, the functional divisions in RE2 and RE3 will take account of regional externalities
and complementarities in designing national operations, particularly in the areas of ICT,
energy and transport infrastructure, and disaster risk management.

4.32 **Financial Support.** Non-reimbursable funding for regional programs to support
implementation of the strategy could come from FSO, trust fund and MIF resources, as
well as INTAL and the Bank’s Regional Public Goods Initiative. Regional grant funding
to the Caribbean during the most recent RS cycle averaged $2.2 million per year. This
does not include the various non-financial products financed by the INT Special Initiative
on Trade and Integration, as well as contributions from the Bank’s Regional Policy
Dialogue. In the past, RE3, SDS and DEV have also funded regional activities in the
Caribbean, and RE2 may become involved given Belize and Haiti’s membership in
CARICOM. For the next RS cycle (2007-2010), RE3 could work with Bank departments
to track non-financial support to the Caribbean, which could then be reported in
forthcoming regional portfolio reviews.

4.33 **Risks to Implementation.** External risks to implementation of the Bank’s new strategy for
CARICOM are similar to those highlighted in the 1999 strategy: (i) lack of consensus
among Caribbean countries on the nature, scope and speed of reforms needed to tackle
CARICOM integration; (ii) perceptions of uneven distribution of the benefits of
integration; and (iii) insufficient implementation capacity in Caribbean executing
agencies. As in national programming, (iv) natural disasters pose an additional risk.
The strategy contains some elements to mitigate those risks. First, a number of proposed activities are designed to help countries clarify technical issues and policy options, making it easier for them to agree on a common reform agenda. The strategy’s broad alignment with regional priorities moreover reduces the political risk of non-implementation. In those areas that transcend the boundary of existing CARICOM commitments (e.g. full factor mobility), Bank activities would be mainly in the form of technical analysis and awareness building. Second, a specific component of the strategy addresses the distributional impact of integration. Third, the recommendations emerging from the portfolio review aim to address capacity problems in executing agencies. Importantly, they also point to areas where the Bank itself can improve its administrative and operational processes in order not to overburden regional executing agencies. Finally, the Bank will continue to support regional efforts at disaster risk management.

Internal risks to implementation include (v) insufficient availability of Bank grant funds to support regional integration; (vi) inadequate follow-up to the recommendations made in the Regional Portfolio Review; and (vii) insufficient demand from countries to use national loans to support regional objectives.

Monitoring and Evaluation. To support monitoring of the 2007-2010 Regional Strategy for CARICOM, the RS team has developed a results-based framework for the strategy that would assist in assessing the extent to which the objectives of the strategy are being achieved (see Annex IX). Based on the proposed framework, regional TC funding will be sought soon after approval of the strategy to develop detailed (yet simple) baseline information for measuring progress in CARICOM’s regional and global integration process. As regards internal Bank processes, the framework includes indicators for measuring portfolio effectiveness, as well as the extent to which the objectives of the regional strategy are reflected in national programming (e.g., through discussion of regional issues in policy dialogue papers, technical workshops, country strategies, and encerronas). INT, in collaboration with RE2 and RE3, will conduct a mid-term review of the strategy in 2009 to determine progress in its implementation and the need for possible modifications owing to changes in the external context of CARICOM integration.